

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

Report to:	Pensions Committee
Date:	03 October 2019
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 30 June 2019 and any current issues.

The report covers:

1. A Funding Level Update
2. Responsible Investments
3. TPR Checklist Dashboard
4. Risk Register Update
5. Asset Pooling Update
6. Investment Consultant Objectives
7. Conference and Training Attendance

Recommendation(s):

That the Committee note the report and delegate authority to the Executive Director of Resources, in consultation with the Chairman and Vice Chairman of the Pensions Committee, to agree a set of objectives for the Fund's Investment Consultant.

Background

1. Funding Level Update

- 1.1 The Committee are normally provided with a quarterly update of the funding level. This is based on a roll forward from the latest valuation, currently March 2016. As the new funding level will be reported to the Committee at item 13 on this agenda a roll forward from April 2016 has not been provided this quarter. The new valuation information will be rolled forward quarterly from this meeting to give the Committee an updated position on estimated funding levels.

2. Responsible Investments

Voting

2.1 Appendix A presents summarised information in respect of how external managers have voted in relation to the Fund's equity holdings.

Local Authority Pension Fund Forum Membership

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

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

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

- During this quarter, LAPFF engaged with 62 companies on issues ranging from human rights and Board composition to climate change reporting and environmental risk.
- LAPFF published the first of its kind report into employees on company boards. The new Corporate Governance Code includes a section on board level employee representation, with instructions to have an employee on the board, have a designated non-executive director or a workforce panel. To understand how companies were approaching this element of the new code, LAPFF undertook a survey of the FTSE companies, with a response rate with over 20% of FTSE 100 completing the survey as well as companies across the FTSE all share. The results in the report highlight that the majority of companies were planning to comply with the requirement (rather than explaining why not) and no respondent viewed the inclusion of board level employee representation in code as a negative step.

- In June, LAPFF attended the first annual Workforce Disclosure Initiative (WDI) conference in London. This included a panel on how better workforce disclosure can benefit companies, investors and the workforce. There were also breakout sessions on board-level gender equality and living wages in low-income countries, both specific areas of interest for the WDI. Overall, delegates seemed engaged and positive about the initiative.
- The Forum has written to nine defence contracting companies identified as having significant weapons sales to Saudi Arabia. These companies are: Boeing, General Dynamics, Raytheon, BAE, Lockheed Martin, Textron, Thales, Airbus and General Electric. LAPFF has asked the companies if they have undertaken human rights impact assessments in respect of their contracts with Saudi Arabia given the country's role in the war in Yemen.
- LAPFF has been engaging with General Motors and Ford about their approach to climate change and emissions standards following the proposed weakening of regulations by the US administration. In June, GM and Ford co-signed a letter to the President urging the US government to negotiate a solution on emissions standards supported by California. LAPFF wrote to both GM and Ford welcoming the move and that while engagement at a federal level has not yet been forthcoming, calling on the companies to continue to work with California to find solutions to reducing greenhouse gases.
- LAPFF issued voting alerts ahead of the Facebook, Twitter and Alphabet general meetings, recommending that members support shareholder proposals that the companies produce reports into the governance and management of inappropriate and illegal user-generated content. The Forum also supported a resolution for the appointment of an employee director at Alphabet (the parent company of Google) following several workforce-related problems.
- Other climate-related voting alerts were issued in relation to the BP, Rio Tinto, Andarko, Chevron and ExxonMobil Annual General Meetings.

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

3 TPR Checklist Dashboard

3.1 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 B. 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.

3.2 One area has changed since the last quarter's report, at B12 – Knowledge and Understanding - Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14? All members of the Pensions Committee and Board have now completed their TPR Toolkit training, turning this indicator to green.

3.3 The Areas that are not fully completed and/or compliant are listed below.

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.

4 Risk Register Update

4.1 The risk register is a live document and updated as required. Any changes are reported quarterly, and the register is taken annually to Committee to be approved.

4.2 There have been no changes to the risk register since its annual review at the July meeting of this Committee. There is just one risk that remains red, as shown below. This was added in June 2016 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		

*As a reminder, L is Likelihood and I is Impact.

5 Asset Pooling Update

Sub Funds

- 5.1 The Fund will be making its first investment with Border to Coast in the coming months, into the Global Equity Alpha Fund. The next investments are expected to be into the Investment Grade Credit and the Multi Asset Credit funds, where approval was given, subject to appropriate due diligence, at the June Committee meeting.
- 5.2 The current portfolios managed by Columbia Threadneedle and Schroders will fully transition into the Global Equity Alpha sub-fund. The holdings in the Morgan Stanley Global Brands vehicle will be partially transferred into the Global Equity Alpha sub-fund, to make an overall allocation of approximately 17.5%. The remainder of the Morgan Stanley Global Brands holding will be redeemed to purchase units in the Blackrock short-dated Corporate Bond Fund, ahead of transferring into the Multi Asset Credit sub-fund, which will be available some time in 2020. The Fund and Border to Coast are working very closely with the transitions manager, Blackrock, to ensure an efficient transition from legacy managers to the new managers within the Global Equity sub-fund.
- 5.3 The development of the Alternatives products have progressed well, with the Private Equity and Infrastructure sleeves open and they have made their first commitments. Work is progressing on the Private Credit sleeve, with commitments expected to be made in the next few months. Discussion is still being had with Funds and advisors on the other alternative

requirements. As the Committee are aware, Lincolnshire Pension Fund will not be transitioning across to the Alternatives offering until all sleeves are available, and the Committee is satisfied that Border to Coast are able to offer a fully managed solution, akin to the Morgan Stanley mandate currently held.

- 5.4 Officers and advisors across the Partner Funds have continued to work closely with Border to Coast on the development of the sub-fund products, with a number of workshops attended and planned to discuss requirements and agree structures.
- 5.5 The Fund's investment consultant, Paul Potter (Hymans Robertson), will update the Committee in December on the transition path for Lincolnshire's assets, and discuss the options for UK equities and the remaining Global equity mandate.

Joint Committee Meetings

- 5.5 The Joint Committee (JC) last met on 11 September 2019, and the papers were circulated to all Pensions Committee members. The minutes will be circulated once approved, and below are the agenda items for the meeting:
- Annual elections for the Role of Chairman and Vice Chairman of the Joint Committee and annual nomination for the Border to Coast Board
 - Joint Committee Budget
 - Annual Performance Overview: UK Equity Fund and Overseas Developed Fund
 - Chief Executive Officer (CEO) Report
 - Alternative Asset update
- 5.6 The outcome of the elections for the Chairman and Vice Chairman for the Joint Committee was for Cllr Doug McMurdo (Beds) and Cllr Tim Evans (Surrey) to take a second term each. The nomination for the Partner Fund Director (replacing Cllr John Weighall – North Yorks) to be put forward to the Border to Coast Board was Cllr John Holtby (East Riding). Cllr Sue Ellis (South Yorks) announced she would be standing down in her role as Partner Fund Director, therefore there will be another request for nominations, with votes cast by postal vote, in the coming weeks.
- 5.7 The next JC meeting is being held on 20 November 2019 and papers will be circulated to Committee members. Any questions or comments on the papers should be directed to Cllr Strengiel, who can raise them at the meeting.

Shareholder Matters

- 5.7 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.
- 5.8 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.
- 5.9 Border to Coast held its AGM on 18th July, and the votes listed below were submitted:
- Adoption of the Report and Accounts (now published);
 - Re-appointment of Auditors;
 - Approval of the Conflicts of Interest Policy;
 - Confirming the process for approving in-year Directors' conflicts of interest;
 - Receiving the Register of Directors;
 - Approving the extension of Enid Rowland's contract as Non-Executive Director until 31 July 2022; and
 - Approving the appointment of a new Non-Executive Director to the Board following due process.

All resolutions were passed.

- 5.10 Border to Coast is holding its annual conference in Leeds on 10 and 11 October. There will be ten attendees from the Fund, taking all the allocated places.

6 Investment Consultant Objectives

- 6.1 In December 2018, the Competition and Markets Authority (CMA) published its report following a review of the investment consulting and fiduciary management markets. The CMA has set out their final Order, including a requirement for pension scheme trustees to set objectives for their investment consultants. We are awaiting further details from the Ministry for

Housing, Communities and Local Government (MHCLG) on how the CMA's requirements will be translated into LGPS regulations.

- 6.2 Whilst we are still unsure of how elements of the CMA requirements will impact LGPS funds, one of their requirements is that trustees should set objectives for their investment consultants prior to appointment, or by 10 December 2019. It is anticipated that this will definitely apply to LGPS Funds.
- 6.3 Given timescales, the Committee are asked to delegate authority to the Executive Director of Resources, in consultation with the Chairman and Vice Chairman of the Pensions Committee, to agree a set of objectives for the Fund's Investment Consultant.

7 Conference and Training Attendance

- 7.1 It is stated in the Committee's Training Policy, approved each July, that following attendance at any conferences, seminars 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 The Committee and officers are therefore requested to share information on relevant events attended since the last Committee meeting.

Conclusion

- 8 The work with Border to Coast continues and the first transition from the Fund's global equity managers to the Global Alpha sub-fund is happening in the coming months. Planning is already underway for the next transitions into Investment Grade Credit and Multi-Asset Credit.
- 9 Following the CMA order explained in paragraph 6 above, the Committee are asked to delegate authority to the Executive Director of Resources, in consultation with the Chairman and Vice Chairman of the Pensions Committee, to agree a set of objectives for the Fund's Investment Consultant.

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	Equity Voting Activity
Appendix B	TPR Checklist Dashboard

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

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