

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

Report to:	<b>Pensions Committee</b>
Date:	<b>19 March 2020</b>
Subject:	<b>Pension Fund Update Report</b>

**Summary:**

This report updates the Committee on Fund matters over the quarter ending 31 December 2019 and any current issues.

The report covers:

1. A Funding Level Update
2. Responsible Investments
3. TPR Checklist Dashboard
4. Breaches Register Update
5. Risk Register Update
6. Asset Pooling Update
7. Actuarial Services Contract
8. Conference and Training Attendance

**Recommendation(s):**

That the Committee note the report and approve the creation of a working group of officers and volunteers from the Pensions Committee to consider the Actuarial appointment and, following due process, recommend an appointment to the October meeting of the Pensions Committee.

## Background

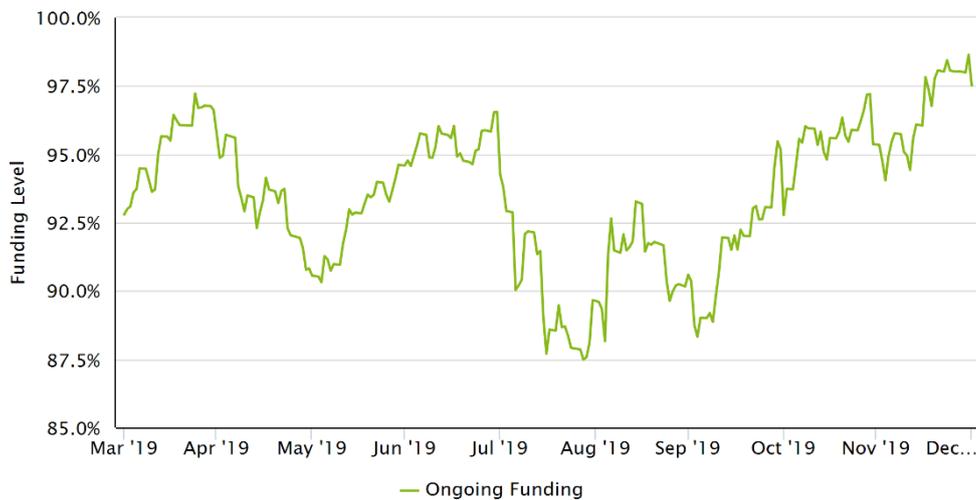
### 1. Funding Level Update

- 1.1 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, 31 December 2019. 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.

- 1.2 At the last formal valuation, the Fund assets were £2,353m and the liabilities were £2,536m. This represented a deficit of £183m and equated to a funding level of 93%. Since the valuation the funding level has increased by 5% to 98%. The graph below shows the changes to the funding level since 31 March 2019.

### Change in funding level since last valuation



- 1.3 Over the period 31 March 2019 to 31 December 2019 the deficit, in real money, has decreased from £183m to £65m. The table below shows the main impactors on the deficit. Investment returns of 7.9% over the period since the valuation have been higher than expected. However, the outlook for future investment returns over the next 20 years on the Fund's portfolio of assets has fallen (from 4.0% p.a. to 3.8% p.a.), increasing the value placed on liabilities. Since the valuation contributions have broadly matched the accrual of new benefits.

### Overall effect

Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2019	(183)
Contributions (less benefits accruing)	2
Interest on surplus/(deficit)	(6)
Excess return on assets	117
Change in inflation & expected future investment return	5
Surplus/(deficit) as at 31/12/2019	(65)

## 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. As requested at the October Committee meeting, the narrative has been expanded to include a brief rationale where voting has been different to the management recommendation.

### 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](http://www.lapfforum.org). Some of the highlights during the quarter included:

- During this quarter, LAPFF engaged with 35 companies on issues ranging from human rights and employment standards to climate change reporting and environmental risk.
- LAPFF issued voting alerts for both the BHP and ANZ AGMs during the quarter. Both alerts addressed climate lobbying, an aspect of company behaviour that is increasingly surfacing in shareholder resolutions. For both companies, the Forum recommended votes in favour of two resolutions, one procedural resolution to change company articles of association to allow for the second, substantive, resolution on company membership of trade associations with poor policies and records on tackling climate change.

- LAPFF Vice-Chair Cllr Rob Chapman met with Sainsbury's chair, Martin Scicluna and Judith Batchelar, Director of Sainsbury's Brands, to understand better the board's strategy for resilient and sustainable business practices, including plastic reduction, as well as a commitment to work toward a zero carbon business using a just transition approach.
- LAPFF, along with other Climate Action 100+ investors, met with BP CEO-elect Bernard Looney in November to discuss the company's strategy relating to the Paris Goals as well as investor expectations of oil and gas companies more broadly. The Forum also asked the company about its governance of and practices relating to corporate climate lobbying, requesting that BP undertake and report on an industry association mapping exercise.
- At a meeting with National Grid, LAPFF and other Climate Action 100+ investors sought more granularity on climate targets, including science based targets and operating the grid at zero carbon by 2025. Clarification was also sought on integrating renewables into the grid and on the roll-out of electric vehicle charging points. A final request of the company was to enhance TCFD (Task force on Climate-related Financial Disclosures) disclosure for the US business, including methane management.

2.4 The LAPFF Annual Conference took place in Bournemouth in December. Speakers ranged from Brazilian representatives of communities affected by the Samarco and Brumadinho dam collapses to Sir Peter Gershon, Chair of National Grid, to Kenneth Clarke and John Bercow, who offered their thoughts on Parliament and Brexit proceedings. Topics covered the investor tailings dam initiative, food waste and plastic, the transition to net zero, cyber security and social media abuse, media standards and a LAPFF engagement round up.

2.5 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 No areas have changed since the last quarter's report.

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 Breaches Reporting - update**

4.1 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 C shows those breaches logged since recording began. 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 8, updating the Committee on all monthly employer contribution breaches over quarter (October to December).

## 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 There has been one change to the risk register since the last Committee meeting. This impacts an operational risk, number O3 - Calculating and paying pensions correctly. The likelihood score has been increased in this risk because we have been made aware that one employer, Lincolnshire County Council (LCC), could potentially lose access to historical payroll data. If this were to be the case then LCC would be unable to provide data required to calculate pensions correctly for some scheme members. This has been escalated within LCC and the matter is being addressed, and progress is being monitored closely.

Risk O3	Consequences	Controls	Risk Score*	
			L	I
Calculating / paying pensions correctly (inc. completion of Guaranteed Minimum Pension Reconciliation and communication with members)	Damaged reputation Financial loss	Internal control through audit process Constant monitoring / checking Quality standard at WYPF Process management NFI and Tracing services Data Cleansing	3	2

- 5.3 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 I8	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.

## 6 **Asset Pooling Update**

### **Sub Funds**

- 6.1 The Fund made its second investment with Border to Coast in February, into the Investment Grade Credit Fund. The transition was managed by Blackrock, and overseen by Inalytics. At the time of writing this report, the transition from the partner funds legacy assets into the final Border to Coast managers' portfolios was underway. Inalytics will provide a report on the transition work undertaken by Blackrock in due course, and officers will attend a post transition meeting with Border to Coast to discuss the process.
- 6.2 The next investment is into the Multi Asset Credit (MAC) Fund, in the second half of 2020. As agreed at the January meeting of this Committee, an initial investment may be made into the appointed core MAC manager's fund ahead of the move to Border to Coast.
- 6.3 Following the presentation and additional due diligence on the internally managed Border to Coast UK Equity Fund, an investment will be made into this Fund in due course, subject to the delegated approval as agreed at the January Committee meeting.
- 6.4 The development of the Alternatives products have progressed well, with the Private Equity, Infrastructure and Private Debt sleeves open and they have made their first commitments. 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.
- 6.5 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.

### **Joint Committee Meetings**

- 6.6 As mentioned in the January Fund Update report, a Responsible Investment (RI) Meeting was arranged on 2 March for the Joint Committee members to discuss and understand the partner funds RI views and beliefs and to understand and prioritise the activities undertaken by Border to Coast to ensure that all Funds are content with the direction of travel on RI. Cllr Mike Thompson and the Head of Pensions attended for Lincolnshire.
- 6.7 The papers of the 9 March JC were circulated to all Pensions Committee members. The minutes will be circulated once approved, and below are the agenda items for the meeting:

- Elections for the Roles of Chairman and Vice Chairman of the Joint Committee and nominations for the Border to Coast Board
- Joint Committee Budget
- Partner Fund Satisfaction Survey
- Governance Charter
- Market Returns
- Performance Report
- Global Equity Alpha Transition
- Multi Asset Credit (MAC) - Design and Prospectus Submission
- Sterling Index Linked Bonds Fund - Design and Prospectus Submission
- Emerging Market Equities Capabilities - Design and Prospectus Submission
- Alternatives Update
- Chief Executive Officer (CEO) Report

6.8 The next JC meeting is being held on 16 June 2020 and papers will be circulated to Committee members. Any questions or comments on the papers should be directed to Cllr Strengeil, who can raise them at the meeting.

### **Shareholder Matters**

6.9 As the Committee are aware, there are two distinct roles that Lincolnshire County Council has with Border to Coast: the shareholder and the investor (or client). The Committee's role is that of investor, and is represented at the Joint Committee by the Chairman of the Pensions Committee. The shareholder role is undertaken by the Executive Director of Resources, and fulfils the role as set out in the Shareholder Agreement, which was approved by Full Council in February 2017.

6.10 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.

6.11 There were a number of shareholder resolutions since the last report. These were:

- to approve the strategy and business plan;
- to approve the NED remuneration;
- to approve the appointment of three NED's, including the two Partner Fund nominated NED's; and
- to approve the increase in regulatory capital by issuing additional "B" shares.

## **7 Actuarial Services Appointment**

- 7.1 At the July 2019 meeting of this Committee, it was agreed that the Actuarial Services contract could have a ten month extension to 31 October 2020, to allow for the completion of the 2019 Triennial Valuation and the 2020 Accounting reports. This service covers both Actuarial Services and Benefits Consultancy.
- 7.2 The intention is to use the National Frameworks Actuarial Services framework agreement to call off from. This is currently being refreshed, and the Head of Pensions is working alongside other LGPS funds to make the appointments to this framework. It is expected that this process will be completed by mid-July.
- 7.3 To enable a robust call-off process within the timeframe available, officers request that a working group is created from officers and volunteers from the Committee to:
- agree the specification and information to tender (ITT) documentation for call-off from the framework;
  - to evaluate responses; and
  - to recommend an appointment to the October meeting of this Committee
- 7.4 It is expected that this work would begin in mid-July 2020, following the launch of the new Actuarial Services framework.
- 7.5 The Committee are therefore asked to approve the recommendation to create this working group, and to agree volunteers to participate in the group.

## **8 Conference and Training Attendance**

- 8.1 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.
- 8.2 The Committee and officers are therefore requested to share information on relevant events attended since the last Committee meeting.

## **Conclusion**

- 9 The work with Border to Coast continues and the second transition to the Investment Grade Credit sub-fund has completed successfully. Planning is already underway for the next transitions into Multi-Asset Credit and UK Equities.

- 10 The Committee are requested to approve the creation of a working group of officers and volunteers from the Pensions Committee to consider the Actuarial Services appointment and, following due process, recommend an appointment to the October 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	Equity Voting Activity
Appendix B	TPR Checklist Dashboard
Appendix C	Breaches Register

## **Background Papers**

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

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