Lincolnshire COUNTY COUNCIL
Working for a better future

County Offices
Newland
Lincoln
LN1 1YL

8 December 2021

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 16 December 2021** in **Council Chamber, County Offices, Newland, Lincoln LN1 1YL** at **2.00 pm** 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, 16 DECEMBER 2021

10	**Employer Monthly Submissions Update** *(To receive a report by Claire Machej, Accounting, Investment and Governance Manager, which provides the Committee with up-to-date information on Employer Monthly Submissions for the second quarter of the financial year 2021/22 (July to September inclusive))*	109 - 116
11	**Border to Coast Responsible Investment Policy and Corporate Governance Voting Guidelines Review** *(To receive a report by Jo Ray, Head of Pensions, which highlights the changes to Border to Coast's Responsible Investment (RI) Policy and Corporate Governance and Voting Guidelines for consideration since the last time it was reviewed)*	117 - 158
12	**Annual Report and Accounts 2020/21: The External Auditors Audit Completion Report** *(To receive a report by Claire Machej, Accounting, Investment and Governance Manager, which presents the Audit Completion Report from Mazars, the Fund's External Auditor, on the 2020/21 audit of the financial statements)*	159 - 196
13	**CONSIDERATION OF EXEMPT INFORMATION** In accordance with Section 100 (A)(4) of the Local Government Act 1972, agenda item 14 has not been circulated to the press and public on the grounds that it is 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.	
14	**Investment Performance Report** *(To receive an exempt report from Claire Machej, Accounting, Investment and Governance Manager, which provides information in relation to investment performance)*	197 - 264

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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, 16th December, 2021, 2.00 pm (moderngov.co.uk)

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

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PENSIONS COMMITTEE
14 OCTOBER 2021

PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)

Councillors P E Coupland (Vice-Chairman), M G Allan, 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) and R Waller (District Council Representative)

Roger Buttery, Gerry Tawton and Dave Vickers attended the meeting as observers

Officers in attendance:-

Lisa Darvill (Client Relationships Manager, West Yorkshire Pension Fund), Peter Jones (Independent Advisor), Claire Machej (Accounting, Investment and Governance Manager), Jo Ray (Head of Pensions) and Rachel Wilson (Democratic Services Officer)

16 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Mrs A M Newton MBE.

17 DECLARATIONS OF MEMBERS' INTERESTS

Andy Antcliff (Employee Representative) declared an interest as a contributing member of the Pension Fund an and employee of Lincolnshire County Council.

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

18 MINUTES OF THE PREVIOUS MEETING HELD ON 15 JULY 2021

RESOLVED:

That the minutes of the meeting held on 15 July 2021 be approved as a correct record and signed by Chairman.

19 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 covered two main topics. He commented that the market was now at a fairly critical point in terms of

equity markets. The recent supply shortages and increase in rates of inflation were highlighted. The lockdown had ended in April 2021, which had created a pent-up demand for goods and services.

It was reported that the economic growth rate in July and August 2021 was about 7% per annum, and similar figures had been seen around the world. The natural growth rate for the UK economy was about 2.5%. It was commented that with this level of demand, there should not be surprise at the supply shortages. However, with supply shortages would come price rises, which would be used to control supply.

In terms of UK inflation, CPI was around 3%, with RPI closer to 5%, similar figures were again being seen around the world. Central banks around the world were still unanimous in their belief that these high inflation figures were temporary and would fall back to normal levels as the supply situation eased.

It was queried when it was expected that the Federal Reserve would raise interest rates, and members were advised that there were a range of views about this, and it was thought that if they did have to raise them, they would not rise very far. The Bank of England rate was currently at 0.1%, and there was a suggestion it could rise by 0.25% either side of Christmas, and then by 0.5% later in 2022.

In response to a question, it was noted that cash flow into funds was likely to continue to be high, pension funds were continuing to accrue members through the working population so the cash flow must continue. There was still wealth being generated, and it was thought that people would try and diversify away from equity markets. There were a lot of indexed funds, and equally there were also a lot of active funds that were seeking out the big companies like Amazon and Google according to their investment beliefs.

RESOLVED

That the report be noted.

20 <u>REPORT BY THE INDEPENDENT CHAIR OF THE LINCOLNSHIRE LOCAL PENSION BOARD</u>

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 reported that the Board had focused on four main issues at its previous meeting, which were Employer Monthly Submissions and Contribution Monitoring; Data Quality; Prudential AVC's; and Draft Annual Report and Accounts.

Members were provided with the opportunity to ask questions in relation to the information contained within the report and some of the points raised during discussion included the following:

- In terms of data quality, it was noted that administrators did need help from employers, and it was discussed whether there was a need for additional resources within WYPF specifically for this task.
- It was noted that it was likely that the issues with data quality were not limited to the Lincolnshire Pension Fund, and the Pension Board would continue encouraging WYPF to prioritise this issue. It was suggested that should be added to the agenda for the next meeting of the Pensions Committee.

RESOLVED

1. That the report be noted.

2. That a report on Data Quality be added to the agenda for the December meeting of the Pensions Committee

21 PENSION FUND UPDATE REPORT

Consideration was given to a report which updated the Committee on Fund matters for the quarter ending 30 June 2021 and any other current issues. Members were guided through the report and the following was noted:

- In relation to the TPR Checklist dashboard and Code of Practice, and item B12 – Knowledge and Understanding, it was noted that there was a requirement for the Pension Board members to complete this, but it was in the Training Plan and Training Policy that this should apply to Pensions Committee members as well.
- It was reported that Councillors M Allan, M Thompson, E Strengiel and Andy Antcliff (Employee Representative) attended the Border to Coast Annual Conference on 30 September and 1 October 2021. It was highlighted that a lot of different topics were covered, but there was a focus on Responsible Investment (RI) and stewardship. Members shared their views on the conference, and it was commented that it had been useful to exchange views with other delegates on an informal basis.
- It was noted that the value of the Fund had increased by 5% to 30 June 2021, and it was queried whether this was due to investments in equities. Members were advised that the Fund did have a relatively high level of equities. The value had fallen in March 2020 when the market fell due to the pandemic, but it had fully recovered those losses.
- It was queried what the impact on the Council would be if it was not a member of the FRC (Financial Reporting Council). Members were advised that the Council was not a member as such, but it did pay a small subscription levy, which all Defined Benefit and Defined Contribution scheme with 5,000 members or more were required to pay.

RESOLVED

1. That the report be noted.

2. That the Committee hold a full day's training in February 2022, in place of the normal half days session.

22 RESPONSIBLE INVESTMENT UPDATE

Consideration was given to a report which provided the Committee with an update on Responsible Investment activity during the first quarter of the financial year 2021/22 (April – June inclusive). Members were guided through the report and topics highlighted included Local Authority Pension Fund Forum (LAPFF) Membership; outcomes achieved through LAPFF Company Engagement; Border to Coast Pensions Partnership and Robeco; voting; Financial Reporting Council (FRC) – New Stewardship Code; and Investment and Responsible Investment beliefs.

RESOLVED

That the report be noted.

23 PENSIONS ADMINISTRATION REPORT

The Committee received the quarterly report by the Fund's pension administrator, West Yorkshire Pension Fund (WYPF), and were updated on current administration issues.

Members were guided through the report and it was highlighted that all KPI's had been met. Members were provided with the opportunity to ask questions to the officers present in relation to information contained within the report and some of the points raised during discussion included the following:

- It was noted that the budget for employees was significantly under spent, and it was confirmed that there were some staffing vacancies. Members were advised that some had now been filled and the new staff would be starting in a few weeks' time. It was acknowledged that they had not been able to fill some key posts, and these vacancies were due to be readvertised.
- It was queried whether the KPI's were challenging enough as they had all been met, and it was noted that there would be a review over the next few months, and further details on this would be brought to the next meeting.
- It was queried whether the Committee could have a table which set out the staff structure, and where the vacancies were. Officers agreed to include this in the next report to the Committee.

RESOLVED

1. That the report be noted.

2. That a staffing structure including the current vacancies be included with the next report.

24 EMPLOYER MONTHLY SUBMISSIONS UPDATE

Consideration was given to a report which provided 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). Members were guided through the report which included data in relation to late contributions and data submissions to June 2021 and late contribution fines to June 2021. It was noted that there had generally been good compliance.

Members were provided with the opportunity to ask questions to the officers present in relation to information contained within the report, and some of the points raised during discussion included the following:

- It was noted that the minimum fines were set out in the report, but it was queried what the maximum fine was. Members were advised that the maximum fine would be less than £300, and the fine was to reflect the cost of the additional work undertaken rather than act as a punishment.
- It was clarified that the letter that the Chairman of the Pensions Board had been asked to write was on behalf of all the partner funds in Border to Coast, and did not relate to any specific employer in Lincolnshire.
- It was noted that if an employer was late with their submissions, it did not impact the employee receiving their pension.
- It was commented that there was a need to monitor those employers who were consistently late.

RESOLVED

That the report be noted.

25 ANNUAL REPORT AND ACCOUNTS 2020/21: EXTERNAL AUDIT UPDATE REPORT

The Committee received a report which provided an update from Mazars, the Funds External Auditor, on the 2020/21 audit of the financial statements. The report detailed the outstanding work and findings from the work completed to date.

Members were provided with the opportunity to ask questions to the officers present in relation to the information contained within the report and some of the points raised during discussion, included the following:

It was commented that an article in the media had suggested that 90% of local authority audits had missed the September deadline, and it was queried whether there was a wider issue. It was noted that this was something which was out of the authority's control, and it was believed that Mazars were experiencing resource challenges. The Audit Committee was aware of the delay.

RESOLVED

That the report be noted.

26 PERFORMANCE MEASUREMENT ANNUAL REPORT

Consideration was given to a report which set out the Pension Fund's longer term investment performance for the period ending 31 March 2021. Members were guided through the report and information relating to 10 Year Returns; 5 Year Returns; 3 Year Returns; Long Term Performance Analysis; and the PIRC Local Authority Universe.

RESOLVED

That the report be noted.

27 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 items 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.

28 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.

29 INVESTMENT STRATEGY REVIEW

Consideration was given to a report which summarised discussions around the Investment Strategy review. A number of questions were asked and answered.

RESOLVED

That the recommendations as set out in the exempt report be approved.

30 INVESTMENT CONSULTANT TENDER AND APPOINTMENT RECOMMENDATION

Consideration was given to a report which set out details regarding the Investment Consultant Tender and Appointment recommendation.

RESOLVED

That the recommendations as set out in the exempt report be approved.

The meeting closed at 12.05 pm

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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:	**16 December 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

Investment Commentary – December 2021

Still few practical alternatives to investing in global equities

The Committee last met in mid-October and we had a full discussion about the global equity and bond markets and their potential for significant price falls – unless there was continued financial support from the world's Central Banks. We touched on the markets' potential vulnerability to higher than anticipated inflation.

What financial parameters have changed?

Certainly, the inflation numbers as measured by the various consumer price indices around the world have worsened, notably in the USA, UK and Europe. Most major economies have been less buoyant in terms of economic growth (i.e. in output) than previously anticipated; but probably not materially so. And forecast economic growth rates in 2022 have been scaled back somewhat. The well known supply chain difficulties have not improved and anxiety about timely deliveries to consumers and business alike continue. There is little optimism about an improvement before the Christmas Holiday in the western world or before Chinese New Year in Asia. The Covid situation was already worsening in some countries, notably Austria and Germany, before the alarming news of the new Omicron Covid variant was discovered in South Africa. The Northern Hemisphere

winter is expected to see the Covid position deteriorate more widely, with the potential for a "knock on" effect on the supply chain and thus on higher price inflation.

Central Bank actions and inflation prospects

There is little doubt that the publication of recent inflation numbers had the potential to "panic" equity markets and cause a sell off. But they did not. Perhaps, for two reasons. Many investors (perhaps a majority?) still regard high inflation as temporary and strongly related to the supply chain problems. Once the latter return to normal – say in the second quarter of 2022 – inflation should subside to more normal levels. Other investors do not share such a view and regard current levels as a new norm. So far, few Central Banks have been provoked into taking significant financial initiatives to combat inflation by tightening financial policies: i.e. reducing their financial support for markets. In particular, the US Federal Reserve (the US Central Bank) has so far been sitting on its hands and talking about the need for action in the future. In the past couple of days, Jerome Powell, the Chairman of the Federal Reserve, in response to a question from a Congressman, said that the FED's belief that high inflation was "transitory" might need review. It is not clear exactly what this means in terms of action to tighten financial conditions. In contrast, the Governor of the Bank of England has talked openly about imminent action. But none has yet been forthcoming – perhaps hoping that "talk talk" will do the tightening for it by increasing market related interest rates? But, it would seem perverse to take action to reduced financial support before the harmful effects (or otherwise) of the Omicron variant have been properly evaluated. As ever with Central Banks, watch their actions – and not their pronouncements!

Equity and bond market performance

Since we last met in mid October, markets are little changed in aggregate. All equity markets were somewhat higher until mid November, but then fell sharply across the Thanksgiving Day weekend on the disclosure of the Omicron variant and the fears raised by it about continuing supply chain problems and hence anxiety about future inflation. Only the US equity market made a net gain over the period. Bond markets had a sell off during November, taking yields higher worldwide on inflation fears, but have largely retraced their price falls subsequently.

Conclusion

At the time of writing, it is too soon to assess the severity of the Omicron virus. How virulent is it – and how effective are current vaccines? So the potential for significant price falls in equities, and possible gains in bond prices, certainly exists. Absent those worst fears, bond yields still seem to me to be unattractive to a pension scheme with liabilities similar to Lincolnshire's. So, I see no practical alternative to global equities for significant flows of new investment funds.

Peter Jones
6 December 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 Working for a better future

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

Report to:	**Pensions Committee**
Date:	**16 December 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

1.0.1 <u>OUTCOMES FROM PENSION BOARD MEETING ON 14 OCTOBER 2021</u>

1.1 The PB met on the 14 October and the main focus was on the following issues:

a) Border to Coast Pensions Partnership

b) Internal Audit of Lincolnshire and West Yorkshire Pension Funds

c) External Audit

d) Prudential AVCs

e) Annual Benefit Statements

1.2 **Border to Coast Pensions Partnership (BCPP)** – Andrew Stone presented an overview of BCPP including details of its vision, governance arrangements, key personnel, investment programme, wider corporate development programme, Lincolnshire's current investments, potential future investments, responsible

investment strategy and an update on pooling savings. There were a number of varied and interesting questions from members of the PB. As mentioned previously, the PB remain uneasy at the appointment of Partner Fund Non-Executive Directors to the BCPP Board because it is considered that an Elected Member could have a conflict of interest between acting in the best interests of the company as a board member with their responsibilities on the Pensions Committee. Mr Stone agreed to take the issue back to the BCPP and RB will discuss informally with Chris Hitchin, Chairman of BCPP on some future occasion.

1.3 **Internal Audit of Lincolnshire and West Yorkshire Pension Funds** – the PB reviewed an exempt report on the internal audit of several aspects of the pensions service, including transfers out, new pensions and lump sums for flexible retirement, pensioner payroll, transfers in and life existence. Three of the topics received an excellent rating and two good. There were a few recommendations which management accepted and are being actioned. The overall conclusion was that the PB can continue to place assurance on the work of the pensions administration function undertaken by the WYPF. There has been no pension fund audit conducted by LCC's Internal Audit team during the last twelve months. The Team had focussed on other higher risk areas because the pensions service had been assessed to be well controlled and received high assurance when last audited in April 2019. The LCC Internal Audit Team will be including a pension fund review as part of its 2022 audit plan.

1.4 **External Audit** – consideration was given to a progress report on the audit work outstanding and findings from the work completed to date undertaken by the Council's External Auditors, Mazars, in giving their opinion on the Pension Fund Accounts and Annual Report for 2020/2021. The PB was advised that a combination of Covid-19 implications and staffing disruptions were cited by Mazars as contributing to the delay in the sign off of the Accounts. A decision for the Audit Committee, and subsequently Council, was on the horizon to determine if Lincolnshire County Council intended to be part of the national procurement process to appoint an external auditor. It was noted that the vast majority of the local government audit market was covered by a very limited number of providers. There is an initiative at national level to try and improve the quality of the external audit provision for public sector organisations generally.

1.5 **Prudential AVCs** – the Pensions Regulator (TPR) had not been forthcoming with their action plan to address the deficiency in Prudential's service delivery. No response had been received from Prudential for four weeks. Improvements were noticed and the impact to scheme members had been limited. The Fund's administrator, WYPF, had ensured no financial difficulty had been suffered by scheme members, by paying out lump sums on account while waiting for Prudential. The Executive Director of Resources agreed to raise this matter at the Society of County Treasurers' AGM and consider if a joint communication from the Chairmen of a number of pension funds should be sent to TPR expressing disquiet with Prudential.

1.6 **Annual Benefit Statements** – the PB was advised that of those scheme members eligible to receive a benefit statement, 99.9% had been produced electronically for deferred members, and 98.7% for active members. However, the PB expressed concern at the apparent low number of members who had accessed the statements. WYPF stated that a report was being developed to identify the number of scheme members viewing annual benefit statements.

Conclusion

ASSURANCES GAINED BY THE BOARD

2.1 The PB considers that the governance arrangements for BCPP are largely strong.

2.2 PB was disappointed that Mazars were late in signing their audit certificate. The PB has a wider concern at the fragility of the audit market supply and the timelines of external audit. The Executive Director of Resources and the PB Chairman are involved in one or two national initiatives to try and improve the situation.

2.3 The PB was pleased that the West Yorkshire Internal Audit Team continue to place reliance on the work of the pensions administration function undertaken by the WYPF.

2.4 The services from Prudential continue to cause concern, although it is pleasing to see some improvement in services to members.

2.5 Although WYPF achieved excellent performance in the production of the annual benefit statements, the PB has a concern that many members have not accessed them.

Roger Buttery
Independent Chairman

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

Lincolnshire COUNTY COUNCIL
Working for a better future

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

Report to:	**Pensions Committee**
Date:	**16 December 2021**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Committee on Fund matters for the quarter ending 30 September 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. Budget and Business Plan Update
7. Conference and Training Attendance

Recommendation(s):

That the Committee consider and note the report and approve the addition to the risk register detailed in section 4.

Background

1. Funding and Performance Update

1.1 Over the period covered by this report, the value of the Fund increased in value by £62.9m (+2%) to £2,933.7m on 30 September 2021.

Asset Allocation

1.2 Appendix A shows the Fund's distribution as at 30 September. 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. The October meeting of this Committee approved an allocation to

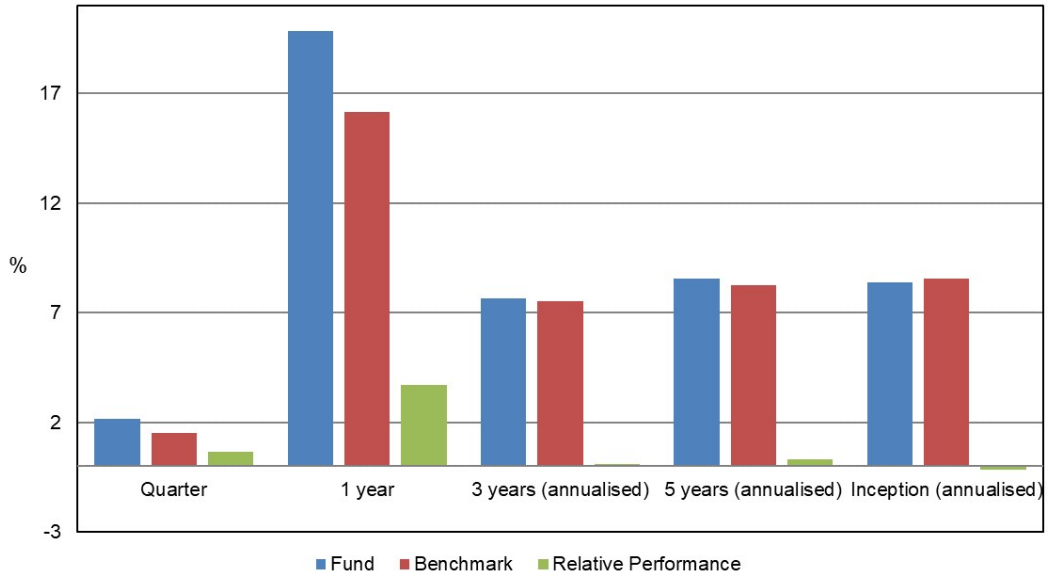
the Border to Coast Global Property Fund, due to launch in 2022. This will reduce the underweight position over time. The higher cash level is a result of the rebalancing undertaken during the transition from Invesco into the LGIM Future World Fund and the Border to Coast Global Equity Alpha Fund. This 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	Q3 2021 £m	Q2 2021 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	475.5	466.1	16.2	15.0	1.2
Global Equities	1,213.9	1,200.0	41.4	40.0	1.4
Alternatives	586.7	552.4	20	21.0	(1.0)
Property	220.4	211.0	7.5	10.0	(2.5)
Fixed Interest	373.3	356.9	12.7	13.0	(0.3)
Cash	63.9	84.4	2.2	1.0	1.2
Total	**2,933.7**	**2,870.8**	**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	2.18	1.51	0.67
1 year	19.86	16.14	3.72
3 years*	7.64	7.53	0.11
5 years*	8.58	8.28	0.30
Inception**	8.40	8.54	(0.14)

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

1.5 Over the quarter, the Fund produced a positive return of 2.18% (as measured by Northern Trust), outperforming the benchmark by 0.67%. The Fund was also ahead of the benchmark on the one, three and five year periods, but slightly underperformed since inception.

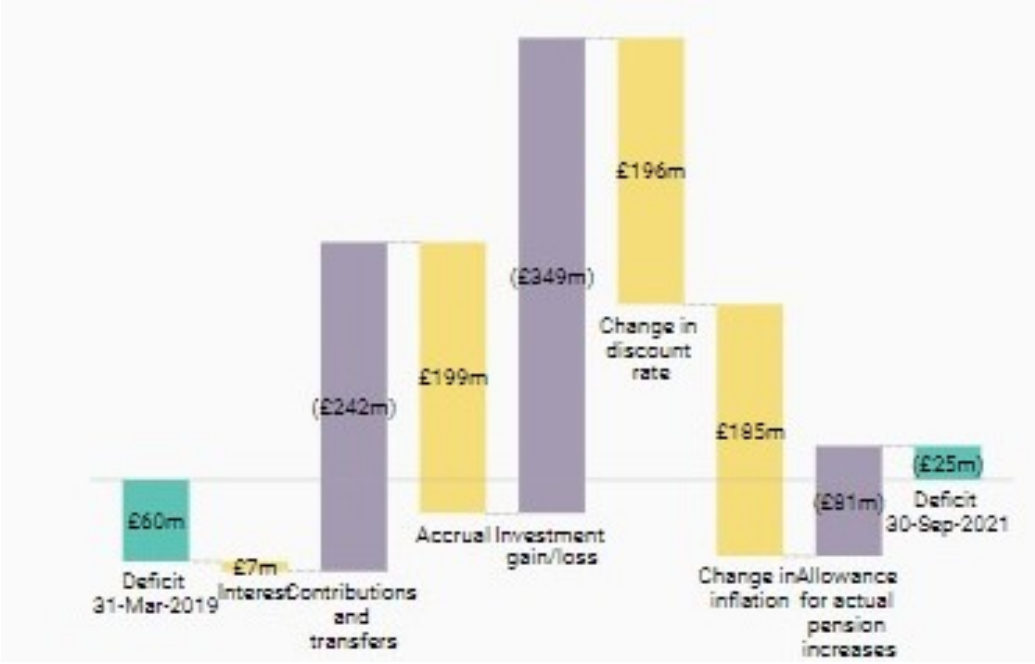
1.6 Appendix B shows the market returns over the three and twelve months to 30 September 2021.

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 September 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 3.3% to 100.8%. 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 30 September 2021 the deficit, in real money, has fallen from £60m to a surplus of £25m. 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. At the time of writing this report, all certificates had not been received.

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.

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 breach has been added, detailed below:

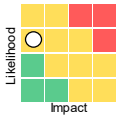
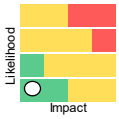
- **Late payment of contributions** – a separate paper is presented to the Committee at paper 10, updating the Committee on all monthly employer contribution breaches over quarter.

3.2 Prudential, the Fund's AVC provider, provided an update on their situation in a letter to all Pension Managers dated 12 November 2021, which is attached at appendix E. The message from them was that the situation had improved significantly over the last four months, with most claims being processed in around five working days from receipt of all required information. One area that we are still awaiting, at the time of writing, is the year end accounts information for inclusion in the notes to the Pension Fund Accounts, which will be mentioned in paper 12 later in this agenda.

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 As has been detailed in the Local Pension Board Report, the Pension Board recommend a new risk be added to the register in relation to the. This has been added as risk O16, and is set out below:

Risk Description	Current Risk Score (Copy and paste the white dot onto the matrix)	Target Risk Score (Copy and paste the white dot onto the matrix)	Assurance Status (High, Substantial, Limited, Low)	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
AVC provider does not meet the regulatory requirements or timescales agreed in service provision.			**Limited**	↑	**Existing** • Regular reporting and monitoring from WYPF • FRC Regulated company appointed • Client service manager relationship • Pension Board oversight **New & Developing** •

4.3 There have been no other changes in risk level on the register, and there are currently no red risks.

4.4 The Committee are asked to approve the addition of risk O16 as shown above.

5. Asset Pooling Update

5.1 The Committee were informed of the personnel changes at Border to Coast in an email on 15 November. Two colleagues will be leaving in the coming months. Given that the company has been live for over three years, some turnover is to be expected.

5.2 The Chiel Investment Officer (CIO), Daniel Booth, joined in mid-2018 and has been key in developing our investment capabilities and building a strong and capable team. He is leaving to establish a UK-based family office for a wealthy individual seeking a CIO to manage his assets. John Harrison, who was the interim CIO before Daniel, and continued to provide support and advice to Border to Coast since leaving, has been appointed as the interim CIO.

5.3 The Head of Real Estate, Tim Sankey, will be leaving to join a specialist real estate manager closer to his home in Surrey. The Global Real Estate offering, which is managed by Paul Campbell, is expected to launch as planned in H1 2022. Work on the UK Fund operational model will continue as planned, whilst the recruitment for a replacement Head of Property will be later in the year. It is not expected that the launch of the UK Fund will be materially impacted.

5.4 Rachel Elwell, CEO of Border to Coast, has had discussions with Fund Officers, Joint Committee members and S151 Officers to reassure all Partner Funds on the management of these departures.

Sub Funds

5.5 The Border to Coast Multi Asset Credit (MAC) Sub-fund launched in November, and the Fund transitioned the 3.5% of the Fund held with Pimco and invested an additional 1.5% of the Fund into this new vehicle. The transition went smoothly, and although the final review of the transition is yet to be received, it is expected that it was within the expected range of costs, if not slightly below.

5.6 Since the last Committee meeting, Border to Coast has held a number of workshops and meetings with officers and advisors covering quarterly external and internal funds, property, alternatives, tax risk, and Responsible Investment.

5.7 In addition, Border to Coast have held RI Briefing sessions for the Joint Committee, ahead of the Joint Committee meeting held in November.

Joint Committee Meetings

5.8 The latest Joint Committee meeting was held on 23 November. Minutes of the Joint Committee meeting held on 30 September, 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
- Joint Committee Budget
- Responsible Investment Policies Annual Review 2021
- Summary of Investment Performance and Market Returns
- Border to Coast Asset Transfer Planning - 2022-2025
- UK Equity Alpha - Manager Search Outcome
- Alternatives Series 2 and Climate Opportunities
- CEO Report
- Performance Reports
    - UK Listed Equity
    - Overseas Developed Equity
    - Emerging Markets Equity
    - UK Listed Equity Alpha
    - Global Equity Alpha
    - Sterling Investment Grade Credit
- Update on Emerging Matters

5.9 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.

5.10 The next Joint Committee is being held on 8 March 2022.

Senior Officers Meetings

5.11 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.

5.12 A strategy meeting of the Senior Officers of the Partner Funds was held with Border to Coast on 23 November. The agenda covered the areas below:

- Recap on 2021/22
- Strategic plan 22-25 key development areas
- Strategic Risks
- 2022/23 Budget
- Future Strategic Developments
- Partner Fund only Session

Shareholder Matters

5.13 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 the reappointment of Cllr Holtby to the Partner Fund NED position.

6. Budget and Business Plan Update

6.1 The Pension Fund budget and business plan were brought to the Committee at the March 2021 meeting. The paragraphs below update the Committee on the budget position to 30 September, and to highlight any areas on the key tasks from the business plan for 2021/22 where progress is behind expectations.

6.2 The budget for operating the Lincolnshire Pension Fund for 2021/22 plus actual costs incurred up to the end of September 2021 are set out in the table below, with additional narrative at 6.3:

	Original Budget 2020/21 £'000	Q2 Actuals 2020/21 £'000	Variance Budget vs. Actuals Q2 £'000
Administration Costs			
- Charge from Shared Services Administrator	1,050	1,206	156
- Other	1	0	-1
Investment Management Expenses			
- Management Fees	7,422	-706	-8,128
- Performance Related Fees	1,500	-23	-1,523
- Other Fees	791	21	-770
Oversight and Governance Costs			
- Contracted Services	425	126	-299
- Recharge of Actuarial Services	-174	-27	147
- Recharge from Administering Authority (inc. Staffing Costs)	249	125	-124
- Border to Coast Governance Costs	280	300	20
- Other Costs	27	4	-23
	11,571	**1,026**	**-10,545**

6.3 Administration Costs: The annual administration charge from West Yorkshire Pension Fund has been received and paid. This was slightly higher than the original budget, due to a smaller refund from 2020/21 than originally expected and more members than originally forecast.

Investment Management Costs: Most of the Fund's investments are made via pooled vehicles. The costs for these investments are mainly accounted for annually in March. For directly charged fees, billing from managers is in arrears. There is one invoice outstanding for quarter four 2020/21, which was accrued at year end, plus further invoices for quarter one and two fees which will be received in future months.

Costs incurred on management fees reflect the size of the portfolio and investment returns. Costs in this area are very difficult to predict, particularly when markets are volatile.

Oversight and Governance Costs: Contracted services, the recharge of actuarial services and the recharge from the admin authority are spread throughout the financial year. It is expected that these budgets will be fully utilised by year end. The governance charge from Border to Coast has been
paid, this was £20k more than originally budgeted for.

Pension Fund Business Plan Update

6.4 The key tasks set out in the Business Plan are set out below, with narrative to explain whether it is on track or otherwise:

Subject	21/22 Actions	Progress
Pensions Committee and Board meetings	Ensure all papers are prepared and presented in a clear and concise manner. Ensure that all relevant matters are reported to the Committee and /or Board. Induction and training for any new Committee members following the election or new Board members following the end of current terms of office.	On-going – all meetings held as expected. Initial 1:1 training completed for all new members. Some mandatory TPR training outstanding.
Asset Pooling with Border to Coast	Continued partnership with Border to Coast to develop appropriate sub-funds for investment and ensuring appropriate oversight and governance of the company. Expected investment into Multi Asset Credit sub-fund (Q3) and further development of the property and alternative propositions.	On-going – new investments made and further investments in the pipeline. Multi Asset Credit investment made as expected.
Administration Service (including employer data quality)	Continued partnership and oversight of West Yorkshire Pension Fund (WYPF) in the delivery of the administration service and to improve the reporting on data quality and management information.	On-going – generally a good administration service provided. Work underway to progress the reporting.
Annual Report and Accounting	A detailed project plan has been put in place, built on experience from previous years and updated for new requirements. On-going engagement with the external auditors to ensure all requirements can be met in a timely manner.	Delayed receipt of opinion due to a number of factors including issue with the Council's accounts. Pension Fund accounts ready by deadline with an expected unqualified opinion to be received in

		early December.
Responsible Investment (RI)	Continued information and training for the Committee and Board to understand RI. Working closely with external managers and Border to Coast to ensure that it is embedded across all investment decisions.	On-going – improved stewardship reporting, close working with Border to Coast and Stewardship Code Statement submitted and awaiting FRC approval.
Investment Consultancy Services Tender	Call off the national framework to recommend an investment consultancy appointment to the October meeting of the Committee.	Completed – current Investment Consultant re-appointed w.e.f 1 January 2022.
Work by the Scheme Advisory Board (SAB)	Participate in projects were possible and respond to any actions required – e.g. Good Governance Review, data quality.	Progress delayed due to other priorities in SAB.
Employer Accounting	Work with employers, the Actuary and WYPF to ensure employers understand their choices, accurate and timely data is sent to the Actuary and accounting reports are received and understood by employers.	On-going – all reports issued as required to date.
Staffing and Structure Review	A full review of workloads across the team will be undertaken to review the staffing levels and structure to ensure it is appropriately resourced to meet current and future requirements.	Review undertaken and additional resource requirement identified, and approved by Executive Director of Resources. Currently working with HR to agree the job description and grade.

6.5 As can be seen from the table above, year-to-date most key tasks are on track or completed, except for work with the Scheme Advisory Board and the year-end accounts sign off, where delays are beyond the control of the Pensions team.

7. Conference and Training Attendance

7.1 It is stated in the Committee's Training Policy, approved each July, that following attendance (virtual or otherwise) at any conferences, seminars, webinars or external training events, members of the Committee and officers will share their thoughts on the event, including whether they recommended it for others to attend.

7.2 There has been one main LGPS Conference since the last meeting, which was the Pension Managers Annual Conference held in Torquay in November. No representatives from the Fund attended this event, but conference highlights, provided by Hymans Robertson, are attached at appendix F for your information.

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

Conclusion

8. The Fund has maintained its recovery from the falls last year, and is 100.8% funded as at the end of September, with an asset value of £2,933.7m.

9. The Committee are asked to approve an additional risk to the register relating to the AVC service provided by Prudential.

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	Prudential Update Letter 12 November 2021
Appendix F	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

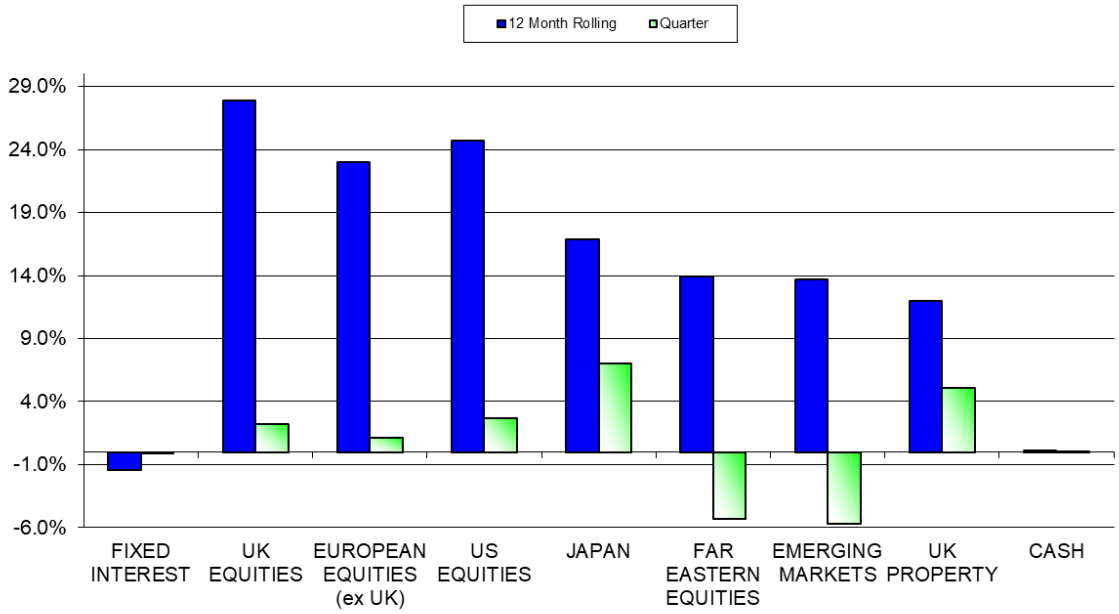
INVESTMENT	30 September 2021			30 June 2021			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
Border to Coast UK Listed Equity	475,479,823	28.1%	16.2%	466,129,316	28.0%	16.2%	15.0%	+/- 2.0%
TOTAL UK EQUITIES	**475,479,823**		**16.2%**	**466,129,316**		**16.2%**	**15.0%**	
GLOBAL EQUITIES								
LGIM Future World	446,463,786	26.4%	15.2%	438,022,283	26.3%	15.3%	15.0%	+/- 2.0%
Border to Coast Global Equity Alpha	767,429,332	45.4%	26.2%	761,955,142	45.7%	26.7%	25.0%	+/- 2.5%
TOTAL GLOBAL EQUITIES	**1,689,372,941**		**41.4%**	**1,199,977,425**		**42.0%**	**40.0%**	
TOTAL EQUITIES	**1,689,372,941**	**100.0%**	**57.6%**	**1,666,106,741**	**100.0%**	**58.2%**	**55.0%**	
ALTERNATIVES *	**586,661,348**		**20.0%**	**552,409,852**		**19.1%**	**21.0%**	**+/- 3.0%**
PROPERTY	**220,425,665**		**7.5%**	**210,958,805**		**7.3%**	**10.0%**	**+/- 1.5%**
FIXED INTEREST								
Blackrock	156,900,339	42.0%	5.3%	157,169,174	44.0%	5.5%	6.0%	+/- 1.0%
Border to Coast Investment Grade Credit	216,362,566	58.0%	7.4%	199,772,112	56.0%	7.0%	7.5%	+/- 1.0%
TOTAL FIXED INTEREST	**373,262,905**	**100.0%**	**12.7%**	**356,941,286**	**100.0%**	**12.5%**	**13.0%**	**+/- 1.5%**
TOTAL INVESTED CASH	**63,914,904**		**2.2%**	**84,339,841**		**2.9%**	**1.0%**	**+ 0.5%**
TOTAL INVESTED ASSETS	**2,933,637,763**		**100%**	**2,870,756,525**		**100%**	**100.0%**	

* including Multi-Asset Credit and Infrastructure

APPENDIX A

APPENDIX B

CHANGES IN MARKET INDICES
MARKET RETURNS TO 30 SEPTEMBER 2021



INDEX RETURNS	12 Months to Sep 2021 %	Jul-Sept 2021 %
FIXED INTEREST	-1.5%	-0.1%
UK EQUITIES	27.9%	2.2%
EUROPEAN EQUITIES	23.0%	1.1%
US EQUITIES	24.7%	2.7%
JAPANESE EQUITIES	16.9%	7.0%
FAR EASTERN EQUITIES	13.9%	-5.3%
EMERGING MARKETS	13.7%	-5.7%
UK PROPERTY	12.0%	5.1%
CASH	0.1%	0.02%

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

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THE PENSION MANAGER / TRUSTEE OF
LINCOLNSHIRE PENSION FUND

Our Reference:
SOA/CP

Plan name: LGAVC

Plan number: L607

12 November 2021

Dear Pension Manager / Trustee

Scheme Annual Revision and Statement of Accounts

We wrote to you in June regarding some of the challenges we were experiencing with our customer service performance and the production of the Scheme Annual Revision and Statement of Accounts.

In general, our servicing performance has improved significantly over the last 4 months, particularly the reduction in call waiting times and abandonment rate within our customer telephony team. There have also been reductions in turnaround times in our claims team, with most claims being processed in around 5 working days from receipt of all required information. We continue to work with payrolls to resolve outstanding contributions.

We had hoped to produce the Scheme Annual Revision and Annual Statement of Accounts by the end of August, however due to our backlog and contribution processing difficulties, this has not been possible. I am sorry that you are continuing to experience these delays, and want you to know we are committed to completing this process as soon as possible, and hope to issue them at the end of November 2021.

Yours faithfully

Tracy Harris
Customer Service Director

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HYMANS ROBERTSON

Conference highlights

LGPS Pension Managers' Conference, Torquay (16-17 November 2021)

Susan Black
Head of Governance, Administration and Projects

Following last year's virtual event, the South West Pension Managers' Conference was back with a bang in Torquay. The event covered a range of administration focused LGPS issues, including a Pensions Ombudsman update, McCloud (of course!), the upcoming Pensions Dashboard, and the future of LGPS administration.

If there is something here which you would like to discuss further, please get in touch with your usual Hymans Robertson contact.

Day 1 - Session 1: Keynote Speaker

Anthony Arter, The Pensions Ombudsman (TPO)

- Anthony covered the impacts of Covid. Whilst TPO staff were already working from home, delays in obtaining information led to a build-up of cases. Processes are being refined to increase efficiency and most cases are now resolved informally.
- There has been an upward trend in cases generally with an increasing focus on cases concerning automatic enrolment, pension revision and scams (which tend to be particularly complex). LGPS complaints declined from around 300 cases in 2019/20 to around 100 in 2020/21. Ill-health remains the biggest cause of complaints.
- Anthony discussed the overpayment case of Webber v Department of Education. The court found that the scheme should only recover overpayment for the 6 years prior to the point that the member made an official complaint to TPO. As the Ombudsman highlighted, this could incentivise an overpaid member to drag out proceedings and so reduce the period for which they are liable to repay overpaid pension.
- Anthony also discussed the Davison and Norton cases, where TPO found the trustees of both schemes to be personally liable. By making the independent trustee a complainant, this meant that all affected members could be included in redress and not just those who had complained directly to TPO.
- (NB See session 8 later, also by TPO)

Session 2: LGA Update

Jeff Houston, Head of Pensions, LGA

- Jeff opened by telling conference of his plans to retire on 31 March next year - he will be missed!
- Jeff advised that the government is determined to press ahead with a manifesto commitment regarding Exit Caps but there is a recognition that the original HMT regulations were flawed and that there will be different solutions for different departments. He also highlighted the need for regulation in relation to equalising historic survivor pensions, sooner rather than later, in the interests of fairness.
- Data was a recurring theme; from Pensions Dashboard to McCloud, which was described as "complexity on top of complexity". HMRC has agreed that lump sums paid late will not, after all, be unauthorised but it is unclear how far back this will apply retrospectively.
- Currently, the McCloud LGPS remedy only applies to members who were active on 1 April 2012. However, in the other public service schemes, it applies to members who were deferred on that date and re-joined without a disqualifying break. If the LGPS is brought into line with the other public service schemes then it would be better if funds already have the data they need, rather than having to go back to employers once again for data for another cohort of members. Given the volume of data work needed for Pensions Dashboard in any event, it may be prudent to take a broad view, and request this data now.

Workshops:

Pensions Dashboard – On Boarding: Jayne Wiberg, LGA

- Jayne covered the structure and set up on the Dashboard eco-system. Funds need to trust the eco-system and focus on the elements of the Dashboard that are within their control, namely the provision of accurate data.
- As the Dashboard project is moving through testing there is still a degree of uncertainty around what will need to be done, and when. The need to cleanse data should be included within business planning. Delegates appreciated the links between the need for good data for the Dashboard and to deal with McCloud requirements.
- Communication with members around the creation of the Dashboard, and queries as result of the Dashboard going live, should be on the agenda as further details of the project and timescales become clearer.

Communicating and dealing with employers: Lorraine Bennett & Rachel Abbey, LGA

- The LGA is increasing its resource to provide more employer training, and sought feedback on their own services and website.
- Delegates were keen to have more bite sized and pre-recorded training for employers, together with a more user friendly and searchable website.
- Hot topics continue to be ill health and outsourcing.

New ways of working: Ian Colvin, Hymans Robertson

- The workshop considered how administration teams will need to evolve in order to be ready for the increasing challenges of the LGPS
- The groups considered the following questions:
  - How are the needs of LGPS members changing?
  - What would the ideal administrative service look like?
  - What steps can we make to move towards the ideal?
- Among the themes that emerged from discussions:
  - An expectation from members for immediate 24/7 access to information and instant turnaround times
  - Technology will be central but sometimes members will still want to talk to a person
  - The skills needed within admin teams are changing. In future there will be more roles for IT experts, data analysts, project managers and change management experts.
- Both workshops were positive about the future. A number of funds are already thinking strategically about how their administration function will develop over time to meet changing needs.

The Administration challenge: Annemarie van Bochove Allen, Barnett Waddingham

- Annemarie reiterated the juggling act and plate spinning which LGPS funds are having to contend with. She emphasised the need for good resources, IT, time, people and the necessary budget to do a good job. The workshop covered 3 areas:
  - Data Prep for the 2022 Valuation: Feedback focussed on hints and tips on getting ready for the demands of the valuation
  - McCloud discussions: Whilst there are no answers, the workshop attendees shared their experiences and the planning that was underway in the funds.
  - Training and staff issues across the funds: Feedback focussed on tangible actions to widen talent pools, recruiting the right skillsets, and developing LGPS knowledge through training,

Session 3: Managing Change, Projects and Regulatory Implementation

Janet Morville-Smith, James Clarke and Neil Lewins, Local Pensions Partnership Administration Ltd (LPPA)

- James talked about LPPA's dedicated Business Change team who are tasked with planning, managing and delivering change across the organisation. They have a range of governance forums, covering both large- and small-scale business changes.
- James also highlighted LPPA's internal process where colleagues can put forward ideas that can be assessed and implemented quickly to immediately benefit the team, members, and employers.
- Janet discussed LPPA's approach to regulatory change, covering robust horizon scanning and responding to consultations in collaboration with clients to impact-assess and respond to the Regulator.

Session 4: National Frameworks

Jo Quarterman and Leon Thorpe, National LGPS Frameworks

- Jo gave a potted history of the National LGPS Frameworks highlighting the collaboration of funds to provide an effective, efficient, and compliant way to meet the specific procurement needs of the LGPS, whilst leveraging their market influence and collective buying power. Since 2012, 99% of LGPS funds have used the framework and 100% of investment pools have accessed one or more frameworks.
- Leon covered the benefits of the Frameworks, which reduce the procurement burden on funds by allowing a full procurement exercise to be run once by the Framework on behalf of funds; subsequent mini-competitions by funds amongst the successful Framework providers give quicker access to services as terms and conditions have been agreed beforehand.
- The Frameworks' success means continued growth. The new Pensions Administration Software Framework went live on April 2020 and proved popular despite lockdown. The Third-Party Administration Services Framework is currently being re-let and the Pensions Administration Operational Support Services Framework will be coming soon.
- Last but not least, Jo and Leon gave some top tips for successful procurement – plan ahead, be clear on what you really need, and ask appropriate questions of providers.

Session 5: What's new on the tPR Single Code of Practice?

Laura Caudwell, Aon

- Laura discussed the new module-based approach for the upcoming tPR single Code of Practice (expected to be in place by Summer 2022). This sets out both the legal and best practice expectations for pension schemes and adopts a modular approach.
- One of the main concerns is the term 'Governing Bodies". It is not clear who exactly this is referring to and is the main clarification LGPS funds have been seeking.
- In terms of what is specifically new, maintenance of IT systems and cyber controls are the 'freshest' areas for funds to consider. A similar theme is the need to assess and manage risk.
- The updated module on transfers closely links with the new pension scams module. It is important that funds keep a close eye on these issues and the ongoing guidance provided, as scammers are continually changing their approaches. (See also session 6 below).
- Laura closed by saying that assessing the level of compliance could be a big job for funds if they aren't sure how compliant they are with current regulation. She also made a plea for continuity planning to remain high on funds' agendas.

Day 2 - Session 6: Legal Update, LGPS Pension Scam cases review

Alec Bennett, Eversheds Sutherland

- With £1.8m lost to scammers during Q1 of 2021, the topic of protecting savers continues to be at the top of the agenda. In 2017 a DWP consultation concluded that there should be a ban on cold calling, a limit on the statutory right to transfer, and more hurdles to registering a new pension scheme.
- Alec's update focussed on the rules around members' statutory right to transfer. New regulations will come into force on 30 November with two conditions needing to be satisfied or a member will lose their statutory right to transfer:
  1. Relates to low risk schemes where there is a guaranteed right to transfer, with pension funds able to ask for the relevant information to complete the transfer.
  2. Relates to transfers to all other funds, where defined Red or Amber flags play a part. The presence of either flag may result in the transfer only being completed where the member has evidence of advice being taken from the Money and Pensions Advice Service. TPR has issued further guidance.

Alec also covered the Pensions Ombudsman's approach in the recent decision on transfers; one month, rather than the previously indicated period of three months, is a more reasonable timeframe to implement change to processes following updates from tPR.

Session 7: McCloud and more

Con Hargrave, Department for Levelling Up, Housing and Communities

- Con started his presentation with the message that MHCLG to DLUHC is "more than a name change". He talked through the 4 objectives of levelling up e.g. spreading opportunities and improving public service.
- The McCloud legislation has an 'in force' date of 1 April 2023. There may need to be further consultation and regulations around related tax implications.
- Exit payment reform and likely TCFD disclosure requirements were discussed. Asset pooling also got a mention – the focus is on stronger governance, improved reporting, and greater transparency on performance.
- What else is on the radar? The GAD 2019 Section 13 report (end of this year) and Cost Control reform consultation (next year - SAB and GAD will be discussing how to apply this to LGPS). The Good Governance project, survivor benefits changes, and outstanding consultations on Fair Deal and 4 yearly valuations were also mentioned. Busy times ahead!

Session 8: Working with the Pensions Ombudsman to improve dispute resolution

Mairi Dearden, The Pensions Ombudsman

- Mairi advised that the two key themes in her presentation were engagement and clear communications.
- The benefit of using TPO's early resolution service was raised and can be used before a member gets to IDRP stage. An independent arbitrator can often resolve issues when a fund and member clash.
- A TPO survey is coming soon, and a refurbishment of the TPO website.
- Top tips focussed on the importance of communication, with a plea to ensure that funds still talk with members and that communication is not only in written form. Other top tips included avoiding delays for members, accepting responsibility, and apologising when the fund is at fault (put yourself in place of the member).

Chair's closing remarks

- In light of the topics raised at the conference, including McCloud, the Dashboard and change, Pat Luscombe urged funds to turn these challenges in to opportunities, using them to focus minds and budgets on the need for good quality, accessible and reliable data.

Lincolnshire COUNTY COUNCIL Working for a better future

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

Report to:	**Pensions Committee**
Date:	**16 December 2021**
Subject:	**Responsible Investment Update**

Summary:

This paper provides the Committee with an update on Responsible Investment activity during the second quarter of the financial year 2021/22 (July to September 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.

2.0 Local Authority Pension Fund Forum Membership

2.1 The Fund participates in the Local Authority Pension Fund Forum. LAPFF acts to promote the highest standards of corporate governance to protect the long-term value of local authority pension fund assets. The Forums current engagement themes include: climate risk, social risk, governance risk and reliable accounting risk. They also act through liaising with others and by responding to consultations.

Outcomes Achieved through LAPFF Company Engagement

2.2 The latest LAPFF engagement report can be found on their website at www.lapfforum.org. Some highlights from their work during the quarter include:

- During this quarter LAPFF undertook engagements with 82 companies, covering: human rights, social risk, climate change reporting and environmental risk, and general governance and board issues. This included engagements with:

  - Shell, ArcelorMittal, National Grid and SSE on climate related issues, Rio Tinto on recognising the financial impacts of its social challenges, and Anglo American and BHP on their commitment and engagement with local communities affected by their operations;
  - HSBC and Standard Chartered, in the banking sector, on their commitments to climate targets and how they will work with their clients on this matter; and
  - Sainsbury's through attendance at their 'Plan for Better' event and AGM, where they posed questions on the company's packaging practices, electric vehicles, supply chains, climate change and 'say on climate'.

- Collaborative engagements included: co-signing a letter to 50 companies in sectors highly exposed to physical climate risk asking them to adopt the expectations set out in the Institutional Investor Group on Climate Change guide on Investor Expectations of Companies on Physical Climate Risks and Opportunities.

- Consultation responses were submitted to a number of government consultations on carbon reduction, including: the Department for Transports (DfT) 'Jet Zero' consultation on the strategy for net zero aviation and their consultation on a new carbon dioxide emissions regulatory framework. A response was also submitted to the consultation on ending the sale of new non-zero emission heavy goods vehicles.

2.3 Further details on their work during the quarter can be found in the quarterly engagement report. Members of the Committee should contact the author of this report if they would like further information on the Forum's activities.

3.0 Border to Coast Pensions Partnership Activity

3.1 Border to Coast is the pooling company chosen by Lincolnshire Pension Fund. Border to Coast is 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.

3.2 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 Q3 2021). Highlights from their work during the quarter include:

- Publication of Border to Coast's first standalone Climate Change Policy, developed in collaboration with Partner Funds, and announcement of the commitment to achieve net-zero greenhouse gas emissions across all investments by 2050 or sooner, if possible. Border to Coast have also supported an Investor Position Statement on corporate net-zero transition plans, along with 54 other investors coordinated by the Institutional Investors Group on Climate Change (IIGCC).

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

- Engagement activity, which included 307 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.

3.3 Border to Coast quarterly ESG reports for their equity sub-funds are included on this agenda as part of the Investment Management Report at Item 13.

4.0 Robeco Activity

4.1 In addition to the direct RI work undertaken by Border to Coast they have appointed Robeco to provide voting and engagement services. A copy of their quarterly activity report can be found on the Border to Coast website (Robeco Quarterly Engagement Report Q3 2021).

4.2 During the quarter Robeco have voted at 127 AGM's, the percentage of meetings where they have at least one vote against management is 59%. During the quarter they have engaged with companies on 60 occasions on topics including: corporate governance, environmental and social. This quarter also saw the launch a new engagement theme for Robeco on human rights due diligence.

5.0 Voting

5.1 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.

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

5.3 Please contact the author of this report if you wish to see further details on votes cast over the quarter.

Conclusion

6.0 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: July 01, 2021 - September 30, 2021

Votes Cast	220	Number of meetings	19

For	197	With management	192
Withhold	0	Against management	26
Abstain	0	Other	2
Against	23		
Other	0		
Total	**220**	**Total**	**220**

In 78% of meetings we have cast one or more votes against management recommendation.

General Highlights

Shaping Accountable Remuneration Committees
The tension surrounding executive pay is increasing year on year. Both shareholders as well as civil society at large are increasingly putting question marks behind certain corporate pay practices. Historically, shareholders have been mostly focused on aligning pay with performance, whereas broader stakeholders have focused on pay equity between executives and the broader workforce. This dynamic has changed slightly as the pandemic has brought the stark difference between the C-suite and front-line workers into sharp focus. During the 2021 proxy season, investors have increasingly called out incongruent behavior between executive pay and treatment of the broader workforce. As institutional investors and societal demands for executive pay become more aligned, the pressure on companies to change their historic practices is building.

Despite alignment between institutional investors and society there is one group of shareholders who form a roadblock on the road to reform – insiders. Many listed companies have large portions of their shares, or even dual share classes designed to keep control, in the hands of management, founders and other insiders. These insider shareholders water down strong independent opposition and aid in the vast majority of all 'say on pay' proposals comfortably passing. It can come as no surprise that average executive pay-levels have been steadily increasing despite social and shareholder uproar.

As changing these shareholding structures in the near term is unlikely, we can look at another way that could help circumvent these roadblocks. In most developed markets, boards assign pay setting responsibility to a select group of directors that form a Remuneration Committee. Specifically, this committee is responsible for setting the policy for the remuneration of the executive management, determining targets for performance-related pay schemes and determining the total individual remuneration package of each executive director. Since Remuneration Committees have the power to change remuneration practices, addressing the way these committees work can help catalyze change.

Shareholders have some degree of influence on the composition of the committee. It is essential to have a fully independent committee to ensure management cannot leverage its power in setting its own pay. Besides independence, director backgrounds might also strongly influence the kind of pay practices they approve. Many board directors are former, or current, executives themselves and as such might not share the same reference point for fair pay levels as the general public. This also means executives serving on Remuneration Committees are subject to a conflict of interest – if they are too outspoken on compensation at another company, they risk facing the same fate and worse outcomes themselves. Ensuring a diverse committee might help break historical habits and push for a more critical evaluation of common pay practices.

Another way to push for change is through direct dialogues with remuneration committees. Therefore, Robeco regularly engages with companies to give direct feedback on remuneration. These discussions help a remuneration committee translate voting results into actionable items for change. Remuneration committees often use the help of compensation consultants, who provide the committee with suggestions based on comparable companies. This common practice might counteract change as it helps to maintain a status quo that is no longer supported by many shareholders. It is therefore essential for remuneration committees to also have input from shareholders to be informed of changing demands. Closer collaboration with shareholders will prevent companies from unexpected shareholder dissent.

A last resort to influence a Remuneration Committee's behavior is to use voting rights to oppose reelection of committee members who have failed to meaningfully improve remuneration practices.Border to Coast uses this leverage when proposed changes are egregiously out of step with best practice or when the committee has not responded to persistent dissent.

As remuneration continues to be a contested item on the yearly AGM agenda, we believe shareholders will increasingly look at the roles of Remuneration Committees directly. This is in line with a broader shareholder movement to use director elections to voice concerns on a broad range of issues. We expect to see a more proactive approach of compensation committees to reach out to shareholders or else risk their position on the board altogether.

Diversity and Inclusivity

Diversity and inclusivity have increasingly become a hot topic in recent years, either as agenda items at AGMs, or in investors' engagement efforts with companies to help them address issues of social inequality in their organizations. The Me Too movement that was initiated in 2017 after sexual harassment and abuse of women in workplaces, and the Black Lives Matter Movement that exposed the lack of racial and ethnic equality in our societies, made investors realize that corporations must step up their efforts to promote diversity, equity, and inclusivity(DE&I). It is clear that gender or racial quotas in higher management and corporate boardrooms, remain important as the first step to promote diversity, but these alone are no longer enough to change the system and address our social and racial biases.

Companies should become more inclusive and reflect the communities they are a part of to ensure their long-term prosperity and competitiveness. A 2019 McKinsey report shows that inclusion matters, highlighting that even relatively diverse companies are facing challenges to increase inclusivity. Corporations should try to create work environments characterized by inclusive leadership, equality and fairness of opportunity, and freedom from bias and discrimination. Companies should uphold a zero-tolerance policy for discriminatory behavior, and ensure the representation of diverse talent. Companies should build a culture where all employees feel they can bring their whole selves to work, by supporting the formation of employee working groups with diverse/minority backgrounds. The same report shows that those diverse companies that do take those steps to build up inclusivity tend to outperform their peers financially.

Many shareholder advocates and investors are now focusing on the role corporations play in exacerbating racial and social inequalities in our societies. Historically, corporations have perpetuated societal inequalities through their corporate culture and behavior. For example, we have seen communities of color to be disproportionately affected by environmental damages caused by corporate polluters. In this year's AGM season, we saw resolutions submitted by shareholders asking from many major US banks to conduct racial equity audits to detect how their business activities might have "adverse impacts on non-white stakeholders and communities of color". The purpose of this proposal is to conduct an independent and objective evaluation of the effectiveness of the banks' internal and external actions in combatting systemic racism, and the impact of the banks' own policies related to mortgage lending, retail banking, and small business lending on communities of color. These proposals have become more important to ensure accountability of corporate purpose statements.

Diversity though has more aspects than only gender, race, or ethnicity. In December 2020, Nasdaq, the stock exchange, filed a request with the SEC to require its 3,300 listed companies to have at least one female board member and one board member who identifies as either an under-represented minority or LGBTQ, on a comply or explain basis. Corporate disability inclusion is also becoming a central aspect of the diversity and inclusivity dialogue. A 2018 report published by

Accenture shows that corporations that embrace best practices for employing people with disabilities have outperformed their peers. The report also noted that including people with disabilities in the workforce leads to increased innovation, higher productivity, and a more inclusive working environment. These dimensions of diversity are difficult to capture, and consequently hard to set specific targets for certain companies, for example because of the EU's General Data Protection Regulation - a strict set of privacy and security rules about the use of personal information. Nevertheless, this year saw shareholders asking more US companies to reveal diversity data about their workforces. Extra disclosure and measurable employee diversity data will allow investors to assess and have better oversight of the companies' diversity and inclusion efforts.

Over the next decades due to megatrends, such as climate change, there will be a global change in demographics, and our countries will become even more diverse. This change will have certain social effects, but also a substantial impact on labor markets and consumer trends. Corporations need to conduct an open dialogue with investors and governments to manage the resulting impacts. And though there are barriers, like data availability on specific DE&I targets, diversity should be approached more holistically, not aiming only to reach specific figures but aiming to enhance inclusion.

Voting Highlights

Alibaba Group Holding Ltd - 09/17/2021 - Cayman Islands
Proposal: Election of Directors

Alibaba Group Holding Limited, through its subsidiaries, provides technology infrastructure and marketing reach to merchants, brands, retailers, and other businesses to engage with their users and customers in the People's Republic of China and internationally.

At the company's annual general meeting (AGM) the spotlight might have been the election of only three directors, but our analysis covered broader governance concerns. We supported the election of the President of the Group and the one nominated by the Alibaba Partnership, a formal partnership agreement that was initiated by the founders of the Group in 2010. The Partnership is currently comprised of 36 members, 30 of whom are members of the Company's management and six of whom are appointed by an affiliate company. The Alibaba Partnership has the exclusive right to nominate and appoint up to a simple majority of members to the Company's board of directors. Currently 5 out of the 11 directors in the board are appointed by the Partnership, showcasing the existing limitations on minority shareholder rights.

We decided to oppose the election the executive vice chair of the Alibaba Group who serves as a member of the Remuneration Committee and as a chair of the Governance and Nomination Committee. We believe that key committees such as the nomination and remuneration committee should have a high degree of independence
Additionally, we opposed the election a director that serves as a CEO and president of a large communications company, while serving on a total of three public company boards. Understanding the scarcity of time, we believe that to fulfil the responsibilities of all those positions is not easily manageable, and the director in question might end up failing his fiduciary duties towards the shareholders.

Finally, we should mention that we are concerned by the lack of an independent chair or an independent lead, especially with the high number of affiliated/insider directors within the board. Though we understand that independent board leadership is not a common practice for Chinese companies, we encourage those companies that have an international shareholder base to work on moving closer to international best practices. We consider that having an independent chair would lead to better oversight of management's decisions and would serve minority shareholder' interests.

Disclaimer

Robeco Institutional Asset Management B.V. ('Robeco') distributes voting reports as a service to its clients and other interested parties. Robeco also uses these reports to demonstrate its compliance with the principles and best practices of the Tabaksblat Code which are relevant to Robeco. Although Robeco compiles these reports with utmost care on the basis of several internal and external sources which are deemed to be reliable, Robeco cannot guarantee the completeness, correctness or timeliness of this information. Nor can Robeco guarantee that the use of this information will lead to the right analyses, results and/or that this information is suitable for specific purposes. Robeco can therefore never be held responsible for issues such as, but not limited to, possible omissions, inaccuracies and/or changes made at a later stage. Without written prior consent from Robeco you are not allowed to use this report for any purpose other than the specific one for which it was compiled by Robeco.

Border to Coast UK Listed Equity Fund

Proxy Voting Report

Period: July 01, 2021 - September 30, 2021

Votes Cast	487	Number of meetings	29

For	453	With management	453
Withhold	0	Against management	34
Abstain	1		
Against	33		
Other	0		
Total	**487**	**Total**	**487**

In 66% of meetings we have cast one or more votes against management recommendation.

General Highlights

Shaping Accountable Remuneration Committees
The tension surrounding executive pay is increasing year on year. Both shareholders as well as civil society at large are increasingly putting question marks behind certain corporate pay practices. Historically, shareholders have been mostly focused on aligning pay with performance, whereas broader stakeholders have focused on pay equity between executives and the broader workforce. This dynamic has changed slightly as the pandemic has brought the stark difference between the C-suite and front-line workers into sharp focus. During the 2021 proxy season, investors have increasingly called out incongruent behavior between executive pay and treatment of the broader workforce. As institutional investors and societal demands for executive pay become more aligned, the pressure on companies to change their historic practices is building.

Despite alignment between institutional investors and society there is one group of shareholders who form a roadblock on the road to reform – insiders. Many listed companies have large portions of their shares, or even dual share classes designed to keep control, in the hands of management, founders and other insiders. These insider shareholders water down strong independent opposition and aid in the vast majority of all 'say on pay' proposals comfortably passing. It can come as no surprise that average executive pay-levels have been steadily increasing despite social and shareholder uproar.

As changing these shareholding structures in the near term is unlikely, we can look at another way that could help circumvent these roadblocks. In most developed markets, boards assign pay setting responsibility to a select group of directors that form a Remuneration Committee. Specifically, this committee is responsible for setting the policy for the remuneration of the executive management, determining targets for performance-related pay schemes and determining the total individual remuneration package of each executive director. Since Remuneration Committees have the power to change remuneration practices, addressing the way these committees work can help catalyze change.

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Voting Highlights

Vodafone Group plc - 07/27/2021 - United Kingdom
Proposal: Appointment of Auditor

Vodafone Group plc engages in telecommunication services in Europe and internationally.

Vodafone's annual meeting in July did not pose any extraordinary proposals, but it does provide a good example of the implementation of our principles around auditor best practices. Vodafone appointed a new auditor at the AGM of 2020. While under its previous auditor it only paid audit and audit-related fees, with the new auditor non audit related fees were also paid.

We believe that in order to ensure an auditor's independence it is important that fees paid for other services do not constitute a significant share of total fees paid to the auditor. We believe that if the auditor significantly relies on the income of these other services, it might create a conflict of interest. Since the auditor might not be inclined to perform the audit diligently and raise any issues which might put its relationship with its client for its other services at risk.

In order to avoid such conflict of interest we always examine the proportion of non-audit related fees to total fees paid to the auditor. In the case of Vodafone, the introduction of non-audit related fees last year did not immediately result in a vote against as the proportion was still deemed appropriate. However, this year audit fees decreased while other fees increased tipping the ratio above our threshold. Therefor we voted against the appointment of the auditor and the auditor's fees. Our approach is in line with the UK Corporate Governance Code.

Both the auditor (97.5%) and auditor fee (98.44%) proposals received the overwhelming support of shareholders at the AGM. It is good to note, however, that the opposition did increase by about 2% compared to earlier years. We are not disappointed with the vote result as we do not believe the current auditor is incapable of performing its duties independently, but we do hope the audit committee recognizes the signal of opposition and is reminded to reign in other fees paid to the auditor to avoid the creation of a persistent conflict of interest.

Ashtead Group plc - 09/16/2021 - United Kingdom
Proposal: Executive Remuneration Report and Policy

Ashtead Group plc, together with its subsidiaries, engages in the construction, industrial, and general equipment rental business in the United States, the United Kingdom, and Canada.

At the company's annual shareholder meeting that took place on September 16, we had the opportunity to cast our advisory vote on the annual remuneration report, but also to cast our binding vote on the remuneration policy that would be implemented over the next three years. Though the compensation committee provided reasonable disclosure and rationales on the changes in executives' remuneration policy and the structure of the remuneration report, we decided to not support any of the two remuneration related proposals for the reasons we explain in detail below.

The main reason behind our Against vote on the remuneration report was the excessive base salary increase of 18.5% for the finance director. Though we understand compensation committee's rationale behind their decision to this base salary adjustment, since there has been a significant growth in the business and the

responsibilities for the finance director have increased, we were concerned with the size of the increase, that coincides with a significant proposed increase in long term incentive opportunity. We are concerned with the compounding effect that high fixed pay raises can have to the quantum of the overall compensation. We view these changes with skepticism, since it is preferably for companies that have the ambition to grow over the next years, to translate that into performance linked rewards, avoiding in that way excessive compensation when performance has fallen below expectations.

Regarding our decision to not support the remuneration policy, we were conscious of the remuneration committee's proposed changes. Mainly we were concerned with committee's decision to grant the Performance Share Plan (PSP) at increased levels over the next 3 years. Specifically, for FY2021/22 the PSP would be at the level of 250% of base salary for the chief executive and 200% for the finance director (vs typical grant levels of 200% and 150%), and for FY2022/23 was suggested to reach a maximum opportunity of 350% of base salary for the chief executive and 225% of base salary for the finance director. The suggested base salary increase for the finance director that was proposed in the remuneration report, in combination with the above suggested increases, would lead to a significantly increased outcome for the overall compensation level regardless of changes in executive performance.

Additionally, we were concerned with the introduction of the Strategic Plan Award. This is a significant one-off award that would be granted in FY2021/22 (350% of base salary for the chief executive and 250% of base salary for the finance director) based on performance against performance targets that are measured in the final year of the performance period only. We consider that this plan would exceed the typical long term incentive opportunity available to the Company's UK market cap peers, thus we didn't support this proposal.

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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:	**16 December 2021**
Subject:	**Pensions Administration Report**

Summary:

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

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 July 2021 to 30 September 2021.

KPI's for the period 01.07.21 to 30.09.21						
WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT	AVERAGE TIME TAKEN
AVC In-house (General)	49	20	49	85	100	1.18
Change of Address	313	10	302	85	96.49	2.19
Change of Bank Details	54	10	50	85	92.59	3.52
DWP request for Information	2	20	2	85	100	5.5
Death Grant Nomination Form Received	460	20	350	85	76.09	11.39
Death Grant to Set Up	24	5	22	85	92.31	4.08
Death In Retirement	142	5	127	85	89.87	3.94
Death In Service	3	5	3	85	100	1
Death on Deferred	11	5	11	85	100	3
Deferred Benefits Into Payment Actual	237	5	221	90	93.25	1.64
Deferred Benefits Into Payment Quote	271	35	250	85	92.25	11.42
Deferred Benefits Set Up on Leaving	198	20	127	85	64.79	32.19
Divorce Quote	49	20	46	85	94.07	13.02
Enquiry	4	5	4	85	100	1
General Payroll Changes	106	10	104	85	98.11	1.12
Initial Letter Death in Service	3	5	3	85	100	1
Initial letter Death in Retirement	142	5	135	85	95.07	2.18
Initial letter Death on Deferred	11	5	11	85	100	1.91
Monthly Posting	916	10	852	95	93.01	2.65
NI adjustment to Pension at State Pension Age	14	20	14	85	100	17.5
Payment of Spouses _Child Benefits	80	5	77	90	96.25	2.54
Pension Estimate	117	10	86	75	73.75	8.89
Pension Saving Statement	1	20	1	100	100	1
Phone Call Received	1072	3	1046	95	97.57	1
Refund Actual	113	10	111	95	98.23	1.33
Refund Quote	202	35	201	85	99.5	1.23
Retirement Actual	196	3	190	90	96.94	1
Spouse Potential	4	20	4	85	100	13

Transfer In Actual	19	35	18	85	94.74	8.74
Transfer In Quote	35	35	34	85	97.14	2.8
Transfer Out Payment	21	35	18	85	85.71	15.48
Transfer Out Quote	85	20	74	85	87.06	9.12
Update Member Details	630	20	630	100	100	1

Comment – The KPI for Death Grant Nomination Form Received has not been met this month due to the high volume of forms received from members across all funds since the start of the Annual Benefit Statements and Deferred Benefit Statements production.

Comment – The KPI for Deferred Benefits Set Up on Leaving has not been met this month as this area of work was stockpiled so staff could help other teams to get priority work done which was needed to get the Annual Allowance calculations produced by the deadline. Deferred benefits have started to be worked on again.

Comment – The KPI for Pension Estimate has not been met this month due to the high volume of pension estimate requests, a number of which originated as a result of issuing Annual Benefit Statements.

2.0 Scheme Information

2.1 Membership numbers in the Lincolnshire Fund are as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	23,166	25,371	714	25,514	2,500
Percentage of Membership	29.98	32.84	0.92	33.02	3.24
Change from Last Quarter	+300	-204	+171	+275	+54

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	228	1,560	1,599	1,998	2,575	2,826	3,400	3,850	3,075	1,684	300	72	23,167

2.3 **Employer Activity - During 1 July 2021 to 30 September 2021**

New Academies and Education Trusts	3
New Town and Parish Council	1
New Admission Bodies	1
Total of New Employer	**5**
Employers Exited	1
Total Numbers of employers	**300**

3.0 Member and Employer Contact

3.1 Over the quarter July to September we received **2** online customer responses.

Over the quarter July to September, **132** Lincolnshire member's sample survey letters were sent out and **16 (12.2%)** returned:

Overall Customer Satisfaction Score:

July to September 2020	October to December 2020	January to March 2021	April to June 2021	July to September 2021
94.9%	82.1%	86.8%	81.7%	96.9%

Appendix A – Customer surveys

3.2 Employer Training

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

- Understanding final pay
- Final pay – 'the deep dive'
- Overview of the LGPS
- The ill-health process
- Processing pension blocks and quarantines

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

One appeal currently outstanding.

Date of appeal	Reason for appeal	Current position /Outcome	Date decision letter sent
17/06/2021	Appeal against the decision not to allow a late transfer in.	Appeal turned down. Satisfied that the correct procedure had been followed in accordance to the discretionary policy in deciding to turn down a late request for transfer.	17/08/2021
03/08/2021	Appeal against the decision of who the recipients of a death grant should be.	Request acknowledged – 04/08/2021. IDRP report received from Member Services Manager – 09/08/2021.	

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. Serco confirmed that the case is still open due to issues in obtaining medical records – 19/08/2021.	
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. Currently querying with Lincoln College of confirmation whether the appeal was turned down.	

Stage 2 appeals

Two appeals are currently outstanding.

Date application received	Reason for appeal	Current position/outcome	Date decision letter sent
07/06/2021	Appeal against transfer out being allowed to proceed.	IDRP acknowledged – 25/06/2021. Decision letter drafted – 21/09/2021.	
08/06/2021	Appeal against decision re ill health retirement.	No action taken until 29/09/2021. Consent form sent to member – 29/09/2021.	

4.2 Ombudsman

No cases

5.0 Administration Update

5.1 Prudential

During the period 1 July to 30 September 2021, 530 members retired from Lincolnshire Pension Fund. There were 13 retirements with AVCs:

- July 21 – 2 retirements with AVCs – payment received for all cases
- August 21 – 4 retirements with AVCs – payment received for all cases
- September 21 – 7 retirements with AVCs – payment has been received for 5 cases and we are waiting for payment for 2 cases but these were requested in October.

5.2 Employer Work

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

5.3 Staffing

WYPF has undertaken a recruitment campaign to replace staff who have retired or left as well as recruiting to new posts. A few posts remain vacant but efforts will continue to recruit in what is currently a very difficult market. The Senior Pensions Officer vacancies are currently out to advert.

Appendix B – Structure Flowchart

5.4 Audits undertaken by Bradford Councils Internal Audit:

a) Life Existence (Life certificates)

It is audit's opinion that the standard of control of identified risks in the system is **good.**

The audit review has determined that most of the risks examined were found to be effectively managed. The control environment is largely as expected but would benefit from some enhancement to support the achievement of key business objectives.

Internal Audit made 3 recommendations for improvement which Managers are currently looking at implementing.

6.0 Current Technical Issues

See Appendix C

7.0 Web Registrations

The number of members registered for online member web are:

Active	7,757	33.48%
Deferred	5,774	22.76%
Pensioner	5,205	20.40%

8.0 Shared service Budget

8.1

WYPF SHARED SERVICES	2021/22 BUDGET £000	2021/22 FORECAST PD06 £000	2021/22 VAR BGT - PD06 FAV (ADV) £000
Accommodation	365	422	-57
Actuary	168	50	118
Computer	485	576	-91
Contingency	0	0	0
Employees	5,936	5,575	361
Internal Recharge	-784	-768	-16
Other Running Costs	165	144	21
Transaction Costs	0	0	0
Printing & Stationery	529	518	11
Strategy	0	0	0
TOTAL EXPENDITURE	6,864	6,517	347
Charge to WYPF Account	-4,528	-3,881	-647
Other Income	-36	-90	54
Shared Service Income	-2,300	-2,546	246
TOTAL INCOME	-6,864	-6,517	-347
Member number	467,795	470,865	
Cost per member	14.67	13.84	

8.2 Cost per member

Lincolnshire LGPS	CLIENT NO	ADJ MEMBER No OCT 2021	2021/22 FORECAST PD06 £000	COST PER MEMBER
Lincolnshire LGPS	8	77,297	£1,069,790	£13.84

9.0 Awards

WYPF has been shortlisted by **LAPF** under the following categories:

- Good Governance Award
- Scheme Administration Award

Winners will be announced at a ceremony in London on 15 December 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.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Customer Surveys
Appendix B	Structure Flowchart
Appendix C	Current Technical Issues

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 Pensions Manager.

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.

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Customer Survey Results - Lincolnshire Members
(1st July to 30th September 2021)

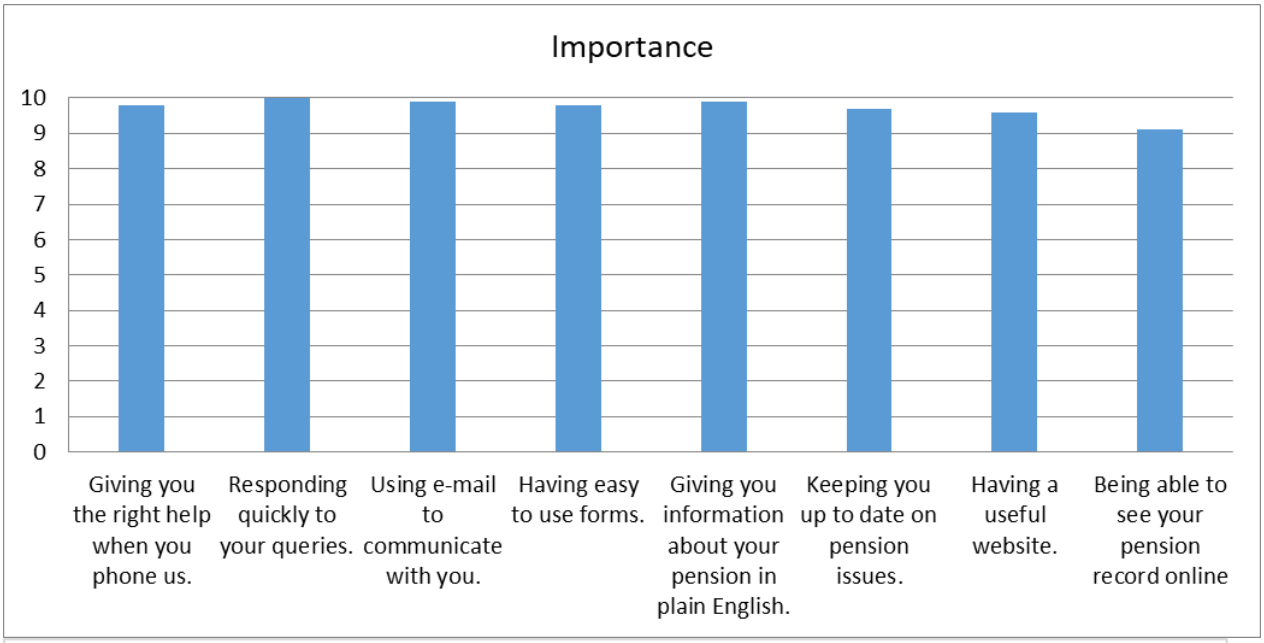
Over the quarter July to September we received **2** online customer responses.

Over the quarter July to September **132** Lincolnshire member's sample survey letters were sent out and **16 (12.2%)** returned:

Overall Customer Satisfaction Score;

July to September 2020	October to December 2020	January to March 2021	April to June 2021	July to September 2021
94.9%	82.1%	86.8%	81.7%	96.9%

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



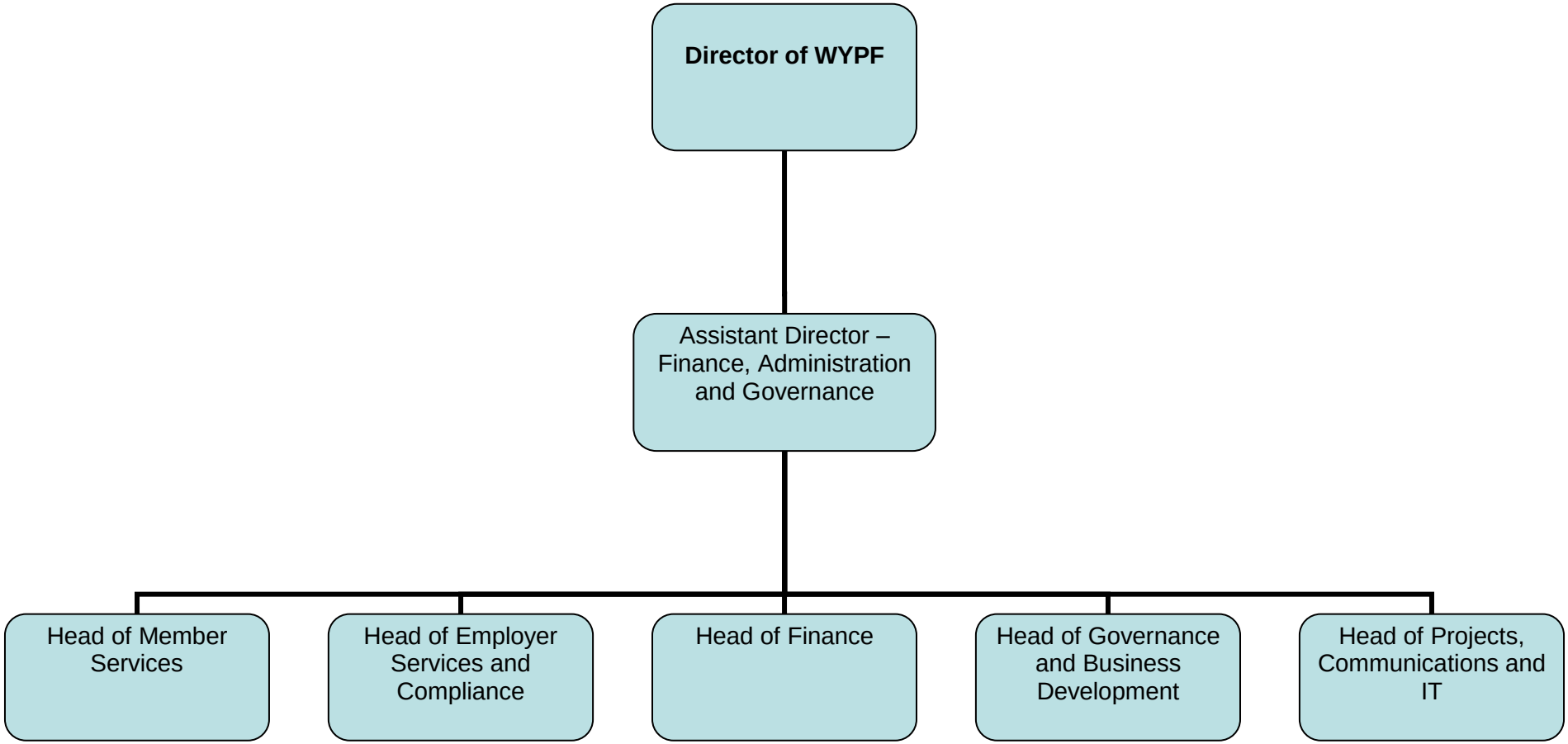
Sample of positive comments:

Member Number	Comments
8042833	Very informative and helpful. My birth and marriage certificate lost in post, person who dealt with in Bradford was so helpful and understanding and would like to say big thank you, think his name was Alan.
8135485	Did exactly what I asked you to do, on hold for a while but all sorted in one call.
8089167	Helpful and information. All the ladies who I spoke to on phone was helpful. I felt valued.
8072501 Online	Very efficient, helpful & friendly team. : Very pleased with all the prompt email responses, friendly service, and helpful staff.

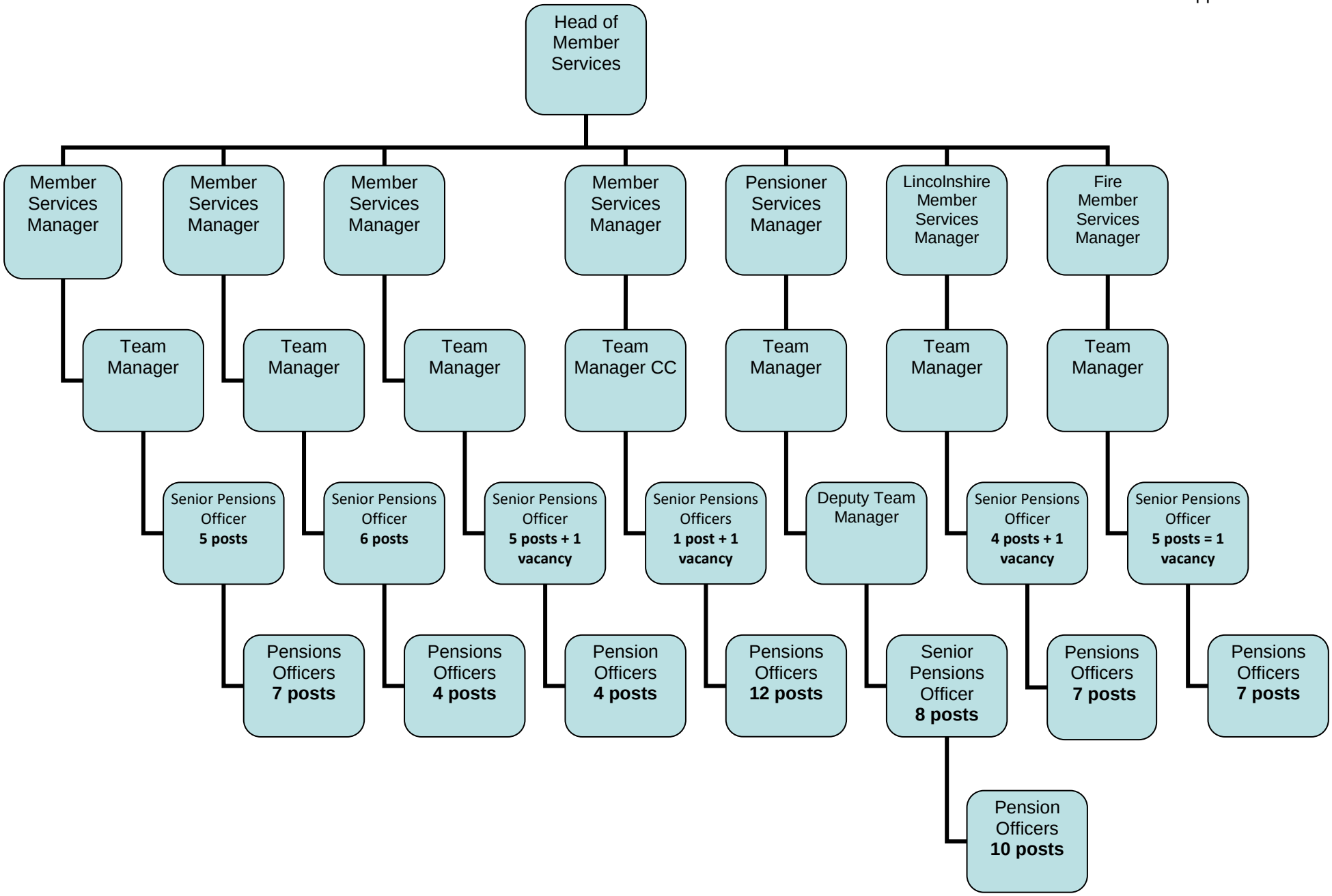
Complaints/Suggestions:

Member Number	Comments	Summary of Acknowledgement Letter Sent to Member
None		

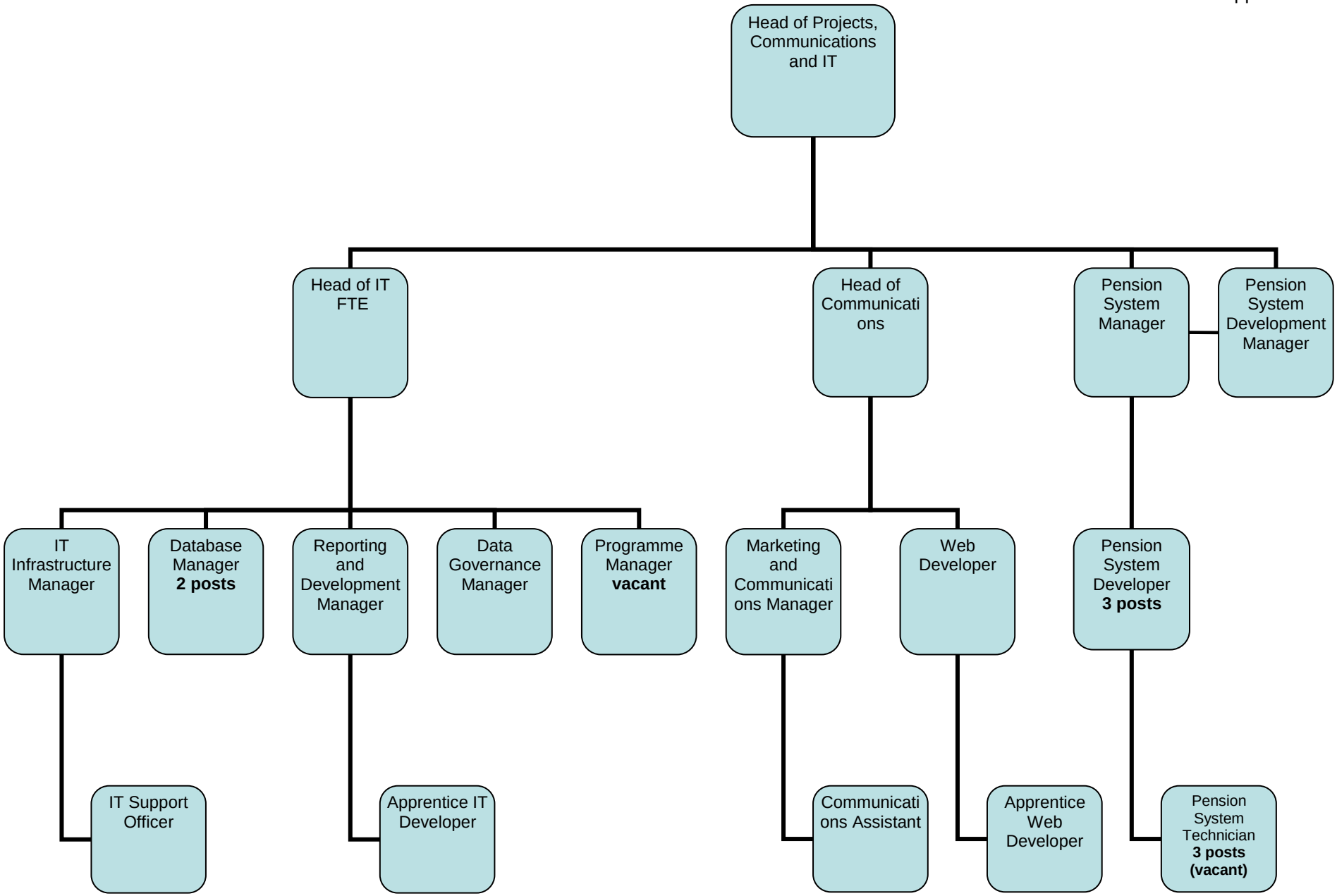
West Yorkshire Pension Fund



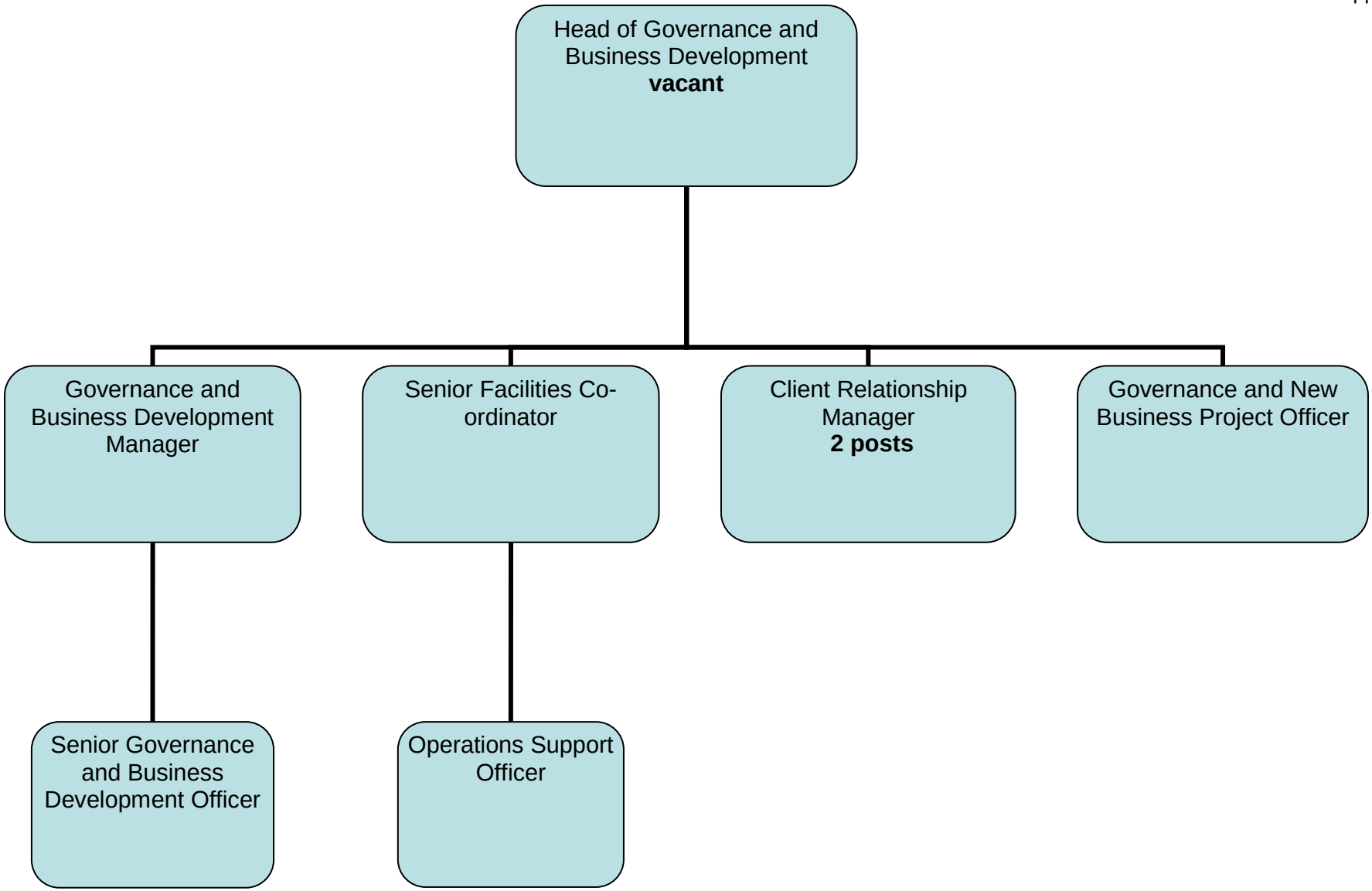
WYPF Structure
Appendix B



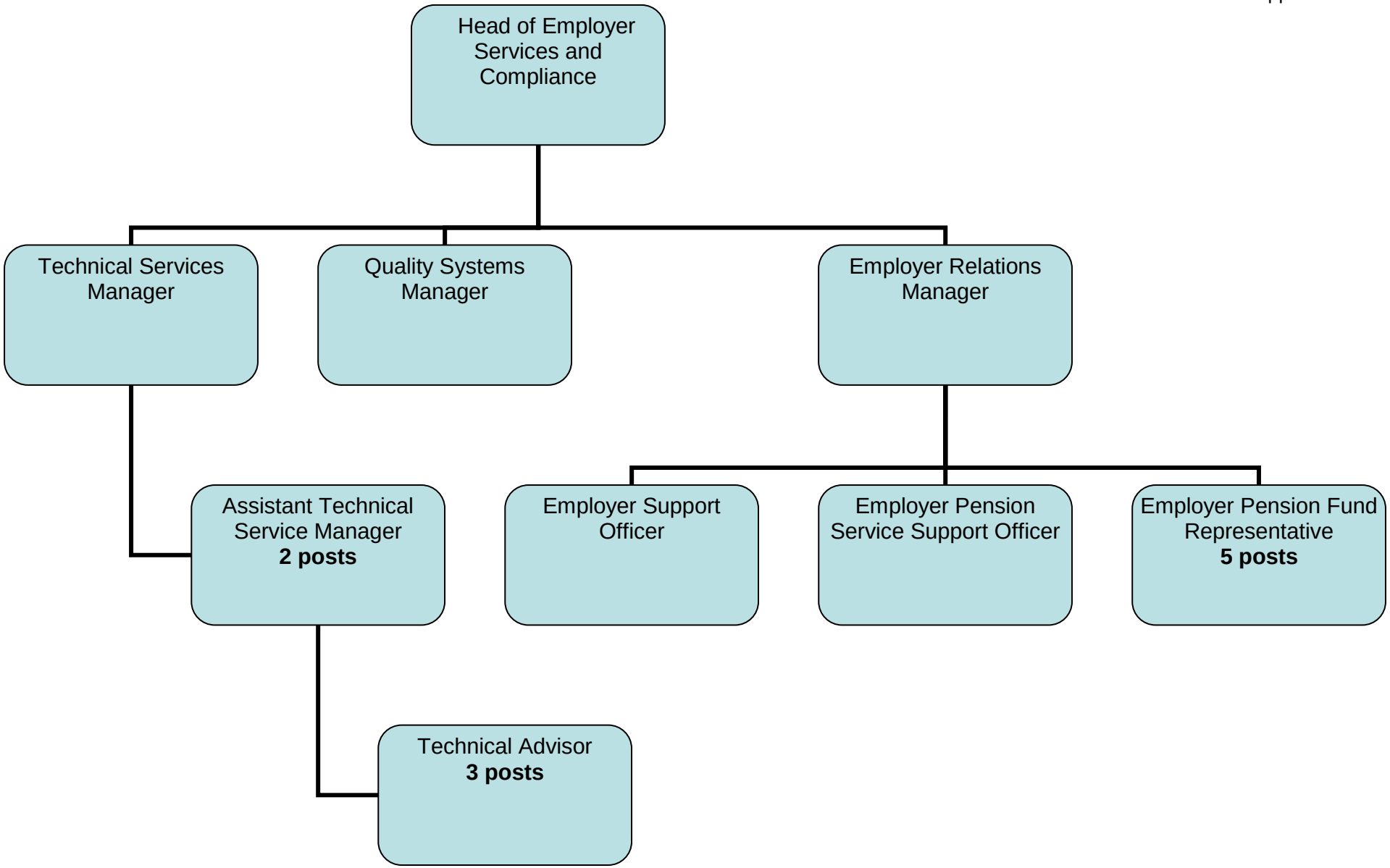
WYPF Structure
Appendix B



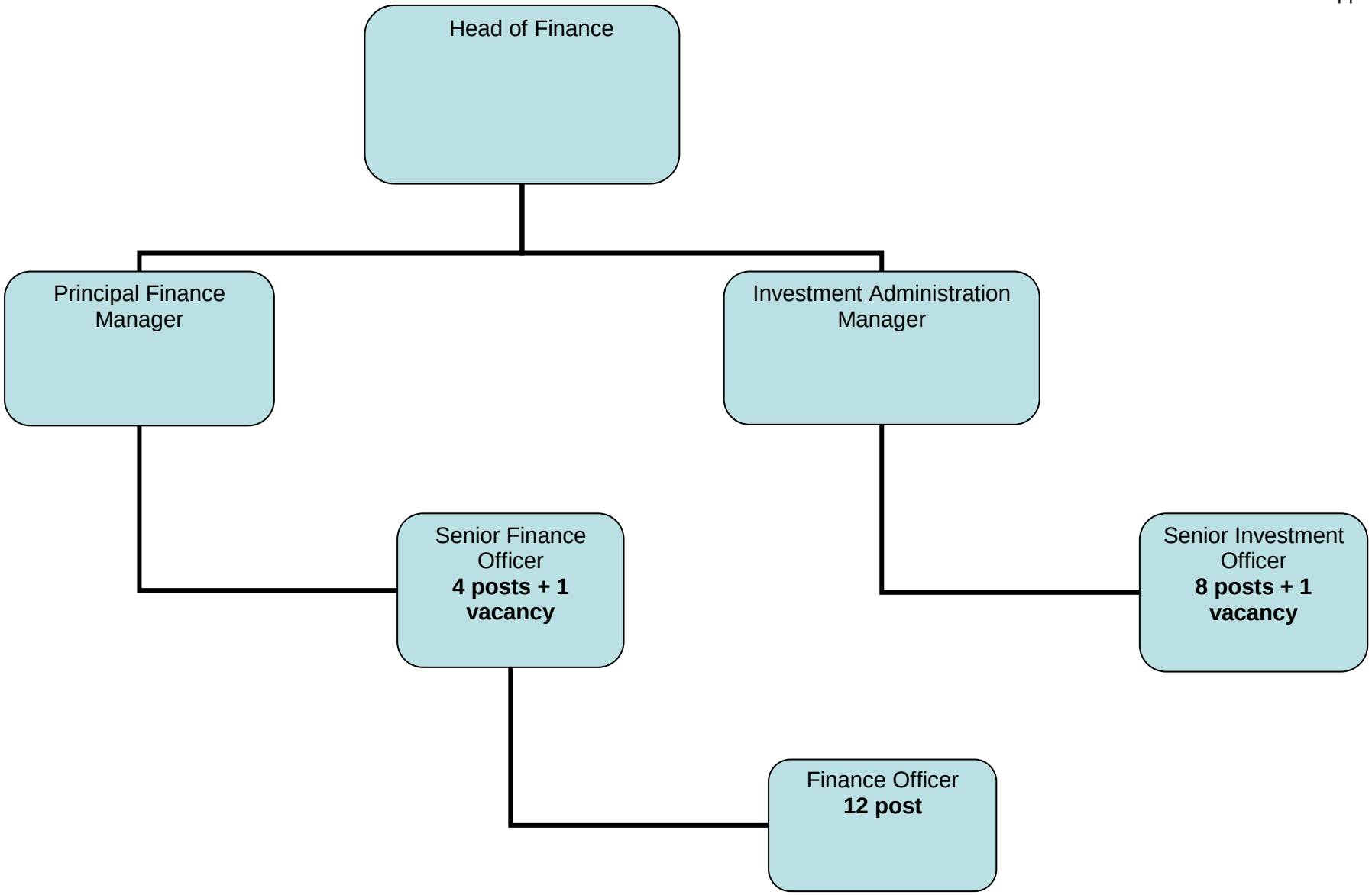
WYPF Structure
Appendix B



WYPF Structure
Appendix B



WYPF Structure
Appendix B



Appendix C

Current Technical Issues

MHCLG publishes data on local authority exit payments in England

On 2 July 2021, MHCLG published Local authority exit payments (first estimates) covering payments made by English authorities in 2019-20 and 2020-21. This is the first summary of the exit payment data submitted by councils. It will be followed by a further publication in the coming weeks. The data shows the average exit payment made in 2020-21 across English local authorities was £26,000.

Pension Scheme Pays reporting: information and notice deadlines

On 20 July 2021, HM Revenue and Customs (HMRC) published a policy paper and draft regulations proposing to extend the mandatory scheme pays deadline for members whose pension input amount is retrospectively changed.

The proposal has been made because of the McCloud remedy, where members annual allowance position for a previous tax year may be retrospectively changed. Though, HMRC confirms that the proposal will not be restricted to just these cases.

The proposal will extend the scheme pays deadline where:

- the administrator gives information to the member about a change to the pension input amount on or after 2 May in the year following that in which the relevant tax year ends, and before the end of the six-year period beginning with the end of the tax year, and
- as a result of the change, the member qualifies to elect for mandatory scheme pays.

In these cases, it is proposed that the member must give the scheme pays election the earlier of:

- within three months from being given the information about the change
- before the end of the six-year period beginning with the end of the relevant tax year.
-

In other cases, the deadline remains 31 July in the year following that in which the tax year ends.

Consequently, the draft regulations also propose amending the deadline by which the administrator must report and pay the charge to HMRC. It is proposed that administrators will need to report the charge on the Accounting for Tax return for the quarterly period following that in which the administrator receives the scheme pays election (though schemes will continue to be able to include the charge on a return for an earlier period). This proposal will apply to all scheme pays elections (not just those resulting from a retrospective change).

It is intended that the changes will commence on 6 April 2022 with retrospective effect to 6 April 2016.

Public Service Pensions and Judicial Offices Bill

On 19 July 2021, HM Treasury formally introduced to Parliament the Public Service Pensions and Judicial Offices Bill.

The Bill makes provision to rectify the unlawful age discrimination identified by the McCloud judgment.

For the LGPS, Chapter 3 of Part 1 confirms which members will be in scope and what service is 'remediable'. Enabling legislation will allow for scheme regulations to be changed to implement the McCloud remedy.

The Bill is now awaiting its second reading in the House of Lords on 7 September 2021.

Governance and Administration Survey 2020–21 results

TPR published the results from the Public Service Pension Scheme Governance and Administration Survey 2020-21 on 1 July 2021.

The survey was conducted online between January and March 2021 and aims to track governance and administration practices among public service pension schemes. The 2020-21 survey also included new questions on response to the pandemic, pensions dashboards and, for LGPS respondents, action taken in relation to climate-related risks and opportunities.

The survey found little change since 2019 for the key processes that TPR monitors as indicators of performance. Two-thirds of LGPS administering authorities who responded to the survey had all six processes in place. The six key processes are:

- have a documented policy to manage board members' conflicts of interest
- have access to the knowledge, understanding and skills needed to properly run the scheme
- have documented procedures for assessing and managing risk
- have processes to monitor records for accuracy and completeness
- have a process for resolving contribution payment issues
- have procedures to identify, assess and report breaches of the law.

The results also show improvements in risk management processes, cyber controls and the proportion of members receiving their annual benefit statement on time. Unsurprisingly, most schemes identified implementing the McCloud remedy as a significant risk. Governance has generally stood up well given the unique challenges the last year has presented.

LGA responds to dashboard staging Call for Input

LGA's response to the Pensions Dashboards Programme Staging Call for Input can be viewed on their website.

GAD transactional data requirements

The Government Actuary's Department (GAD) has confirmed that it requires administering authorities in England and Wales to provide the transactional data set out in the Pension fund transactions briefing note issued in September 2016. HM Treasury is currently consulting on changes to the cost control mechanism. GAD expects the transactional data requirements to evolve once this consultation has closed and changes to the cost control mechanism have been decided.

The briefing note issued in September 2016 confirms that GAD will treat the pre April 2014 Scheme, the post-March 2014 main section and the post-March 2014 50/50 section as if these were individual periods of pension scheme membership.

The briefing note covers the types of income and expenditure that will need to be split to achieve this.

LGA responds to consultation on the discount rate methodology

The LGA has responded to HM Treasury's (HMT's) Public service pensions: Consultation on the discount rate methodology. The LGA response confirms:

- The interests of Scheme employers are the long-term stability of employer contributions and a downward pressure on costs.
- The SCAPE discount rate is used to set actuarial factors in the LGPS and can have an indirect impact on employer contribution rates as a result of the LGPS cost control mechanism. The continued use of the SCAPE rate in the cost control mechanism does not truly reflect LGPS employer costs.
- The LGA preference to adopt the Social Time Preference Rate because it will produce a discount rate that is more affordable.
- Support for the proposal to align the timing of the discount rate reviews with the quadrennial public service pension scheme valuation cycle because this will contribute to improved stability.

SAB responds to HMT consultation on the cost control mechanism

The Scheme Advisory Board (SAB) (England and Wales) has responded to HMT's Public service pensions: cost control mechanism consultation. In the response SAB states that:

- the SAB operates a separate cost management process that already functions as an 'economic check'

- including only reformed scheme costs will be difficult to achieve in the LGPS because the underpin relates to the legacy scheme but will increase the reformed scheme benefits of some members
- widening the corridor to 3 per cent would mean that scheme changes would be more significant if there is a breach
- the SCAPE discount rate as an economic measure is not appropriate for the LGPS and that a measure that takes into account actual discount rates in operation would be more appropriate.

Interim response to new code of practice consultation

The Pensions Regulator (TPR) has published an interim response to the new code of practice consultation. Responses to the consultation included around 10,000 individual answers. TPR has issued the interim response to allow time to consider these responses and to incorporate code content arising from the Pension Schemes Act 2021 in the new code.

TPR does not have a firm publication date for the new code, but it is unlikely to become effective before summer 2022.

Pensions dashboards update

Visit the Pensions Dashboards Programme website to keep up with latest developments. Some of the recent announcements and publications include:

- seven major data providers signed up for initial testing phase
- Pensions dashboards blogs covering early connection and how pensions dashboards fit into the wider MaPS vision of improving understanding and outcomes.

MHCLG becomes DLUHC

On 19 September 2021, the Government announced that the Ministry of Housing, Communities and Local Government (MHCLG) will become the Department for Levelling Up, Housing and Communities (DLUHC).

Also, in the last reshuffle, Luke Hall MP (Thornbury and Yate) left Government. Luke Hall was the minister responsible for the LGPS in England and Wales. The Government is yet to confirm which minister will take over this responsibility.

LGA responds to 'nudge' consultation

The LGA responded to the DWP's consultation 'Stronger nudge to pensions guidance' on 2 September 2021.

Between 9 July and 3 September 2021, the DWP consulted on draft regulations requiring occupational pension schemes to 'nudge' members in certain situations towards obtaining guidance from Pensions Wise (see Bulletin 212).

The LGA's response raised concerns about:

- the practicality of requiring schemes to book Pension Wise appointments on behalf of members
- whether the DWP considered members who hold different types of benefits under a pension scheme when drafting the regulations.

Treasury responds to Committee's report on public service pensions

On 2 September 2021, HM Treasury responded to the report on public service pensions from the House of Commons Committee of Public Accounts.

The Committee published the report on 11 June 2021 and made six conclusions alongside recommendations for each one (see Bulletin 211).

HM Treasury agrees with five of the recommendations and sets out how it will take these forward. It has already announced most of the actions (such as consulting on the SCAPE discount rate methodology). Additionally, HM Treasury will:

- commission other government departments for analysis of the latest participation data for each public service scheme
- work with departments to standardise data collection on participation rates, including whether it could be broken down by member characteristics
- ask departments to update it on measures they are taking to improve participation among specific groups
- write to the Committee with an update in six months on the work to implement the McCloud judgment and to resolve the issues with the cost control mechanism
- write to the Committee by the end of 2021 with an assessment of how it is meeting the objectives of the 2014 /15 pension reforms.

HM Treasury disagreed with the Committee's conclusion that Treasury has done little to identify and manage the stark differences in average pensions between genders and other groups. It argues that such differences are a function of past differences in earnings rather than in differences in pension provision itself.

Update on governance and administration survey

TPR has confirmed to us that it intends to conduct the next public service pension scheme governance and administration survey towards the end of 2022.

The last survey was conducted online between January and March 2021, the results were published on 1 July 2021 (see Bulletin 212).

PDP appoints Capgemini to supply central digital architecture

The Pensions Dashboards Programme (PDP) announced on 6 September 2021 that they have appointed Capgemini to supply the central digital architecture for pensions dashboards. Capgemini, who will work in partnership with Origo, will deliver the pensions finder service, consent and authorisation service and governance register.

PLSA publishes ‘an employer’s guide to talking about workplace pensions’

On 15 September 2021, to coincide with Pension Awareness Day, the Pensions and Lifetime Savings Association (PLSA) published an employer’s guide to talking about workplace pensions.

The guide provides background on what employers (and pension schemes) can and cannot say with the intention of helping them navigate the advice / guidance boundary.

Lincolnshire COUNTY COUNCIL *Working for a better future*

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

Report to:	**Pensions Committee**
Date:	**16 December 2021**
Subject:	**Data Quality Report**

Summary:

This report updates the Committee on the data quality scores for Lincolnshire Pension Fund which is reported to The Pensions Regulator each year in November.

Actions Required:

That the Committee note the report.

Background

1.0 TPR Requirements

1.1 Pension schemes are required to report their common and scheme specific data scores in the annual scheme returns to TPR.

1.2 In the scheme return TPR ask two additional questions around each area of data: when was the last data review and what a scheme's data score is. The data score is the percentage of members for which the scheme has full and accurate common or scheme-specific data.

1.3 Good administration links to better outcomes for members. It makes sure they receive the right benefits at the right time.

1.4 Poor data can also be costly for schemes, both in terms of extra administration costs and putting things right.

2.0 Common Data

2.1 Common data are basic data items which are used to identify scheme members. All schemes should hold these for all members:

- National insurance number
- Surname
- Sex
- Expected retirement/maturity date (target retirement age)
- Last status event – the date at which the membership status last changed eg from active to deferred. Where appropriate, you should also capture the reason for the change in status (eg retired or opted out)
- Postcode
- Date of birth
- First name or initials
- Date pensionable service started, membership/policy start date or first contribution date
- Membership status eg active, deferred, pensioner. This can be mixed where part (but not all) of the benefits are being taken.
- Address

3.0 Scheme Specific (Conditional) Data

3.1 We hold other data in respect of members and their participation in the scheme. Rather than measuring all this data, TPR guidance is that we should focus on data which is key to running our scheme and meeting our legal obligations. This varies from scheme to scheme and depends on many factors including scheme type, structure and the administration system used but may include:

- employment records such as employer name, salary records, service history
- employee and employer contribution history
- information on the value of the member's pension, such as the last estimated value, the date of the estimate and how the pension benefit was calculated
- any benefit specifics like GMP entitlement, HMRC protections

4.0 How do we measure data?

4.1 When measuring data, we have looked at whether data is present, and whether it is accurate. Our checks include:

- Checking we have data in all the fields we expect.
- Consistency checks – data items are consistent with each other, for example the date a member joined the scheme must be later than their date of birth, and prior to their expected retirement date.
- Validation checks – data items should be in a valid format, for example the two letter prefix of the national insurance number needs to match the two letter prefixes used by HMRC
- Specific processes, for example regular existence checks, or checking members' dates of birth, e.g. against birth certificates, at the point benefits are taken.

4.2 A large volume of data issues is related to legacy issues resulting from the transfer of administration from the previous pensions provider back in 2015. Some development work is required to update and refine WYPF's data quality report to identify data held on the members' records but not where we would expect it to be.

5.0 Data Scores

5.1 Data Scores for LPF are:

Common	95.78%
Scheme Specific	84.38%

6.0 How have we calculated the data score?

6.1 Your data score is the percentage of members in the scheme that we assess to have fully present and accurate common or scheme-specific data.

6.2 Case example: How to calculate a data score

A scheme has 100 members. It has 11 common data items per member, so a total of 1,100 common data items held. A data review shows 40 addresses as missing, but the rest of the data is assessed as present and accurate.

The common data score for this scheme is therefore 60%, as we have assessed that 60% of members have fully present and accurate common data.

7.0 Data Issues

7.1 Missing Addresses

There are 2370 address's missing for deferred members. This is a decrease of 681.

WYPF have a programme of tracing lost contact members on a rolling programme but it is inevitable that as we trace some members we lose track of others.

7.2 Missing Earnings

There are 672 records with missing earnings. This is a decrease of 177. The majority of cases are awaiting leaver/pensioner benefits to be calculated.

7.3 Missing CARE Benefits

There are 275 records with missing Career Average Revalued Earnings (CARE). This is a decrease of 24. These are cases where leaver forms are outstanding from the Employers or where they have been received by WYPF but benefits have not yet been calculated.

7.4 Start Date Inconsistency

There are 4838 records where the start date on the record is inconsistent with the start date held on other record types. This is a decrease of 64.

7.5 No National Insurance Contributions or GMP.

There are 6381 records with missing National Insurance contributions or GMP. Some development work has been undertaken to amend the data quality report to correctly identify where this information is held. More development work is required to identify additional criteria. This is a decrease of 53.

7.8 Missing Crystallisation Details

There are 642 records with missing benefit crystallisation details. It appears that further work may be required to refine the criteria in the data quality report. This is an increase of 37.

7.9 Missing Annual Allowance Calculation

There are 321 records with missing annual allowance calculation. This is an increase of 199.

7.10 No Total Exit GMP (Deferred)

There are 4975 records with missing National Insurance contributions or GMP. It appears that the report does not correctly pick up the GMP amount held on the record where there is no national Insurance contribution history. Development work is required to update and refine the data quality report. This is an increase of 17.

7.11 No Post 88 GMP on record

There are 4006 records with missing National Insurance contributions or GMP. Similar to above, it appears that the report does not correctly pick up the GMP amount held on the record where there is no national Insurance contribution history. Development work is required to update and refine the data quality report. This is a decrease of 13.

8.0 Data Improvement Plan

8.1 As a result of the data scores WYPF has devised a Data Improvement Plan (Appendix A) which identifies the issues with the data and the resolutions required to resolve those issues.

8.2 The reports to measure the data scores will be run on a half yearly basis to measure the improvements in data scores and identify any new issues.

8.3 It should be noted that TPR do not expect scores to be 100%, as long as there is a Data Improvement Plan to address the data issues. For example, as we trace members, others are identified as lost contact through returned mail. WYPF also takes every opportunity to remind members to tell us when they move house.

Conclusion

9.1 Data quality is important to the Fund as, as well as being a requirement of the Pensions Regulator. It may affect the employer contributions at the next valuation and can impact on the reputation of the Fund.

9.2 The Fund continually reviews the quality of data held throughout the year and strives to keep this as complete, accurate and up to date as possible. The Pensions Regulator requires Funds to undertake a review of data quality at least annually and this report consolidates the work undertaken in compliance with this requirement.

9.3 This report concludes that, whilst data quality is considered to be good within the Fund, there are improvements that can be made and as a result a data improvement plan has been developed.

Consultation

a) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Data Improvement Plan

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.

Appendix A

Lincolnshire Pension Fund

Data Improvement Plan

1. Introduction

1.1 This document defines the data improvement plan for Lincolnshire Pension Fund which is administered by West Yorkshire Pension Fund (WYPF) under a shared service arrangement.

1.2 WYPF collects and holds large amounts of digital and paper based data and is heavily reliant on the timely receipt of quality data from employers, in order to effectively administer the Local Government Pension Scheme (LGPS).

1.3 Fundamentally, the purpose of the LGPS is to pay the correct pension benefits to its members when they become due. It is therefore imperative that the highest possible data quality standards are maintained, to comply with this core function and to ensure the cost effective use of resources.

1.4 The LGPS continues to face ongoing legislative change with oversight of administration and governance now falling under the remit of the Pension Regulator, with a heightened responsibility on scheme managers and local pension boards to ensure data is readily available and fit for purpose at all times.

1.5 The legal requirements relating to scheme record keeping are set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014.

1.6 The Pension Regulators (tPR) guidance requires that schemes should:

- Continually review their data and carry out a data review exercise at least annually
- Where a review of the scheme's data identifies poor or missing data a data improvement plan should be put in place to address these issues

2. The Pension Regulator Annual Scheme Return

2.1 Annually the Pensions Regulator (tPR) issues a scheme return which should be completed and returned. From 2018 each Pension Fund is required to include in the return a Data Quality Score which has two types of data:

- **Common data** – used to identify scheme members and includes name, address, national insurance number and date of birth.

- **Scheme-specific data** – essential to calculate benefit entitlement such as pensionable pay and service history. It also encompasses data relating to events that occur during an individual's membership, for example transfers etc.

2.2 TPR has issued a quick guide on measuring scheme data which states that one piece of missing data, such as a current address on a deferred member's record should be reported to them as a failed record.

3. Key Objectives

The key objectives of this plan are to:

- Ensure member, pensioner, deferred and beneficiary records are maintained as accurately as possible to ensure benefits are paid correctly on time, members receive a high standard of service and the fund is able to meet legal obligations.
- Ensure Investment and Administration costs are reliable/correct.
- Ensure data supplied to the Fund's actuary for the valuation is as accurate as possible so the correct liabilities can be calculated.
- Ensure the Fund complies with tPR's Code of Practice.

4. Outcomes

Outcomes of an improvement in the data held by the administrator are:

- Improvement of tPR data score for Common and Scheme Specific (also known as conditional) data.
- Increase in the number of Annual Benefit Statements (ABS) issued by 31 August each year./members aware of the value of their benefits.
- Reduction in the number of Internal Dispute Resolutions (IDRPs) received for incorrect calculation of benefits or delays in paying benefits.
- Reduction in the number of queries from the Fund's Actuary at valuation time.
- Reduction in the number of queries received when ABS are sent out.
- Reduction in administration costs due to increased efficiency.
- Reduces the likelihood of the Government Actuary Department rejecting data for the scheme valuation.
- Improves accuracy for IAS19 valuations.
- Reduction in delays for calculating and paying retirement benefits, death benefits, transfers out.

- Reduction in the queries between WYPF and Employers

- Reduction of breaches recorded on the Breaches Register (e.g. due to ABS being issued late).

5. Additional general responsibilities relating to Data Improvement as follows:

5.1 WYPF Officers

- WYPF officers continually review and ensure data collected is fit-for-purpose and processes are in place to monitor accuracy and timeliness. All processes have working instructions in place to assist with staff training, understanding and compliance.

- Team Managers are responsible for ensuring that staff have the appropriate level of UPM access to fulfil their duties and access is withdrawn upon the member of staff leaving WYPF. This minimises the risk of accidental loss, errors and unauthorised activity.

5.2 Scheme Employers

- WYPF is reliant upon the accuracy, completeness and timeliness of data submitted by scheme employers and any third party agencies that they may utilise e.g. outsourced payroll providers.

- WYPF will work with scheme employers throughout the year to support the provision of data to the required standard.

- Details of the information employers are required to provide and the financial penalties should they fail to do so are detailed in the Fund's Pensions Administration Strategy.

6 Ongoing Data Cleansing

6.1 Monthly Returns data quality checks

WYPF embraced monthly contribution postings several years ago with the aim of simplification, systems integration, increased data accuracy and complete up to date member records. The benefits include ensuring that employee's contributions, member's personal details, and financial records are up to date, accurate and complete.

6.2 LGPS National Insurance Database

Administered by South Yorkshire Pension Fund Authority on behalf of the Local Government Association (LGA), the secure National Insurance Database was developed for Local Government Pension Scheme (LGPS) administering authorities to share data to

prevent duplicate payment of death grants. This follows changes to Scheme Regulations in 2014 where payment of a death grant in respect of a member with entitlement across multiple membership categories is restricted to an aggregate payment value in relation to any active or pensioner/deferred membership. When processing the death of a scheme member, officers will check the LGPS National Insurance Database for the existence of membership at other LGPS Funds. (Please note not all LGPS administrators are part of this database).

6.3 'Tell Us Once' Service

The secure LGPS National Insurance Database also facilitates the integration of the Fund's membership profile into the Department of Work and Pensions (DWP) 'Tell Us Once' service (TUO). The service allows a person registering a death to request that the DWP pass on the deceased's information to other government services and council services. If the deceased is a member of the Fund, as determined by the LGPS National Insurance Database, an email notification is received informing the designated officers that a copy of the death certificate is accessible on the secure government gateway.

6.4 National Fraud Initiative

The National Fraud Initiative (NFI) matches electronic data within and between public and private sector bodies to prevent and detect fraud. These bodies include police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. WYPF submit data to National Fraud Initiative on a regular basis to identify deceased members and members who are no longer entitled to receive a pension.

6.5 Mortality screening and tracing service

WYPF engage with a Tracing Bureau for both monthly mortality screening and for members we don't have a current address for. For deferred members, where a current address for a lost contact cannot be found by the Tracing Bureau, a more detailed check is carried out 3 months before payment of pension is due.

6.6 Annual Benefits Statement (ABS) checks

Before producing an ABS each year certain checks are applied to active records to ensure accurate data is used in the production of the ABS. These checks include:

- Ensuring contributions are received for every month during the year,
- Checks to make sure there are no spikes in care pensionable pay,
- Checks to ensure the final pay has not increased by 20% or decreased by 10%,
- Checks to ensure there aren't any outstanding processes,
- Address check to compare the address held on the record and that supplied on the monthly return,

- Identifying casual workers.

If these checks identify further information is required from an employer the ABS production for this case will be blocked and a query will be referred back to the employer. Upon receipt of the appropriate information the record will be updated and the ABS will be released for production.

6.7 Deferred pensions increase

As part of the annual deferred pensions increase process certain data errors are identified and pensions increase is blocked until they are resolved. These errors include:

- Incorrect elements present,
- Spouse elements that don't match member elements,
- Incorrect dates for the first entry after the member is deferred,
- Data errors are corrected to allow deferred pensions increase to run on to individual deferred folders.

6.8 Annual deferred benefit statements

Before producing the annual deferred benefit statements data errors that would result in potentially incorrect statements being produced are identified. These include:

- Deferred pensions increase not updated
- Multiple 'normal payment' dates being held on the deferred folder
- Multiple entries for the same date shown on the pension history screen
- Initial entries on the pension history missing
- Service start date mismatches

Once these errors are resolved and the records is updated the deferred ABS will be released for production.

7 Data errors

When tackling data errors the following considerations will be used when making the decision on the priority of errors to be resolved:

- Priority identified on the error report
- Data improvement plans objectives

8. Frequency

Data Quality reports will be run on a quarterly basis to measure the data quality scores and identify any further action that may be required.

9 Appendices

- Appendix 1 details the Data Quality scores and errors
- Appendix 2 details to work planned to deal with the data errors identified.

Appendix 1 - Lincolnshire Pension Fund results at November 2021

	March 20	May 20	Nov 20	June 21	Nov 21
TPR Score - Common	95.87	95.9	95.66	95.86	95.78
TPR Score - Conditional	63.08	76.76	84.03	84.32	84.38

Breakdown of activities for improvement

	March 20	May 20	Nov 20	June 21	Nov 21	Direction of travel
Count of Missing, Bad or Temp NI Number	81	75	81	77	70	↓
Count of Bad Date of Birth	1	1	1	1	1	→
Count of Address Missing	3007	2987	3205	3051	3164	↑
Count of Postcode Missing	27	27	26	26	0	↓
Count of No Date Joined Scheme	13	0	0	0	0	→
Count of No Folder Status History	10	0	0	0	0	→
Count of Folder Status/ Status History Mismatch	50	51	30	20	15	↓
Count of Multi Folder Status History Entries on Same Day	48	49	54	49	62	↑
Count of Missing or Bad Expected Retirement Date	4	4	4	4	1	↓
Count of No Folder Scheme History	66	62	61	61	61	→
Count of no NI contributions or GMP	12715	12673	6560	6434	6381	↓
Count of no Date of Leaving	2	2	1	1	1	→
Count of missing benefit crystallisation record	39	39	38	37	36	↓
Count of missing benefit crystallisation details	501	510	564	605	642	↑
Count of Missing Date Joined Employer	2	0	0	0	0	→
Count of Missing Earnings	909	791	1057	849	672	↓
Count of Invalid Transfer In Present	157	156	145	138	152	↑
Count of Invalid AVC Data for member	64	47	1	0	0	→
Count of Invalid Part Time Service Present	64	63	63	63	63	→
Count of Missing CARE Benefit	407	325	274	299	275	↓
Count of Missing CARE Revaluation Rate	5	15	4	17	30	↑
Count of Invalid Contracted Out Date	20	20	21	21	20	↓
Count of Missing Initial Pension (Def)	58	55	47	50	45	↓
Count of Missing Initial Care Pension (Def	177	154	138	139	130	↓
Count of Missing current Pension	1932	1895	1844	1804	1753	↓
Count of Missing CARE Initial Pension	30	30	30	30	33	↑
Count of missing annual allowance calculation	11031	1070	199	122	321	↑
Count of start date inconsistent	5188	5151	5015	4902	4838	↓
Count of deferred – No total exit GMP	4858	4885	5001	4958	4975	↑
Count of No post 88 exit GMP	4046	4047	4061	4019	4006	↓

Appendix 2

Data Category	Category	Priority	Resolution required	Responsibility	Progress	Deadline
Missing Ni Number	Common	Low	Ni number to be identified where possible	Service Centre /Comms	Ongoing	Ongoing
Date of Birth	Common	Medium	Interrogate record	Service Centre		Nov 22
Address and postcode	Common	Medium	Actives – Contact employer	Comms		Nov 22
			Deferreds and preserved refunds use tracing agency	Service Centre	Rolling program	Rolling program
Folder Status/ Status History mismatch	Common	Medium	Review cases as it appears they might be changes to folder status from monthly postings?	Finance		Nov 22
Multi folder Status history entries on Same day	Common	Low	Need to look at each case as it appears they might have moved onto 2 status on the same day	Service Centre		Nov 23
Missing or bad expected retirement date	Common	Low	Bulk Update	IT		Nov 23
No folder scheme history	Common	Medium	Interrogate records	Service Centre		Nov 22
Missing earnings	Scheme specific	High	Majority Awaiting leaver/pensioner benefits to be calculated in Service Centre	Service Centre	Ongoing	Deal with in accordance with KPI targets
Invalid part time service present	Scheme specific	Low	Interrogate record	Service Centre		Nov 23
Missing CARE benefit	Scheme specific	High	Majority Awaiting leaver/pensioner benefits to be calculated in Service Centre	Service Centre	Ongoing	Deal with in accordance

						with KPI targets
Missing CARE revaluation rates	Scheme specific	High	Majority Awaiting leaver/pensioner benefits to be calculated in Service Centre	Service Centre	Ongoing	Deal with in accordance with KPI targets
Invalid contracted Out date	Scheme specific	Low	Interrogate record	Service Centre		Nov 23
Missing initial pension (DEF)	Scheme specific	Low	Possible bare EPB cases. To interrogate and sample records	IT		Nov 23
Missing Initial CARE Pension(DEF)	Scheme specific	Low	Interrogate record Spot check a number of cases as it might be where member joined right at the end of the year and no care benefits	Service Centre	Ongoing	Nov 23
Missing CARE initial Pension	Scheme specific	Low	Interrogate record	Service Centre		Nov 23
Missing NI contributions or GMP	Scheme specific	Medium	IT to refine the report	IT		Nov 22
Missing Date of Leaving	Scheme specific	Low	Interrogate record	Service Centre		Nov 23
Missing benefit crystallisation record	Scheme specific	Low	Interrogate records	Service Centre		Nov 23
Missing benefit crystallisation details	Scheme specific	Medium	It to consider bulk update	IT		Nov 22

Invalid AVC Data for member	Scheme specific	Low	Interrogate records	Service Centre		Nov 23
Missing current pension	Scheme specific	Medium	ITt to refine the report	IT		Nov 22
Missing annual allowance	Scheme specific	Low	IT to consider if a bulk update can be done	IT		Nov 23
Start date inconsistency	Scheme specific	Low	IT to consider if a bulk update can be done	IT		Nov 23
Deferred – No Total exit GMP	Scheme specific	Low	IT to review the report	IT		Nov 23
No post 88 exit GMP	Scheme specific	Low	IT to review the report	IT		Nov 23
Invalid Transfer in present	Scheme specific	Low	Interogate record	Service Centre		Nov 23

This improvement plan primarily aims to address the key issues identified from the Funds Data Quality review and data quality score and details the plans in place to improve the data we hold.

Lincolnshire COUNTY COUNCIL Working for a better future

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

Report to:	**Pensions Committee**
Date:	**16 December 2021**
Subject:	**Employer Monthly Submissions Update**

Summary:

This paper provides the Committee with up-to-date information on Employer Monthly Submissions for the second quarter of the financial year 2021/22 (July to September 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 September 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%*
July	2	0.7%	2	0.7%	1	0.4%	6	2.2%
August	2	0.7%	5	1.8%	0	0.0%	3	1.1%
September	3	1.1%	1	0.4%	2	0.7%	3	1.1%
Total	**15**		**21**		**4**		**16**	

1.5 The analysis shows the number of employers making a late payment of contributions or missing both payment of contributions and data is a relatively small percentage of the overall number of employers. A higher number of employers submitted their data returns late or submitted data that did not match the payment received. The second quarter of 2021/22 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 September 2021

April	*May*	*Jun*	July	August	September
1	*0*	*0*	0	1	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 two 2021/22 (July to September 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.

Late Contributions and Payments July to September 2021

July 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
GRANTHAM COLLEGE	YES	23/08/2021					
SPALDING GRAMMAR ACADEMY	YES	20/08/2021					
SOUTH KESTEVEN DISTRICT COUNCIL			YES	24/08/2021			
SUDBROOKE PARISH COUNCIL			YES	26/08/2021			
CATERLINK (DRET)					YES	12/10/2021	
BISHOP GROSSETESTE COLLEGE							YES
CRANWELL COUNTY PRIMARY							YES
MANOR LEAS INFANT ACADEMY, LINCOLN							YES
PUBLIC SECTOR PARTNERSHIP SERVICES							YES
THE GAINSBOROUGH ACADEMY							YES
THE KINGS SCHOOL, GRANTHAM							YES
	Total = 2		Total = 2		Total = 1		Total = 6

Appendix A

August 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
SPALDING GRAMMAR ACADEMY	YES	20/09/2021					
FUTURE CLEANING SERVICES	YES	20/09/2021					
BRANSTON COMMUNITY ACADEMY			YES	08/10/2021			
CATERLINK (DRET)			YES	27/09/2021			
GRANTHAM COLLEGE			YES	22/09/2021			
PINCHBECK PARISH COUNCIL			YES	24/10/2021			
ST. THERESE OF LISIEUX SCHOOLS			YES	21/09/2021			
SIR ROBERT PATTINSON ACADEMY							YES
WEST LINDSEY DISTRICT COUNCIL							YES
WRANGLE COUNTY PRIMARY							YES
	Total = 2		Total = 5		Total = 0		Total = 3

September 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	21/10/2021					
EASY CLEAN (LINCHFIELD)	YES	21/10/2021					
THE GAINSBOROUGH ACADEMY	YES	04/11/2021					
WASHINGBOROUGH ACADEMY			YES	20/10/2021			
GREETWELL PARISH COUNCIL					YES	21/10/2021	
PINCHBECK PARISH COUNCIL					YES	24/10/2021	
LINCOLNSHIRE POLICE CHIEF CONSTABLE							YES
UPPER WITHAM INTERNAL DRAINAGE BOARD							YES
WILLIAM FARR ACADEMY							YES
	Total = 3		Total = 1		Total = 2		Total = 3

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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:	**16 December 2021**
Subject:	**Border to Coast Responsible Investment Policy and Corporate Governance Voting Guidelines Review**

Summary:

Border to Coast Pensions Partnership (Border to Coast) reviews their Responsible Investment (RI) Policy and Corporate Governance and Voting Guidelines annually. This report highlights the changes from the last version for the Committee to consider, and to approve the alignment of the new version to the current Lincolnshire policy and guidelines.

Recommendation(s):

That the Committee:

1) Considers the proposed Border to Coast Responsible Investment Policy and Corporate Governance and Voting Guidelines;
2) Agrees to align the Lincolnshire RI Policy and Voting Guidelines to Border to Coast's;
3) Agree to consider a Fund Climate Change Policy later in 2022 when the Committee have revisited their Investment Beliefs; and
4) Notes the report.

Background

1. The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship, day-to-day administration and implementation have been delegated to Border to Coast once assets transition, with appropriate monitoring and challenge to ensure this continues to be in line with Fund requirements. To leverage scale and for operational purposes, Border to Coast, in conjunction with Partner Funds, has an RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach.

2. Following the creation of the original policies in 2017, the Committee approved the recommendation to create a Lincolnshire Pension Fund RI Policy, and Corporate Governance & Voting Guidelines, that were aligned to the Border to Coast

documents. These are realigned following each annual review, after any amendments to the Border to Coast policies have been considered by the Committee. The proposed revised Border to Coast policies are attached at appendix A and B.

3. The review in 2020 identified the need for a standalone Climate Change Policy which has been developed outside the normal RI Policy review period and was approved by the Border to Coast Board on 21st September and shared with Partner Funds via the Joint Committee. This is attached at appendix C.

4. The Border to Coast Climate Change Policy includes specific exclusions covering companies with >90% of revenue from thermal coal and tar sands. This is the first time that Border to Coast have had exclusions and considerable engagement was undertaken with Partner Funds on this issue, including within the training presentation to this Committee in September. The approach to exclusions is articulated in the revised RI Policy.

5. It is recommended that the Committee consider their approach to a Lincolnshire Pension Fund Climate Change Policy later in 2022, after they have revisited their Investment Beliefs.

6. Responsible Investment and sustainability are central to Border to Coast's corporate and investment ethos and a key part of delivering the Partner Funds' objectives. There may be reputational risk if Border to Coast is perceived to be failing in their commitment of this objective.

Border to Coast's Review Process

7. Border to Coast reviews their RI policy and Corporate Governance & Voting Guidelines annually, or when material changes need to be made. The 2021 annual review process commenced in July to ensure any revisions required were in place and agreed with their Board and Partner Funds ahead of the 2022 proxy voting season.

8. The review timeline is set out below:

9. Current policies were evaluated by Robeco, the voting and engagement provider, considering the global context and shift in best practice. This included consideration of the recently revised International Corporate Governance Network (ICGN) Global Governance Principles, the UK Corporate Governance Code and the UK Stewardship Code.

10. The policies of best-in-class asset managers and asset owners considered to be RI leaders were also consulted to determine how best practice has developed. Policies assessed included RLAM, LGIM, NZ Super, NEST and Brunel. Border to Coast have also taken into account the Investment Association Shareholder Priorities for 2021.

11. As part of the review procedure, input is also taken from the Joint Committee and the Partner Funds, to ensure that Border to Coast can represent a strong, unified voice. A workshop was held with Partner Funds officers in October where the proposed policies were shared, and feedback was received. Briefings on the updated policies were held in November for the Joint Committee members and the Joint Committee considered the draft documents at its formal meeting on 22 November 2021. All of the Partner Funds will be or have taken them to their respective Committees for their comment and approval.

Engagement Theme Review

12. The three priority areas for engagement with portfolio companies were set in 2018. These are 'Governance', 'Diversity' and 'Transparency and Disclosure'. Whilst recognising that these areas continue to be important, Border to Coast wanted to reflect its growth and maturity as an organisation and review the themes whilst also considering the views of Partner Funds. They developed an Engagement Themes Framework consisting of four stages, to assist with the process and set themes for the next strategic period.

13. An initial 'long list' of nine potential themes was shared with the Investment Committee in April and their Board in May. Input from the Partner Funds was received via workshops held for the Officers Operation Group and Joint Committee; this was shared with their Board. Feedback from Partner Funds and the Border to

Coast Board was then used to identify four themes to take forward to the final stage (defining objectives and milestones).

14. Further work and analysis was done to determine the overall engagement objective, core objectives to be measured and the approach to be taken. Assistance was also provided by Robeco.

15. The four final themes were presented to the Border to Coast Board on 11th November and approved. These are set out below, with high-level aims:

Low Carbon Transition:
Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. The focus will be on the big carbon emitting companies and banks.

Engagement objective: Climate change is a systemic risk that poses significant risks and opportunities for our portfolio investments. In high emitting sectors companies need to adapt and, in some cases, fundamentally change their business models. The aim of this engagement is to focus on the companies in high emitting sectors and banks identified as key to financing the transition to a low-carbon economy, to commit to credible plans to meet net-zero targets.

Waste and Water Management:
The focus is on companies assessed as having high exposure to water-intensive operations and/or producing high levels of packaging waste and plastic pollution.

Engagement objective: Water is becoming an increasingly scarce and costly resource and a material financial risk for companies and investors. Packaging waste is a huge environmental problem with increasing regulation. This engagement theme will focus on engaging portfolio companies with high exposure to water-intensive operations, exposure to operations producing high levels of packaging waste to develop policies and initiatives to address the issue(s).

Social Inclusion through Labour Management:
This theme seeks to blend two of the previous proposed themes around Social Inclusion and Supply Chain Management. The focus is on companies assessed as having high exposure to labour intensive operations, those scoring lower on human capital development and those that are scoring lower on supply chain labour management. This includes engaging with companies on modern slavery policies.

Engagement objective: Human capital management and supply chain issues are recognised as financial risks emphasised by the pandemic. Engagement will be with companies with high exposure to labour-intensive operations and lower scoring companies in relation to human capital development and supply chain labour

management risk. The aim is to promote sustained, inclusive growth with productive and decent work for all, including elimination of child labour in supply chains.

Diversity of Thought:
The focus will be on companies that have been flagged as not having diversity management programs in place, including UK companies that are not meeting the recommendations of the Hampton Alexander and Parker Reviews where we believe we hold sufficient market cap to have an influence.

Engagement objective: The need for diversity of thought and experience on boards has never been more compelling. The pandemic has caused massive economic disruption with companies needing to be able to adapt and be innovative in order to be resilient and survive for the long-term. The focus of this engagement is to enhance the diversity of boards, reducing the risk of 'group think' leading to better decision making and wider diversity across the organisation. This in turn should increase the resilience and long-term sustainability of companies. To ensure a pipeline of diverse talent is being developed and utilised, this engagement will also cover improving the approach to building diversity and inclusion in executive committees, other senior leadership roles and throughout the workforce.

Key changes to the RI Policy

16. This year's RI Policy review reflects work undertaken during the year, including the development of the Climate Change Policy and associated exclusions, and the refreshment of the key engagement themes.

17. The amendments to the RI policy are highlighted in the table below:

Section	Page	Type of Change	Rationale
1. Introduction	2	Addition	Include wording on diversity/diversity of thought.
5.4 Integrating RI into investment decisions – Real estate	5	Addition	New asset class.
5.6 Climate change	6	Revision	Section edited as Climate Change Policy details our approach.
5.6 Climate change	6	Addition	Wording on exclusions covered in Climate Change Policy.
6. Stewardship	8	Revision	Explanation on UK Stewardship Codes signatory status.
6.2.1 Engagement themes	11	Addition	New section on key engagement themes and review process.

18. The policy is very closely aligned to how the Lincolnshire Fund considers it should act as a responsible investor, with no contentious issues.

Key changes to the Corporate Governance and Voting Guidelines

19. The Corporate Governance & Voting Guidelines have been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2021 have also been used in the review process. There are several minor amendments including proposed additions and clarification of text.

20. The amendments to the Corporate Governance & Voting Guidelines are highlighted in the table below.

Section	Page	Type of Change	Rationale
Diversity	5	Addition	Strengthening position on ethnic diversity at FTSE 100 companies.
Long-term incentives	8	Clarification	Splitting out executives from other employees.
Directors' contracts	8	Clarification	Executive pensions.
Lobbying	10	Addition	Company stance on climate change lobbying.
Shareholder proposals	12	Clarification	Shareholders' best interests.
Climate change	12	Addition	Strengthening voting stance to include CA100+ net zero benchmark indicators.

21. The guidelines reflect best global practice and there are no contentious issues.

22. It is recommended that the Committee considers the proposed Border to Coast RI Policy and Corporate Governance, and Voting Guidelines, and approves the realignment of the Lincolnshire Fund's current RI Policy and Corporate Governance and Voting Guidelines.

Conclusion

23. The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. The day-to-day stewardship administration and implementation is delegated to Border to Coast by the Partner Funds, for assets under their management. To leverage scale and for operational purposes, Border to Coast, in conjunction with Partner Funds, has an RI Policy and accompanying Corporate Governance and Voting Guidelines to ensure clarity of approach on behalf of Partner Funds. Border to Coast reviews these policies at least annually, and any changes are

brought back to the Joint Committee and the underlying Pension Committees for consideration.

24. The Committee are recommended to consider the draft documents and approve the realignment of the Lincolnshire Pension Fund's current documents, and to consider their approach to a Lincolnshire Pension Fund Climate Change Policy later in 2022, after the Investment Beliefs have been revisited.

Consultation

a) 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	Border to Coast Responsible Investment Policy
Appendix B	Border to Coast Corporate Governance and Voting Guidelines
Appendix C	Border to Coast Climate Change Policy

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

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Responsible Investment Policy

Border to Coast Pensions Partnership

November 2021

Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to our Partner Funds in their delegation of the implementation of certain responsible investment (RI) and stewardship responsibilities.

1. Introduction

Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

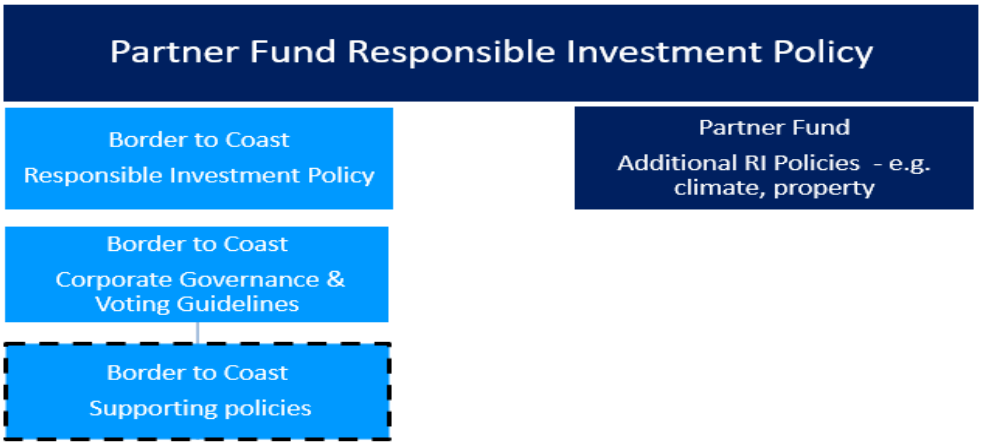
Border to Coast takes a long-term approach to investing and believes that businesses that are governed well, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and experience on boards is significant for good governance, reduces the risk of 'group think' leading to better decision making. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and representative of asset owners, we will hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

1.1 Policy framework

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds. This collaborative approach results in an RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:

RI Policy Framework



2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines (available on the **website**). Border to Coast has dedicated staff resources for managing RI within the organisational structure.

The RI Policy is owned by Border to Coast and created after collaboration and engagement with our eleven Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed, taking into account evolving best practice, and updated, as necessary.

4. Skills and competency

Border to Coast will, where needed, take proper advice in order to formulate and develop policy. The Board and staff will maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast considers material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Political lobbying

Whilst the specific aspects and form of ESG integration and stewardship vary across asset class, the overarching principles outlined in this policy are applied to all internally and externally managed assets of Border to Coast. More information on specific approaches is outlined below.

5.1. Listed equities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a necessary complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase and maintain knowledge, and portfolio managers will be involved in the voting process.

5.2. Private markets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast takes the following approach to integrating ESG into the private market investment process:

- The assessment of ESG issues is integrated into the investment process for all private market investments.

- A manager's ESG strategy is assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

5.3. Fixed income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis is therefore incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.

The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data is used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis is used to determine a bond's credit quality. Information is shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. Real estate

Border to Coast is considering making Real Estate investments through both direct properties and real estate funds. For real estate funds, a central component of the fund selection/screening process will be reviewing the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies. Key performance indicators will be energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI strategies for direct investment which will involve procuring a third-party manager and working with them to develop a best-in-class approach to managing ESG risks.

5.5. External manager selection

RI is incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process and to their approach to engagement. We expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement needs to be structured with clear aims, objectives and milestones.

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI policy.

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. We will encourage managers to become signatories to the UN-supported Principles for Responsible Investment. Managers will be required to report to Border to Coast on their RI activities quarterly.

5.6. Climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and the likelihood for success in influencing company strategy and behaviour. Using these criteria and due to the potential for stranded assets, we interpret this to cover pure coal and tar sands companies and will therefore not invest in these companies. Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.

Detail on Border to Coast's approach to managing the risks and opportunities associated with climate change can be found in our Climate Change Policy on our website.

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practises active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are committed to being a signatory to the 2020 UK Stewardship Code[1] and [have made an application to become a signatory by submitting our 2021 Responsible Investment & Stewardship Report to the Financial Reporting Council] ; we are also a signatory to the UN - supported Principles of Responsible Investment[2].

[1] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. https://www.frc.org.uk/directors/corporate-governance-and-stewardship

[2] The UN-supported Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our **website** at: Corporate Governance & Voting Guidelines. Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund may wish Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. A Partner Fund wishing to diverge from this policy will provide clear rationale in order to meet the governance and control frameworks of both Border to Coast and, where relevant, the Partner Fund.

6.1.1 Use of proxy advisers

Border to Coast appointed Robeco as Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by Robeco as the Voting & Engagement provider. Robeco's proxy voting advisor (Glass Lewis. Co) provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A Robeco team of dedicated voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

Robeco evaluates their proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's Voting Guidelines. This review is part of Robeco's control framework and is externally assured. Border to Coast also monitors the services provided by Robeco monthly, with a six monthly and full annual review.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted, when any, or a combination of the following, occur:

- The resolution is contentious.
- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies to deposit their shares before the date of the meeting (usually one day after cut-off date) with a designated depositary until one day after meeting date.

During this blocking period, shares cannot be sold; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may refrain from voting those shares.

Where appropriate Border to Coast will consider co-filing shareholder resolutions and will notify Partner Funds in advance. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights.

The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies are an integral part of the investment process. As part of our stewardship duties, we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible.

Border to Coast has several approaches to engaging with investee holdings:

- Border to Coast and all eleven Partner Funds are members of the LAPFF. Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.
- We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.
- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, an external voting and engagement service provider has been appointed. Border to Coast provides input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participates in some of the engagements undertaken on our behalf.

- Engagement will take place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[3] breaches or OECD Guidelines[4] for Multinational Enterprises breaches.
- We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

Engagement conducted can be broadly split into two categories: engagement based on financially material ESG issues, or engagement based on (potential) violations of global standards such as the UN Global Compact or OECD Guidelines for Multinational Enterprises.

When engagement is based on financially material ESG issues, engagement themes and companies are selected in cooperation with our engagement service provider based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, the size and relevance in terms of portfolio positions and related risk.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact Principles or OECD Guidelines for Multinational Enterprises. Both sets of principles cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on 1) validation of a potential breach, 2) the severity of the breach and 3) the degree of to which management can be held accountable for the issue. For all engagements, SMART[5] engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues. Members of the investment team have access to our engagement provider's Active Ownership profiles and engagement records. This additional information feeds into the investment analysis and decision making process.

We engage with regulators, public policy makers, and other financial market participants as and when required. We encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

6.2.1. Engagement themes

Recognising that we are unable to engage on every issue, we focus our efforts on areas that are deemed to be the most material to our investments - our key engagement themes. These are used to highlight our priority areas for engagement which includes working with our Voting and Engagement provider and in considering collaborative initiatives to join. We do however engage more widely via the various channels including LAPFF and our external managers.

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[3] UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

[4] OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct for multinational corporations operating in or from countries adhering to the OECD Declaration on International and Multinational Enterprises.

[5] SMART objectives are: specific, measurable, achievable, relevant and time bound.

Key engagement themes are reviewed on a three yearly basis using our Engagement Theme Framework. There are three principles underpinning this framework:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that the voice of our Partner Funds should be a part of the decision; and
- that ambitious, but achievable milestones can be set through which we can measure progress over the period.

When building a case and developing potential new themes we firstly assess the material ESG risks across our portfolios and the financial materiality. We also consider emerging ESG issues and consult with our portfolio managers and Partner Funds. The outcome is for the key themes to be relevant to the largest financially material risks; for engagement to have a positive impact on ESG and investment performance; to be able to demonstrate and measure progress; and for the themes to be aligned with our values and important to our Partner Funds.

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought
- Waste and water management
- Social inclusion through labour management

6.2.2. Escalation

Border to Coast believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

6.3. Due diligence and monitoring procedure

Internal procedures and controls for stewardship activities are reviewed by Border to Coast's external auditors as part of the audit assurance (AAF) control review. Robeco, as the external Voting and Engagement provider, is also monitored and reviewed by Border to Coast on a regular basis to ensure that the service level agreement is met.

Robeco also undertakes verification of its active ownership activities. Robeco's external auditor audits active ownership controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

7. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We will work with industry professionals to facilitate this.

8. Communication and reporting

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on our **website** quarterly; reporting on engagement and RI activities to the Partner Funds quarterly; and in our annual RI report.

We also report in line with the TCFD recommendations.

9. Training and assistance

Border to Coast will offer the Partner Funds training on RI and ESG issues. Where requested, assistance will be given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

The Investment Team receive training on RI and ESG issues with assistance and input from our Voting & Engagement Partner and other experts where required. Training is also provided to the Border to Coast Board and the Joint Committee as and when required.

10. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest.

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Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

November 2021

1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role includes appointing the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures, and no simple model can be adopted by all companies.

The board of large cap companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice) have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. We aspire for a maximum tenure of nine years but will review resolutions on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than nine years will be assessed on a case-by-case basis.

The company should, therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.

- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

Leadership

The role of the Chair is distinct from that of other board members and should be seen as such. The Chair should be independent upon appointment and should not have previously been the CEO. The Chair should also take the lead in communicating with shareholders and the media. However, the Chair should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director should be appointed, in-line with local corporate governance best practice, if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair’s performance.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chair and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity and inclusion policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company, it should reflect the demographic/ethnic makeup of the countries a company is active in and be disclosed in the Annual Report.

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 33% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, we will vote against the chair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, unless there are mitigating circumstances or plans to address this have been disclosed.

Succession planning

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chair or Senior Independent Non-executive Director except when it is appointing the Chair's successor. External advisors may also be employed.

Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with issues such as stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the

plurality[1] voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues. Companies should engage with shareholders ahead of the AGM in order that high votes against resolutions can be avoided where possible.

Where a company with a single share class structure has received 20% votes against a proposal at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. A case-by-case approach will be taken for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members will be held to account.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that high executive pay does not systematically lead to better company performance. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary

[11] A plurality vote means that the winning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected.

levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues. The selection of these metrics should be based on a materiality assessment that also guides the company's overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management's control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should, therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

• **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. Poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Executives' incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation. We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should be aligned with those of the majority of the workforce, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks.

We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures. Audited financial statements should be published in a timely manner ahead of votes being cast at annual general meetings.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. For the wider market, the external audit contract should be put out to tender at least every ten years. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met, or there is insufficient disclosure that the money is not being used for political party donations, political donations will be opposed. Any proposals concerning political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to. **Shareholder rights**

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

Mergers and acquisitions

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. If extraordinary circumstances rule out a physical meeting, we expect the company to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting are protected. Any amendment to a company's Articles to allow virtual only meetings without these safeguards will not be supported.

Shareholder Proposals

We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

Climate change

We expect companies with high emissions or in high emitting sectors to have a climate change policy in place, which at minimum includes greenhouse gas emission reduction targets and disclosure of Scope 1 and 2 emissions. We use the Transition Pathway Initiative (TPI)[2] toolkit and the Climate Action 100+ Net Zero Benchmark (CA100+ NZB) to assess our listed equities investments. Both tools enable us to assess how companies are managing climate change, the related business risk and the progress being made. Where a company in a high emitting sector receives a score of zero or one by the TPI, or fails to meet the expectations above, we will vote against the Chair of the board if we consider the company is not making progress. Where a company covered by CA100+ NZB fails the first four indicators of the Benchmark which includes a net-zero by 2050 (or sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the board.

Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

[2] The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

Climate Change Policy

Border to Coast Pensions Partnership

Policy Owner: The Chief Investment Officer
Live from: 1 October 2021

Climate Change Policy

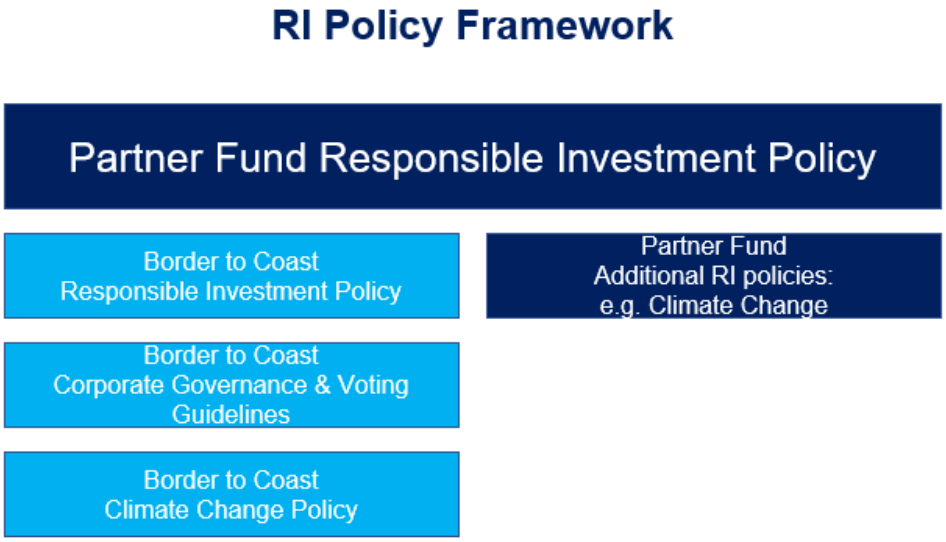
This Climate Change Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of our Partner Funds.

1 Introduction

Border to Coast Pensions Partnership Ltd is an FCA regulated and authorised investment fund manager (AIFM), operating investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). As a customer-owned, customer-focused organisation, our purpose is to make a sustainable and positive difference to investment outcomes for our Partner Funds. Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment thereby enabling sustainable, risk-adjusted performance over the long-term.

1.1 Policy framework

Border to Coast has developed this Climate Change Policy in collaboration with our Partner Funds. It sits alongside the Responsible Investment Policy and other associated policies, developed to ensure clarity of approach and to meet our Partner Funds' fiduciary duty and fulfil their stewardship requirements. This collaborative approach resulted in the RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:



2 Policy overview

2.1 Our views and beliefs on climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO2) from burning fossil fuels. Our planet has warmed by over 1ºC relative to the pre-industrial average temperature, and we are starting to experience the significant effects of this warming.

Atmospheric CO2 is at unprecedented levels in human history. Further warming will occur, and so adaptation will be required. The extent of this further warming is for humankind to collectively decide, and the next decade is critical in determining the course. If the present course is not changed and societal emissions of CO2 and other greenhouse gases (GHG) are not reduced to mitigate global warming, scientists have suggested that global society will be catastrophically disrupted beyond its capability to adapt, with material capital market implications.

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to 2ºC and to pursue efforts to limit the temperature increase to 1.5ºC. A key part of the Paris Agreement was an objective to make finance flows consistent with a pathway towards low GHG emissions and climate resilience. This recognises the critical role asset owners and managers play, reinforcing the need for us and our peers to drive and support the pace and scale of change required.

In 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report, "Global warming of 1.5ºC"[1], which starkly illustrated how critical successful adaptation to limit global warming to 1.5ºC is. The report found that limiting global warming to 1.5°C would require "rapid and far-reaching" transitions in land, energy, industry, buildings, transport, and cities. This includes a need for emissions of carbon dioxide to fall by approximately 45 percent from 2010 levels by 2030, and reach 'net zero' around 2050. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change.

2.2 Why climate change is important to us

The purpose of embedding sustainability into our actions is twofold: we believe that considering sustainable measures in our investment decisions will increase returns for our Partner Funds, in addition to positively impacting the world beneficiaries live in.

Our exposure to climate change comes predominantly from the investments that we manage on behalf of our Partner Funds. We develop and operate a variety of internally and externally managed investments across a range of asset classes both in public and private markets for our Partner Funds to invest in.

We try to mitigate these exposures by taking a long-term approach to investing as we believe that businesses that are governed well and managed in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Climate change can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore needs to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns.

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. Transition to a low carbon economy will affect some sectors more than others, and within sectors there are likely to be winners and losers, which is why divesting from and excluding entire sectors may not be appropriate. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Our climate change strategy is split into four pillars**: Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting.** We will continue to monitor scientific research in this space; evolving and adapting our strategy in order to best respond to the impacts of climate change.

[1] https://www.ipcc.ch/sr15/

2.3 How we execute our climate change strategy

We integrate climate change risks within our wider risk management framework and have robust processes in place for the identification and ongoing assessment of climate risks.

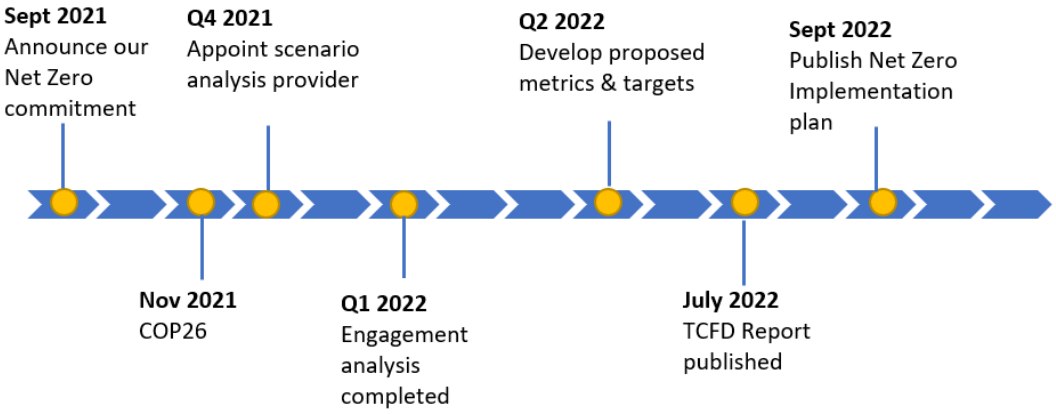
We consider climate change risks and opportunities within our investment decision making process.

Border to Coast, as a large investor, aims to influence companies to adapt and articulate their climate change strategy, to enable them to be well prepared for the transition to a low carbon economy. This in turn will improve investment outcomes.

We are committed to transparency regarding our climate change issues and activities.

2.4 Roadmap

The roadmap demonstrates the milestones to implement the policy over the next 12 months.



3 Climate change strategy and governance

3.1 Our ambition – Net Zero

Our climate change strategy recognises that there are financially material investment risks and opportunities associated with climate change which we need to manage across our investment portfolios. We have therefore committed to a net zero carbon emissions target by 2050 at the latest for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC.

We recognise that assessing and monitoring climate risk is under constant development, and that tools and underlying data are developing rapidly. There is a risk of just focusing on carbon emissions, a backwards looking metric, and it is important to ensure that metrics we use reflect the expected future state and transition plans that companies have in place or under development. We will continue to assess the metrics and targets used as data and industry standards develop.

As a supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we will continue to embed climate change into our investment process and risk management systems, reporting annually on our progress in the TCFD report.

In support of our Net Zero commitment, we will develop and set out a plan with high-level targets for each of the four supporting pillars of our climate change strategy which will be published in September 2022.

3.2 Governance and implementation

We take a holistic approach to sustainability and responsible investment; it is at the core of our corporate and investment thinking. Sustainability is considered and overseen by the Board and Executive Committee. We have defined policies and procedures that demonstrate our commitment to managing climate change risk, including this Climate Change Policy, our Responsible Investment Policy and Corporate Governance & Voting Guidelines which can be found on our website.

3.3 Division of roles and responsibilities

The Board determines the Company's overall strategy for climate change and with support from the Board Risk Committee, oversees the identification and management of risk and opportunities. The Board is responsible for the oversight of climate related impacts as part of its remit with respect to Border to Coast's management of investments. The Board approves the Responsible Investment strategy and policies, which includes the Climate Change Policy. Updates on Responsible Investment are presented to the Board at regular intervals, this includes activities related to climate change. The Board reviews and approves the TCFD report prior to publication.

The Climate Change Policy is owned by Border to Coast and created after collaboration and engagement with our Partner Funds. We will, where needed, take appropriate advice in order to further develop and implement the policy.

The Chief Investment Officer (CIO) is responsible for the implementation and management of the Climate Change Policy, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. Each year the CIO reviews the implementation of the policy and reports any findings to the Board. The policy is reviewed annually, taking into account evolving best practice, and updated as needed.

The Investment Team, which includes a dedicated Responsible Investment Team, works to manage environmental, social and governance (ESG) issues including climate change. Climate change is one of our responsible investment priorities and sits at the core of our sustainability dialogue. We are on the front foot with UK, European and Global climate change regulation, horizon scanning for future regulation and actively participate in discussions around future climate policy and legislation through our membership of industry bodies.

3.4 Training

Border to Coast's Board and colleagues maintain appropriate skills in responsible investment, including climate change, maintaining and increasing knowledge and understanding of climate change risks, available risk measurement tools, and policy and regulation. Where necessary expert advice is taken from suitable climate change specialists to fulfil our responsibilities. We also offer our Partner Funds training on climate change related issues.

3.5 Regulatory change management

Regulatory change horizon scanning is the role of the Compliance function, which regularly scans for applicable regulatory change. This includes FCA, associated UK regulations, and wider regulation including Responsible Investment, and climate change. The relevant heads of functions and departments, as subject matter experts, also support the process and a tracker is maintained to ensure applicable changes are appropriately implemented.

4 Identification and assessment

4.1 How we identify climate-related risks

The Identification and Assessment pillar is a key element of our climate change strategy. Our investment processes and approach towards engagement and advocacy reflect our desire to culturally embed climate change risk within our organisation and drive change in the industry.

The risk relating to climate change is integrated into the wider Border to Coast risk management framework. The Company operates a risk management framework consistent with the principles of the 'three lines of defence' model, with external assurance providers acting as a fourth line. Risks to the Company are owned and managed by the business or functional areas (1st Line of Defence) and are subject to oversight and challenge by the Risk and Compliance Function (2nd Line of Defence) and independent assurance by Internal Audit (3rd Line of Defence).

We consider both the transition and physical risks of climate change. The former relates to the risks (and opportunities) from the realignment of our economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations). The latter relates to the physical impacts of climate change (e.g. rising temperatures, changing precipitation patterns, increased risk arising from rising sea levels and increased frequency and severity of extreme weather events).

4.2 How we assess climate-related risks and opportunities

We currently use a number of different tools and metrics to measure and monitor climate risk across portfolios. We acknowledge that this is a rapidly evolving area, and we are developing our analytical capabilities to support our ambition. Carbon data is not available for all equities as not all companies disclose, therefore there is a reliance on estimates. Data is even more unreliable for fixed income and is only just being developed for Private Markets. We will work with our managers and the industry to improve data disclosure and transparency in this area.

We utilise third party carbon portfolio analytics to conduct carbon footprints across equity and fixed income portfolios, analysing carbon emissions, carbon intensity and weighted carbon intensity and fossil fuel exposure when assessing carbon-related risk, on a quarterly basis. The Transition Pathway Initiative[2] tool and climate Action 100+ Net Zero Company Benchmark analysis is used to support portfolio managers in decision making with respect to net zero assessments. We use research from our partners and specific climate research, along with information and data from initiatives and industry associations we support.

[2] The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

We are developing climate risk assessment for our listed equity investments that combines several factors to assess overall whether a company is aligned with the Paris Agreement (to limit global warming to 2ºC), so that we can both engage appropriately with the company on their direction of travel and also track our progress. This will necessarily be an iterative process, recognising that data, tools and methodologies are developing rapidly.

We are reviewing how we conduct scenario analysis across our portfolios, evaluating tools and external providers and different scenarios and expect to have this in place during 2022.

We are using the Net Zero Investment Framework to support us in implementing our strategy to being Net Zero by 2050. Work will be undertaken during 2022 to assess and define any targets based around this commitment.

5 Investment strategy

5.1 Our approach to investing

We believe that climate change should be systematically integrated into our investment decision-making process to identify related risks and opportunities. This is critical to our long-term objective of improving investment outcomes for our Partner Funds.

Border to Coast offers Partner Funds a variety of internally and externally managed investment funds covering a wide-ranging set of asset classes with different risk-return profiles. Partner Funds then choose the funds which support their strategic asset allocation.

Partner Funds retain responsibility for strategic asset allocation and setting their investment strategy, and ultimately their strategic exposure to climate risk. Our implementation supports Partner Funds to deliver on their fiduciary duty of acting in the best interests of beneficiaries.

We consider climate change risks and opportunities in the process of constructing and developing investment funds. Climate change is also considered during the external manager selection and appointment process. We monitor and challenge our internal and external managers on their portfolio holdings, analysis, and investment rationale in relation to climate-related risks.

We monitor a variety of carbon metrics, managing climate risk in portfolios through active voting and engagement, whilst also looking to take advantage of the long-term climate-related investment opportunities.

We believe in engagement rather than divestment and that by doing so can effect change at companies. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement. Using these criteria and due to the potential for stranded assets, we interpret this to cover pure coal and tar sands companies and will therefore not invest in these companies. Any companies excluded will be monitored with transition plans assessed for potential reinstatement.

5.2 Acting within different asset classes

We integrate climate change risks and opportunities into our investment decisions within each asset class. The approach we take for each asset class is tailored to the nature of the risk and our investment process for that asset class. The timeframe for the impact of climate change can vary, leading to differing risk implications depending on the sector, asset class and region. These variations are considered at the portfolio level. This policy gives our overall approach and more detail on the processes and analysis can be found in our annual TCFD report.

Climate risks and opportunities are incorporated into the stock analysis and decision-making process for **listed equities** and **fixed income**. Third party ESG and carbon data are used to assess individual holdings. We also use forward looking metrics including the TPI ratings and Climate Action 100+ Net Zero Company Benchmark to assess companies' transition progress. Internal, sell-side and climate specific research, and engagement information are also utilised.

Carbon footprints are conducted relative to the benchmark.

For our **alternative funds**, ESG risks, which includes climate change, are incorporated into the due diligence process including ongoing monitoring. Across both funds and co-investments, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies and industries. We assess and monitor if our GPs track portfolio metrics in line with TCFD recommendations. Climate change presents real financial risks to portfolios but also provides opportunities with significant amounts of private capital required to achieve a low-carbon transition. We are therefore considering the role private markets will play in managing transition risk and how we can invest in climate change opportunities as part of our Private Markets offering.

5.3 Working with external managers

Assessing climate risk is an integral part of the external manager selection and appointment process. It also forms part of the quarterly screening and monitoring of portfolios and the annual manager reviews. We monitor and review our fund managers on their climate change approach and policies. Where high emitting companies are held as part of a strategy managers are challenged and expected to provide strong investment rationale to substantiate the holding. We encourage managers to support collaborative initiatives on climate, and to report in line with the TCFD recommendations. In addition, we assess and monitor where managers are making net zero commitments.

6 Engagement and advocacy

As a shareholder, we have responsibility for effective stewardship of all companies or entities in which we invest, whether directly or indirectly. We take the responsibilities of this role seriously, and we believe success for our climate ambition can be supported by effective stewardship and governance oversight.

6.1 Our approach to engagement

As a long-term investor and representative of asset owners, we will hold companies and asset managers to account regarding environmental, social and governance issues, including climate change factors, that have the potential to impact corporate value. We support engagement over divestment as we believe that constructive dialogue with companies in which we invest is more effective than excluding companies from the investment universe. If engagement does not lead to the desired results, we have an escalation process which forms part of our RI Policy. We practice active ownership through voting, monitoring companies, engagement and litigation. Through meetings with company directors, we seek to work with and influence investee companies to encourage positive change. Climate is one of our key engagement themes. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reaching Net-Zero by 2050 or sooner. The areas we consider in our engagement activities include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; and exposure to climate-stressed regions.

In order to increase our influence with corporates and policy makers we work collaboratively with other like-minded investors and organisations. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups on climate related issues, including the Institutional Investors Group on Climate Change, Climate Action 100+, the UN-supported Principles for Responsible Investment, the Local Authority Pension Fund Forum and the Transition Pathway Initiative.

In particular, we are currently focusing on the following actions:

- Vote against company Chairs in high emitting sectors where the climate change policy does not meet our minimum standards, and/or rated Level 0 or 1 by the TPI, where there is no evidence of a positive direction of travel. Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our website.
- Support climate-related resolutions at company meetings which we consider reflect our Climate Change Policy. We will co-file shareholder resolutions at company AGMs on climate risk disclosure, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the TCFD recommendations.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner Robeco and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.
- Use carbon footprints and the TPI toolkit to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.
- Engage collaboratively alongside other institutional investors with policy makers through membership of the Institutional Investor Group on Climate Change ('IIGCC'). We will engage with regulators and peer groups to advocate for improved climate related disclosures and management in the pensions industry and wider global economy.

7 Disclosures and reporting

Transparency is one of our key organisational values. We disclose our RI activity on our website, publishing quarterly stewardship and voting reports, annual RI & Stewardship reports and our TCFD report. We are committed to improving transparency and reporting in relation to our RI activities, which include climate change related activities. We will keep our Partner Funds and our stakeholders informed on our progress of implementing the Climate Change Policy, as well as our exposure to the risks and opportunities of climate change.

During 2021 and 2022 we will be focusing on the following actions:

- Reviewing on an annual basis how we are implementing this Climate Change Policy. The findings will be reported to our Board and Partner Funds, as well as made publicly accessible through our TCFD and Stewardship reports and other disclosures.
- Reporting in line with the TCFD recommendations on an annual basis, including reporting on the actions undertaken with regards to climate change. We published our first TCFD report in 2020 and will look to evolve and refine our TCFD report, reflecting further developments that we undertake as part of implementation of this policy.
- Disclosing our voting activity.
- Reporting on engagement and RI activities, including climate change, to the Partner Funds quarterly and in our annual RI & Stewardship report.
- Disclosing climate metrics and targets that help to analyse the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaption.
- Reporting our progress against the Net Zero Investment Framework.

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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:	**16 December 2021**
Subject:	**Annual Report and Accounts 2020/21: The External Auditors Audit Completion Report**

Summary:

This report brings to the Pensions Committee the Audit Completion Report from Mazars, the Funds External Auditor, on the 2020/21 audit of the financial statements.

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.

Audit Completion Report and Follow Up Letter

1.2 A copy of the External Auditors Audit Completion Report and Follow Up Letter are attached to this report at Appendix A and B respectively.

1.3 The Audit Completion Report reconfirms the messages reported to this Committee in October in the Audit Update Report from Mazars. In summary: there are no significant control deficiencies and no unadjusted misstatements to be reported, and the summary of misstatements section includes reference to the valuation updates for unquoted assets which have been adjusted for in the accounts.

1.4 The follow up letter provides information on the items of audit work that were outstanding when the Audit Completion Report was issued. This confirms that all work on the Lincolnshire Pension Fund audit had been completed and that the

External Auditor requires a management representation to cover the information on AVC's that has not been provided by Prudential.

1.5 An unqualified audit opinion for the Pension Fund accounts is expected to be issued in early December. The timing of this will be alongside the audit opinion on the Lincolnshire County Council accounts.

Annual Report

1.6 The Pension Fund Annual Report has been published on the Fund's website for the statutory deadline of 1 December. It includes a statement explaining that it is published without the audit opinion. Once the opinion has been received the Annual Report will be republished including the audit opinion.

Conclusion

2.1 The audit of the Pension Fund Statement of Accounts for the year ended 31 March 2021 is complete and it is expected that the external auditor, Mazars, will issue an unqualified audit opinion in early December.

Consultation

a) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Mazars Audit Completion Report (12 October 2021)
Appendix B	Mazars Audit Completion Follow Up Letter (8 November 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.

Audit Completion Report

Lincolnshire Pension Fund – Year ended 31 March 2021

October 2021

mazars

Contents

mazars

Members of the Audit Committee
Lincolnshire County Council
County Offices
Newland, Lincoln
LN11YL

Mazars LLP
The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

12 October 2021

Dear Committee Members

Audit Completion Report – Year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 14 June 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 078 1375 2053 .

Yours faithfully

Signed: {{_es_:signer1:signature }}

Cameron Waddell (Key Audit Partner)

Mazars LLP

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. This section includes our conclusions 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 that we are required to report to the Audit Committee.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021. At this present time we envisage giving our opinion in November 2021 alongside the opinion 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 issuance of a follow up letter. 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. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

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. Our draft consistency report is provided in Appendix C.

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
Finalised financial statements		The Pension Fund has revised its financial statements to reflect the updated valuations it has received from fund managers. We are completing 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 set a 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

4. Significant findings

In this section we outline the significant findings from our audit. 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 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 (continued)

- 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

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 18 of this report.

4. Significant findings

Qualitative aspects of the Trust's accounting practices

We have reviewed the Fund's accounting policies and disclosures and 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 2021 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 Trust 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 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 questions or objections have been raised.

05

Section 05:

Internal control recommendations

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 has not identified any internal control issues to bring to your attention.

06

Section 06:

Summary of misstatements

Page 177

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. There are no unadjusted misstatements in relation to the Pension Fund's 2020/21 financial statements. The table below outlines the misstatements that have been adjusted by management.

Adjusted misstatements

		Fund Account		Net Assets Statement	
		Dr (£m)	Cr (£m)	Dr (£m)	Cr (£m)
1	Dr: Investments – Managed Funds			33.948	
	Cr: Change in Market Value		33.948		
	Difference between valuation of unquoted investments per pension fund accounts and third party confirmations received after the year-end.				
	Total adjusted misstatements		33.948	33.948	

Disclosure amendments

A number of minor disclosure amendments were 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.

Appendices

A: Draft management representation letter

B: Draft audit report

C: Draft consistency report

D: Independence

E: Other communications

Appendix A: Draft management representation letter

Mazars LLP
Salvus House
Aykley Head
Durham
DH1 5TS

XX November 2021

Dear Cameron

Lincolnshire Pension Fund - audit for year ended 31 March 2021
This representation letter is provided in connection with your audit of the financial statements of the Lincolnshire Pension Fund ('the Pension Fund') for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information
I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code.

My responsibility to provide and disclose relevant information
I have provided you with:
- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Executive Director of Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records
I confirm that all transactions that have a material affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund and Committee meetings, have been made available to you.

Appendix A: Draft management representation letter

Accounting policies
I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Pension Fund's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies
There are no material contingent losses including pending or potential litigation that should be accrued where:
- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.
There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Pension Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code.

Laws and regulations
I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom. The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
I acknowledge my responsibility as Executive Director of Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:
- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Appendix A: Draft management representation letter

Assets
I confirm that all assets held are free from liens, charges or any other encumbrance.

Related party transactions
I confirm that all related party relationships, transactions and balances have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

Future commitments
I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Specific representation on unquoted investments
Unquoted investments are included in the net assets statement at the value estimated by the general partner managing each fund in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Unadjusted misstatements
I confirm that the effects of any uncorrected misstatements are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly

Appendix A: Draft management representation letter

Going concern

To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts. I have updated our going concern assessment in light of the Covid-19 pandemic. I continue to believe that the Pension Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Pension Fund's needs. We believe that no further disclosures relating to the Pension Fund's ability to continue as a going concern need to be made in the financial statements.

Yours sincerely

Executive Director of Resources

Date……

Appendix B: Draft audit report

Draft Independent auditor's report to the members of Lincolnshire County Council
Report on the financial statements of the Lincolnshire Pension Fund

Opinion on the financial statements of the Lincolnshire Pension Fund
We have audited the financial statements of Lincolnshire Pension Fund ('the Pension Fund') for the year ended 31 March 2021, which comprise the Fund Account, the Net Assets Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:
- give a true and fair view of the financial transactions of Lincolnshire Pension Fund during the year ended 31 March 2021, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2021; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council, as administering authority for the Pension Fund, in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the Executive Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Executive Director of Resources with respect to going concern are described in the relevant sections of this report.

Appendix B: Draft audit report

Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Executive Director of Resources for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Executive Director of Resources is also responsible for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Executive Director of Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution of the Pension Fund without transfer of services or function to another entity. The Executive Director of Resources is responsible for assessing each year whether or not it is appropriate for the Pension Fund to prepare the accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Appendix B: Draft audit report

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Pension Fund, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21) and the Local Audit and Accountability Act 2014 (and associated regulations made under section 32), and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Executive Director of Resources incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the * discussing with management Pension Fund which were contrary to applicable laws and regulations, including fraud.

Appendix B: Draft audit report

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Executive Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Appendix B: Draft audit report

Matters on which we are required to report by exception under the Code of Audit Practice
We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report
This report is made solely to the members of Lincolnshire County Council, as a body and as administering authority for the Lincolnshire Pension Fund, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Cameron Waddell
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE20 9NE

XX November

Appendix C: Draft consistency report

Independent auditor's statement to the members of Lincolnshire County Council on the pension fund financial statements included within the Lincolnshire Pension Fund annual report

Report on the financial statements

Opinion
We have examined the Pension Fund financial statements for the year ended 31 March 2021 included within the Lincolnshire Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including the summary of significant accounting policies.

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of Lincolnshire County Council for the year ended 31 March 2021 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Respective responsibilities of the Executive Director of Resources and the auditor
As explained more fully in the Statement of the Executive Director of Resources' Responsibilities, the Executive Director of Resources is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of Lincolnshire County Council as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Lincolnshire County Council. We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of Lincolnshire County Council describes the basis of our opinions on the financial statements.

Use of this auditor's statement
This report is made solely to the members of Lincolnshire County Council , as a body and as administering authority for the Lincolnshire Pension Fund, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of Lincolnshire County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Lincolnshire County Council and Lincolnshire County Council 's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Cameron Waddell
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF
XX November

Appendix D: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Appendix E: Other communications

Other communication	Response
Compliance with Laws and Regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any issues with respect to obtaining external confirmations.
Related parties	We did not identify any significant matters relating to the audit of related parties. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	We have not identified any evidence to cause us to disagree with the view of the Executive Director of Resources that the Lincolnshire Pension Fund will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.

Appendix E: Other communications

Other communication	Response
Subsequent events	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
Matters related to fraud	We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, confirming that a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Cameron Waddell

Mazars
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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

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8 November 2021

Dear Committee Members

Conclusion of pending matters – Audit Completion Report for Lincolnshire County Council Pension Fund

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report.

The outstanding matters identified and the current status of each are detailed below.

Matter	Conclusion reached
Finalised financial statements	We have completed our work with only one issue to note in relation to the disclosure of non-material Additional Voluntary Contributions (AVC) in Note 21. Whilst the value of AVC funds are not included in the Fund Account and Net Assets Statement they should be disclosed in Note 21. However, the Pension Fund has not yet received the required information to include in Note 21 from Prudential plc and consequently has been unable to make the required disclosure. The wording of Note 21 sets out the current position. We will seek a representation on this in our management representation letter.
Audit quality control and completion procedures	We have completed much of this work, subject to the need to finalise certain aspects, with no further issues to report.

Please contact me if I can be of any further assistance.

Yours sincerely

Cameron Waddell
Key Audit Partner

For and on behalf of Mazars LLP

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