

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

Report to:	Pensions Committee
Date:	15 July 2021
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters for the quarter ending 31 March 2021 and any other current issues.

The report covers:

1. Funding and Performance Update
2. TPR Checklist Dashboard
3. Breaches Register Update
4. Risk Register Update
5. Asset Pooling Update
6. Investment Consultancy Services Contract
7. Committee Meeting Dates - Proposed Changes
8. Conference and Training Attendance

Recommendation(s):

That the Committee:

- 1) consider and note the report; and
- 2) approve the proposed changes to the December, January, September and October Committee meetings, as set out in section 7 of this report.

Background

1. Funding and Performance Update

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £74.4m (+2.8%) to £2,734.6m on 31 March 2021.

Asset Allocation

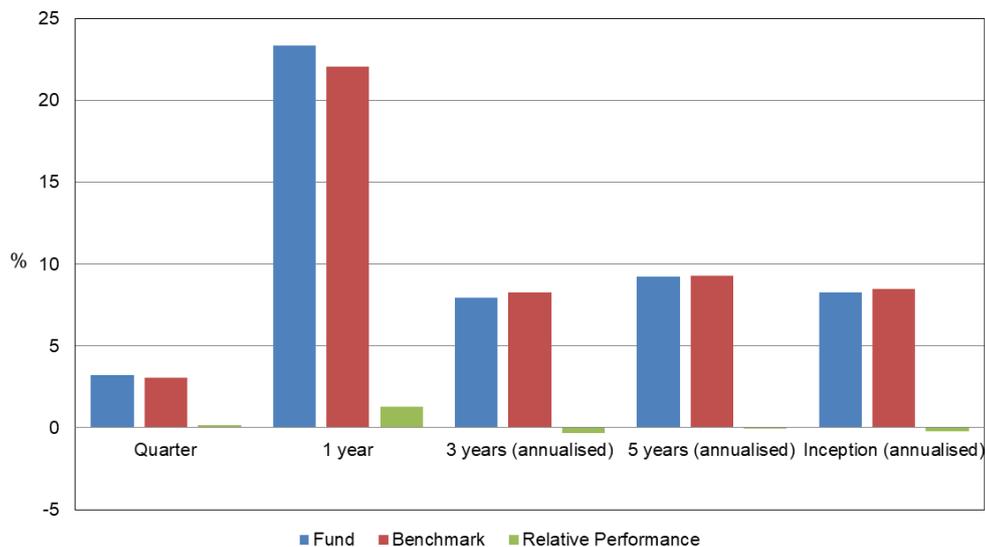
1.2 Appendix A shows the Fund's distribution as at 31 March. At an asset class level, property is below its lower tolerance and cash is above its upper tolerance. As agreed at the March Committee meeting, an additional £30m allocation is being made into a residential property fund. Further discussion on the Fund's property allocation will be had as part of the Investment Strategy training being held in September. 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	Q1 2021 £m	Q4 2020 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	442.9	422.6	16.1	15.0	1.1
Global Equities	1,124.6	1,143.0	41.0	40.0	1.0
Alternatives	516.7	506.1	19.0	21.0	(2.0)
Property	203.8	201.2	7.5	10.0	(2.5)
Fixed Interest	349.4	366.4	12.8	13.5	(0.7)
Cash	97.1	20.9	3.6	0.5	3.1
Total	2,734.6	2,660.2	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.



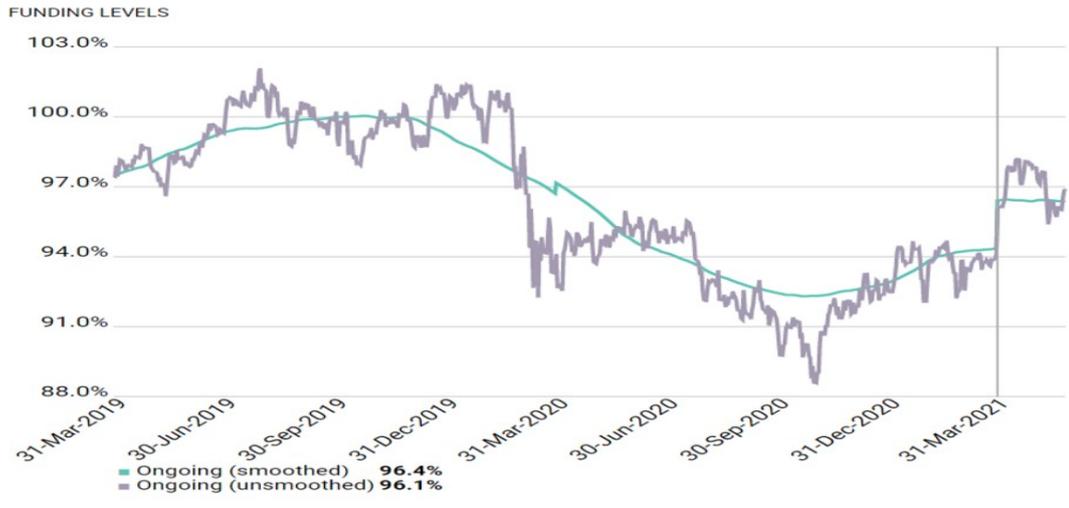
	Fund %	Benchmark %	Relative Performance %
Quarter	3.23	3.07	0.16
1 year	23.34	22.07	1.28
3 years*	7.93	8.24	(0.31)
5 years*	9.23	9.28	(0.05)
Inception**	8.28	8.48	(0.20)

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

- 1.5 Over the quarter, the Fund produced a positive return of 3.23% (as measured by Northern Trust), outperforming the benchmark by 0.16%. The Fund was also ahead of the benchmark on the one year period, but slightly underperformed on the three and five year periods and since inception.
- 1.6 Appendix B shows the market returns over the three and twelve months to 31 March 2021.

Funding Level

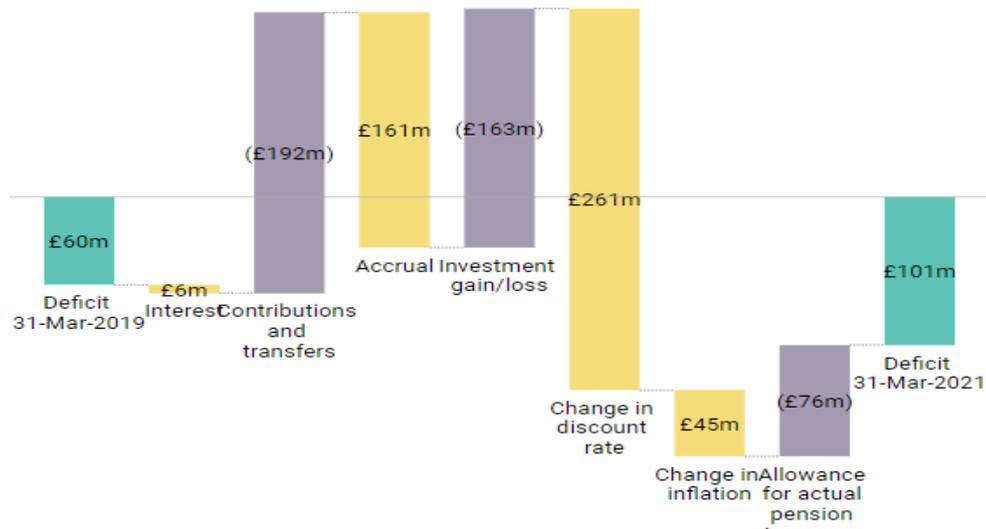
- 1.7 The funding update is provided to illustrate the estimated development of the funding position of the Lincolnshire Pension Fund from the latest formal valuation, 31 March 2019, to the current quarter end, 31 March 2021. The accuracy of this type of funding update is expected to decline over time, 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, conducted by Hymans Robertson, the Fund assets were £2.35bn and the liabilities were £2.54bn. This represented a deficit of £183m and equated to a funding level of 93%. This was reworked under the methodology of Barnet Waddingham, and resulted in an updated funding level of 97.5%, with assets and liabilities measured at £2.33bn and £2.39bn respectively. This is now used for comparisons going forwards.



1.9 Since the valuation date, the funding level has fallen by 1.1% to 96.4%. The graph above shows the volatility of the changes over the period since then, both on a smoothed and unsmoothed basis.

1.10 Over the period 31 March 2019 to 31 March 2021 the deficit, in real money, has increased from £60m to £101m. The biggest impactor is the change in discount rate, although this has been partially offset by the higher than expected investment returns over the period. Since the valuation, contributions have broadly matched the accrual of new benefits. The table below shows the analysis of the change in deficit.

ANALYSIS OF DEFICIT for Ongoing (smoothed)



ASSUMPTIONS

Ongoing (smoothed)	31-Mar-2021	31-Mar-2019
Discount Rate	4.23%	4.81%
CPI	2.73%	2.65%
Salary Increases	3.73%	3.65%

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 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 has been one changed since the last quarter's 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, 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.

2.3 The other 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 D shows those breaches logged since recording began. Since the last quarter end, two breaches have been added, detailed below:

- **Late payment of contributions** – a separate paper is presented to the Committee at paper 9, updating the Committee on all monthly employer contribution breaches over quarter.
- **Late payment of AVC cash from Prudential** – The Fund's AVC provider, Prudential, has been having problems following a change in IT system earlier this year. This has caused an issue with processing contributions and has resulted in late provision of AVC cash to retiring members, delaying their final pension calculations and payment. This has been reported to TPR, and they will be provided with an update in early July. Employers have been notified of the delays and asked to make their members aware of the issues.

4. Risk Register Update

4.1 The risk register is brought to the Committee at agenda item 10 as part of its annual review.

5. Asset Pooling Update

Sub Funds

5.1 The investment with Border to Coast into the Multi Asset Credit (MAC) Fund is still expected to be completed in the second half of 2021. Ahead of this, the Fund invested 3.5% of the Fund with the MAC Fund's core manager, Pimco, in two tranches in July 2020. This will transfer to the Border to Coast Fund once that is launched, with an additional 1.5% of the Fund being invested in the new sub-fund.

5.2 Since the last Committee meeting, Border to Coast has held a number of workshops with officers and advisors covering Fund design, the Responsible Investment and alternative investments.

- 5.3 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

- 5.4 The minutes of the Joint Committee meeting held on 9 March, and the agenda items for the latest meeting of 13 July, will be shared with Committee and Board members once received. Below are the agenda items for the meeting and the minutes will be circulated with the next JC agenda:

- Covid-19
- Proposed Meeting Dates
- Elections and Nominations 2021
- Joint Committee Budget
- Responsible Investment Update
- Real Estate UK Proposition
- Real Estate Global Proposition
- Real Estate – Business Case
- CEO Report
- Summary of Investment Performance and Market Returns
- Performance Report
 - UK Listed Equity
 - Overseas Developed Equity
 - Emerging Markets Equity
 - UK Listed Equity Alpha
 - Global Equity Alpha
 - Investment Grade Credit
- Update on Emerging Matters

- 5.5 Any questions or comments on the papers should be directed to Cllr Strenziel, Chairman of the Pensions Committee, who can raise them at the meeting.

- 5.6 Border to Coast are facilitating a Joint Committee Responsible Investment Workshop on 20 July, to ensure that all Partner Funds' views can feed into the annual review of the RI policies of Border to Coast.

Senior Officers Meetings

- 5.7 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.

- 5.8 A strategy meeting of the Senior Officers of the Partner Funds was held with Border to Coast on 12 July, covering:

- an update on the Good Governance review from Jeff Houston (LGA and SAB);

- strategy - international pooling review, longer-term risks and opportunities, capabilities required to support Partner Funds;
- other opportunities for Partner Funds to work together; and
- development of shareholder relationship between Border to Coast and Partner Funds.

Shareholder Matters

5.9 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.

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 have been two shareholder resolutions since the last report, which Lincolnshire voted in favour of:

- to approve the Chief Operating Officer Pay Review; and
- to approve additional resources to the alternatives team, given the increased commitments to series C of the Fund.

5.12 The Annual General Meeting of Border to Coast is being held virtually on 20 July.

6. Investment Consultancy Services Tender

6.1 At the March meeting of this Committee, it was agreed that the tender process for Investment Consultancy Services for the Fund would be carried out by a working group of officers and volunteers from the Pensions Committee. An email was sent to all members in June requesting volunteers, and both Cllr Strengiel and Cllr Smith offered to be part of the working group, in addition to the Committee's Independent Advisor, Peter Jones, and the Assistant Director – Finance, Michelle Grady, offering their services.

6.2 The working group will be working over the summer months to provide a recommendation to the Committee at the October meeting.

7. Committee Meeting Dates - Proposed Changes

7.1 The Committee meets six times a year for formal meetings, plus an additional two times for training meetings. The months and reporting periods for these meetings are set out below:

- January – quarterly meeting reporting to quarter ended 30 September
- February/March – training meeting
- March – quarterly meeting reporting to quarter ended 31 December
- June – investment manager presentations meeting
- July – quarterly meeting reporting to quarter ended 31 March
- September – training meeting
- October - quarterly meeting reporting to quarter ended 30 June
- December – investment manager presentations meeting

7.2 In order to better align the meetings with reporting quarter ends, two proposals are being put forward:

- a) it is proposed that from 2021/22, the December and the January meetings are swapped – therefore the December meeting will be a standard quarterly meeting reporting to the quarter end 30 September, and January will be used for investment manager presentations; and
- b) it is proposed from 2022/23, the September and October meetings are swapped – therefore the September meeting will be a standard quarterly meeting reporting to the quarter end 30 June, and October will be used for a training meeting.

7.3 In addition, the December meeting date (9 December) clashes with the LAPFF Annual Conference, that is normally attended by the Chairman of this Committee and an Officer. Therefore it is proposed that this meeting date is moved by one week, to be held on Thursday 16 December, at 2pm on this occasion to avoid a clash with Overview and Scrutiny Management Board. This third week in December would then be considered for future Committee meetings, to avoid future clashes with the LAPFF Annual Conference.

7.4 The Committee are asked to consider the proposed changes.

8 Conference and Training Attendance

8.1 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.

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

Conclusion

9 The Fund has maintained its recovery from the falls earlier in the year, and is 96.4% funded as at the end of December (under the methodology of Barnett Waddingham).

10 The Committee are requested to consider the proposed Committee date changes detailed at section 7, to better align the quarterly meetings with reporting periods and to avoid the clash with the LAPFF Annual Conference.

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	Distribution of Investments
Appendix B	Market Returns (31 March 2021)
Appendix C	TPR Checklist Dashboard
Appendix D	Breaches Register

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.