

Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	Pensions Committee
Date:	11 January 2018
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 30th September 2017 and any current issues.

Recommendation(s):

That the Committee notes the report.

Background

Fund Summary

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £39m (1.8%) to £2,160.7m on 30th September 2017. Fund performance and individual manager returns are covered in the separate Investment Management report, item 7 on the agenda.
- 1.2 Appendix A shows the Fund's distribution as at 30th September. All asset classes were within the agreed tolerances. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 2.2%

UK Equities underweight by 0.9%
Global Equities overweight by 3.1%

Underweight Alternatives by 0.9%

Overweight Property by 0.4%

Underweight Infrastructure by 1.0%

Underweight Bonds by 1.4%

Overweight Cash by 0.8%

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

- 1.3 The purchases and sales made by the Fund's portfolio managers over the period (including those transactions resulting from corporate activity such as take-overs) are summarised in Appendix B.
- 1.4 Appendix C shows the market returns over the three and twelve months to 30th September 2017.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 30th September, accounting for 9.3% of the Fund, compared to 10.1% in the last quarter. Direct equity holdings in the Fund are now shown on the Pensions shared website (www.wypf.org.uk), and updated on a quarterly basis.

	Company	Total Value £M	% of Fund
1	ROYAL DUTCH SHELL	34.0	1.6
2	UNILEVER	28.2	1.3
3	HSBC	25.8	1.2
4	MICROSOFT	20.8	1.0
5	BRITISH AMERICAN TOBACCO	19.4	0.9
6	BP	16.1	0.8
7	APPLE	15.3	0.7
8	RECKITT BENCKISER	14.8	0.7
9	JP MORGAN	14.0	0.7
10	ALPHABET	12.8	0.6
	TOTAL	201.2	9.3

- 1.6 Appendix D presents summarised information in respect of votes cast by the Manifest Voting Agency, in relation to the Fund's equity holdings. Over the three months covered by this report, the Fund voted at 22 company events and cast votes in respect of 242 resolutions. Of these resolutions, the Fund voted 'For' 170, 'Against' 47, abstained on 6 and withheld votes on 19.
- 1.7 A breakdown of the issues covered by these resolutions together with an analysis of how the votes were cast between 'For', 'Abstain' or 'Against' a resolution is given in Appendix D. Votes were cast in accordance with the voting template last reviewed at the 9th January 2014 meeting of this Committee, and effective from 1st March 2014.

2 Local Authority Pension Fund Forum

- 2.1 The Fund participates in the Local Authority Pension Fund Forum that has a work plan addressing the following matters:

- **Corporate Governance** – to develop and monitor, in consultation with Fund Managers, effective company reporting and engagement on governance issues.
- **Overseas employment standards and workforce management** - to develop an engagement programme in respect of large companies with operations and supply chains in China.
- **Climate Change** - to review the latest developments in Climate Change policy and engage with companies concerning the likely impacts of climate change.
- **Mergers and Acquisitions** - develop guidance on strategic and other issues to be considered by pension fund trustees when assessing M&A situations.
- **Consultations** – to respond to any relevant consultations.

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

- LAPFF's engagement with Sports Direct International continued through correspondence over voting recommendations for the 2017 AGM. Sports Direct has been embroiled for some time in a controversy over poor corporate governance and workplace practices at its Shirebrook warehouse. At the AGM, employment practices remained a focus, and LAPFF called for an independent review of current employment practices.
- A LAPFF representative attended Ashtead Group's AGM to discuss the company's remuneration in light of the new Department for Business, Energy and Industrial Strategy's green paper. The Forum was pleased that the company listened to shareholders following the 2016 AGM by changing the leverage incentive in the Performance Share Plan (PSP) pay scheme. The Forum further inquired whether the company welcomed the Government's Green Paper proposals, specifically in regards to executive pay and whether the company thinks that comparisons of CEO pay to median worker pay is a useful disclosure item for the company's stakeholders.
- Cllr Toby Simon of LAPFF met with Lonmin Plc to obtain an explanation of how the company will meet its commitments to its Social Labour Plan (SLP), to understand the company's position on carbon price and to confirm the company's ability to sustain long-term performance. The Forum was pleased with Lonmin's openness to dialogue and asked about the poor conditions of the platinum market, the company's ability to increase its net cash under these conditions, and the effectiveness of the recent rights issues.

- The Forum met with Richard Burrows, the Chair of British American Tobacco to understand the role public health plays in influencing the company's business strategy and business model. The meeting followed a previous meeting in 2013 on similar concerns and followed up with discussions about the necessary steps taken to address public health issues and comply with anti-smoking regulations, including the introduction of new next generation products.
- LAPFF has written to the Chairmen of HSBC Holdings, Standard Chartered, WPP, Aviva and International Consolidated Airlines Group SA, seeking meetings to better understand each company's respective approaches to cybersecurity and how this issue is managed at the board level.
- LAPFF attended the National Grid AGM, and asked the Chair, Sir Peter Gershon, how the final recommendations of the Taskforce on Climate-Related Financial Disclosure (TCFD) would affect the company's reporting on climate change and in particular on scenario planning. Notably the Finance Director responded, who is aiming to see if other finance directors can commit to the TCFD and noted that there will be a statement around the release of next year's annual report.

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

3 Treasury Management

3.1 At the April 2010 meeting, the Pensions Committee agreed a Service Level Agreement with the Treasury team within Lincolnshire County Council, for the continued provision of cash management services to the Pension Fund.

3.2 The Treasury Manager has produced the outturn report detailing the performance of the cash balances managed by the Treasury. This shows an average cash balance of £14.5m. The invested cash has outperformed the benchmark from 1st April 2016 by 0.34%, annualised, as shown in the table below, and earned interest of £37.5k.

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

Pension Fund Balance – Q1 to 30th September 2017				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised %	Cumulative Weighted Benchmark Annualised %	Performance %
14,542.7	37.5	0.52	0.17	0.34

4 TPR Checklist Dashboard

- 4.1 The Pension Regulator's (TPR's) checklist for how Lincolnshire meets the code of practice 14 for public service pension schemes is attached at Appendix E.
- 4.2 The Areas that are not fully completed and compliant are listed below. There have been no changes since the last update report.

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 completion certificates have not been received for all members.

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 submission will improve data accuracy going forwards, 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.

H5 - Maintaining Contributions - Has an annual benefit statement been provided to all members with AVCs within the required timescales?

Grey – provided directly by Prudential, with no Pension Fund involvement.

H6 – Maintaining Contributions - Do these meet the legal requirements in relation to format?

Grey – provided directly by Prudential, with no Pension Fund involvement.

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 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. Self-assessments were carried out in March, however no personal training plans have been put in place, as the assessments have been used to identify training areas required across the Board.

5 Risk Register Update

- 5.1 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.
- 5.2 Two risks have changed status over the quarter. Risk 28, concerning opting up to professional investor status, under the MIFIDII requirements has moved from red to green, as all managers have now accepted the opt-up requests. Risk 22, concerning resourcing issues within the LCC team, has also moved from red to blue. The Accounting, Investment and Governance Manager has now been appointed, however it has not yet gone to green due to the 6 month phased transition into the team, which will still mean additional workloads for the Pension Fund Manager.

Risk 28	Consequences	Controls	Risk Score	
			L	I
Failure to be opted up to professional investor status following the implementation of MIFIDII	Fire sale of assets, inability to implement investment strategy	Use of LGA/SAB templates and letters, trained Committee, professional officers, use of investment advisors and consultants	1	2

Risk 22	Consequences	Controls	Risk Score	
			L	I
LCC team - workloads and resources - additional work of asset pooling along with team	Statutory requirements not met Reputational risk Increase in key man risk	Monthly meetings with County Finance Officer Concerns reported to Pensions Committee and Pension Board	2	3

losses, means resources will be very stretched for the coming months				
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- 5.3 One new risk has been added over the quarter, risk 29 – concerning the implementation of the Global Data Protection Regulations (GDPR) from May 2018. This impacts how data is held and shared, and requires additional policies and procedures being put in place by WYPF as the Fund's administrator. This is not as onerous as first thought. Legal advice obtained by LGA confirms that the statutory requirements of managing the pension fund remove some of the most time-consuming and difficult requirements – such as explicit consent to hold data.

Risk 29	Consequences	Controls	Risk Score	
			L	I
Failure to meet the timescales to implement the requirements under GDPR	Reputational risk, referrals to ICO	WYPF project plan, monitoring, use of LGA guidance	1	3

- 5.4 There is now one red risk, risk 24, which was added in June '16 as a result of the Brexit vote, and given the continuing uncertainty as to how this will play out, it is felt that the red status is still appropriate.

Risk 24	Consequences	Controls	Risk Score	
			L	I
UK leaving the EU	Volatility of market Lower gilt yields leading to higher liabilities Inflation increasing liabilities Uncertainty of political direction re pooling	Increased monitoring of managers Review investment strategy Regular communications with Committee and Board	4	3

- 5.4 The full risk register is available from officers should any member of the Committee wish to see it.

6 Asset Pooling Update

- 6.1 The Joint Committee of BCPP met on 20th October and the papers and minutes have been shared with the Committee. Papers included:
- Briefing from the Chairman and Chief Executive Officer
 - Update on Executive and Non-Executive appointments
 - Update on general staff terms and conditions
 - Discussion on BCPP Board structure
 - Update on FCA submissions
 - Updates on project workstreams
- 6.2 At the time of the meeting, it was expected that the Chief Investment Officer (CIO) and Chief Risk Officer (CRO) would be appointed in November. However, at the time of writing, these posts have not been filled. Recruitment for the posts of Head of Client Services, Head of Finance and Reporting, Head of Compliance and Head of Legal and Company Secretary has been started.
- 6.3 The CEO, Rachel Elwell has been visiting all partner funds to meet their Committees and share her vision of the development and future operation of BCPP. In addition, she has been meeting with officers to discuss their asset allocations and how the sub funds being developed will meet the funds' investment strategy requirements.
- 6.3 Progress across the workstreams continues at some pace, and the project is still on track for the June 2018 implementation date. Key milestones that have been met include the appointment of the service provider for the operation of BCPP, the third party administrator, and the site for the office accommodation in Leeds.
- 6.4 The next meeting of the Joint Committee is on Monday 16th January in Northallerton. The proposed budget and cost sharing principles will be taken to this meeting. Papers will be shared once received. Having seen the papers, should any member of the Committee have any questions that they would like raising at the meeting, please let the Lincolnshire representative, Councillor Strengiel, know.

8 Custodian Extension Request - Update

- 8.1 The Lincolnshire Pension Fund entered into a seven year contract (five plus two) with JPMorgan, as its custodian, on 1st April 2011. This was reviewed in 2015 and the two year extension granted. The contract was due to expire on 31st March 2018, having taken the extension. At the October meeting of this Committee, Officers requested an additional maximum three year extension to this contract, by direct award, taking it to 31st March 2021. The Committee approve the request and a paper was prepared for the Executive Director of Finance and Public Protection, which was also approved.

8.2 Following further discussion with JPMorgan, it has now been agreed that the extension will be for one year, rather than three, and that the Fund will tender for a new custodian to be in place for April 2019.

Conclusion

9 This reporting period saw the value of the Fund rise, decreasing by £39m to £2,160.7m. At the end of the period the asset allocation, compared to the strategic allocation, was;

- overweight equities, property and cash; and
- underweight fixed interest, infrastructure and alternatives.

10 The contract with the Fund's custodian, JPMorgan, will be extended by direct award for an additional year, to March 2019, rather than the three year period agreed at the last meeting of the Pensions Committee.

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	Purchases and Sales of Investments
Appendix C	Changes in Market Indices
Appendix D	Equity Voting Activity
Appendix E	TPR Checklist Dashboard

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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

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