

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

Report to:	Lincolnshire Pension Board
Date:	15 October 2020
Subject:	Pension Fund Update Report

Summary:

This report updates the Board on Fund matters over the quarter ending 30 June 2020 and any current issues.

The report covers:

1. Local Authority Pension Fund Forum Membership
2. TPR Checklist Dashboard
3. Breaches Register Update
4. Risk Register Update
5. Asset Pooling Update
6. FSS Update and Exit Credit Policy

Recommendation(s):

That the Board note the report.

Background

1 Local Authority Pension Fund Forum Membership

1.1 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.

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

- During this quarter LAPFF undertook 113 engagements with 79 companies, on issues ranging from human rights and employment standards to climate change reporting and environmental risk. The outcomes of these engagements are shown in the company progress report, included in their quarterly engagement report.
- LAPFF undertook an engagement initiative to meet with the Forum's most widely held banks and insurers to understand their approach to climate, both on the investment and insurance sides of their businesses. The Forum has now met with five of the 11 financial institutions approached and is scheduled to meet with two others.
- LAPFF supported the "Follow This" shareholder resolution at Shell's AGM, calling for concrete climate targets, including long-term targets. The Forum will continue to engage with Shell and other investors to ensure that Shell enacts its ambition in a way that aligns with the Paris Agreement.
- The Forum continues to have concerns about global tech companies' internet content. Over the past few years, the Forum has highlighted the potential loss of shareholder value from companies failing to tackle the spread of hate speech, fake news and inappropriate content on their platforms. Ahead of this year's Facebook AGM, the Forum issued a voting alert recommending members vote in favour of shareholder proposals on equal voting rights, an independent chair, majority voting for directors and nominating a board member with expertise in human rights. The results highlighted widespread shareholder concerns about governance, and provided a clear signal to the Facebook board. Following the Facebook AGM, high profile companies including Coca Cola and Unilever have decided to boycott advertising on the platform because of concerns about hate speech. The company stated its intention to make reforms and the Forum intends to continue to push the company to do more to tackle hate speech and inappropriate content which should safeguard shareholder value.

- LAPFF submitted a response to a Financial Conduct Authority (FCA) consultation on climate in which the Forum expressed strong support for the introduction of mandatory carbon emissions and risk reporting, and support for TCFD recommendations.

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

2 TPR Checklist Dashboard

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 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.

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

2.3 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.

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 B shows those breaches logged since recording began. Since the last Pension Board quarterly meeting, one breach has been added, detailed below:

- **Late payment of contributions** – a separate paper is presented to the Board at paper 8, updating the Board on all monthly employer contribution breaches over quarter.

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 Pensions Committee to be approved, and to the Board to be reviewed.

4.2 There have been two changes to the risk register since the last Board meeting, additions that were put forward by the Pension Board at their meeting on 16 July to the Pensions Committee's meeting of 15 October 2020. These are under investment and Funding risk, recommending an additional risk be added to cover the failure of Border to Coast Pensions Partnership, and under operational risk, recommending a specific entry relating to the Pension Regulator's requirements, including scheme specific data.

4.3 The risk register entries are shown below, with likelihood and impact scores:

Risk I10	Consequences	Controls	Risk Score*	
			L	I
Failure of Border to Coast Pensions Partnership Limited as the Fund's asset pool and investment manager	Reputational risk, loss of Fund value, inability to move to a new asset pool	Ownership of company as a shareholder Oversight across different levels with Joint Committee, Officer operations group and Senior officer group Regular reporting to FCA Oversight by Company Board	1	2

Risk O14	Consequences	Controls	Risk Score*	
			L	I
The Pensions Regulator requirements not adhered to (including common and scheme specific data requirements)	LCC may incur penalties Damaged reputation Intervention from Secretary of State Intervention from the Pensions Regulator	Regular meetings with and reporting from WYPF LCC staff appropriately qualified and aware of legal requirements Pension Fund managed in line with statutory regulations Membership of professional networks. Pension Board oversight	1	2

4.4 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	4	3

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

5 Asset Pooling Update

Sub Funds

5.1 Further investment was made into Border to Coast in July, with the LGIM passive UK equity portfolio transitioned into the internally managed UK Equity sub-fund. This happened successfully; with Border to Coast working closely with LGIM to arrange in-specie transfers where possible to reduce transition costs. In addition, the Fund was able to work with another Border

to Coast Partner Fund who was looking to reduce their UK exposure, to purchase their units in a cost effective way.

5.2 The next investment with Border to Coast is into the Multi Asset Credit (MAC) Fund, in the first half of 2021. Ahead of this, the Fund invested in the MAC Fund's core manager, Pimco, in two tranches in July. This will transfer to the Border to Coast Fund once that is launched. The additional specialist managers to work alongside the core manager have now been appointed, and are:

- Wellington Management - Global High Yield
- Barings – Global Syndicated Loans
- PGIM Fixed Income - Securitised Credit
- Ashmore - Emerging Market Debt

5.3 Border to Coast have held a number of workshops with officers and advisors on the property offering, alternative investments and responsible investment.

5.4 Officers and advisors across the Partner Funds have continued to work closely with Border to Coast, through attendance at virtual meetings and workshops, on the development of the sub-fund products.

Joint Committee Meetings

5.5 The papers of the 1 October JC were circulated to all Pension Board members. The minutes will be circulated once approved, and below are the agenda items for that meeting:

- Joint Committee Terms of Reference
- Joint Committee Budget
- Responsible Investment Update
- Border to Coast Market Review
- Performance Report
 - UK Listed Equity
 - Overseas Developed Equity
 - Emerging Markets Equity
 - UK Listed Equity Alpha
- Annual Performance Reviews
 - Alternatives
 - UK Listed Equity
 - Overseas Developed Equity
- Chief Executive Officer (CEO) Report

5.6 The next JC meeting will be held on 24 November 2020 and papers will be circulated to Board members. Any questions or comments on the papers should be directed to Cllr Strenziel, who can raise them at the meeting.

Shareholder Matters

- 5.7 As the Board are aware, there are two distinct roles that Lincolnshire County Council has with Border to Coast: the shareholder and the investor (or client). The Pensions 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 There were only two shareholder resolutions since the last report. This was related to the appointment of two new Non-Executive Directors (one as the Remuneration Committee Chair and one as the new Partner Funds nominated NED).

6. Funding Strategy Update and Exit Credit Policy

- 6.1 Further to the LGPS regulation changes in May 2018 around the introduction of exit credit payments, as detailed in previous administration update reports brought to this Board, amended Regulations came in earlier this year to put the onus onto the administering authority to determine whether to pay out an exit credit and the level of that exit credit, following an employer cessation event. Administering authorities are now required to have a robust policy on exit credits which is documented within their Funding Strategy Statement.
- 6.2 The regulations require that, when making any determination, the Administering Authority will take into account the following factors;
- a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified;
 - b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions;
 - c) any representations to the Administering Authority made by the exiting employer, guarantor or Scheme Employer or by someone who owns, funds or controls the exiting employer; or in some cases, the Secretary of State; and
 - d) any other relevant factors.

- 6.3 The draft policy, at appendix C, sets out the general guidelines that the Lincolnshire Pension Fund will follow when determining the amount of an exit credit payable, if any, to a ceasing employer in line with Regulation 64 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”), detailed above. The appendix also contains an update to include in the Funding Strategy Statement (FSS).
- 6.4 The policy contains guidelines only, and the Fund will also consider any other factors that are relevant, or presented to them by an employer, on a case-by-case basis.
- 6.5 The draft policy, alongside the proposed amendment to the FSS, has been sent out to employers for consultation, and no negative responses have been received.

Conclusion

- 7 The Fund Update report is a quarterly report to the Pension Board, to update the Board on Pension Fund matters and any current 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 author of this report.

Appendices

These are listed below and attached at the back of the report	
Appendix A	TPR Checklist Dashboard
Appendix B	Breaches Register
Appendix C	Exit Credit Policy and FSS Update

Background Reports

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

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