



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

Report to:	Pensions Committee
Date:	14 October 2021
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters for the quarter ending 30 June 2021 and any other current issues.

The report covers:

1. Funding and Performance Update
2. TPR Checklist Dashboard and Code of Practice
3. Breaches Register Update
4. Risk Register Update
5. Asset Pooling Update
6. Conference and Training Attendance

Recommendation(s):

That the Committee:

- 1) consider and note the report; and
- 2) agree to a full days training in February, in place of the normal half day session.

Background

1. Funding and Performance Update

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £136.2m (+5%) to £2,870.8m on 30 June 2021.

Asset Allocation

- 1.2 Appendix A shows the Fund's distribution as at 30 June. At an asset class level, property is below its lower tolerance and cash is above its upper tolerance.

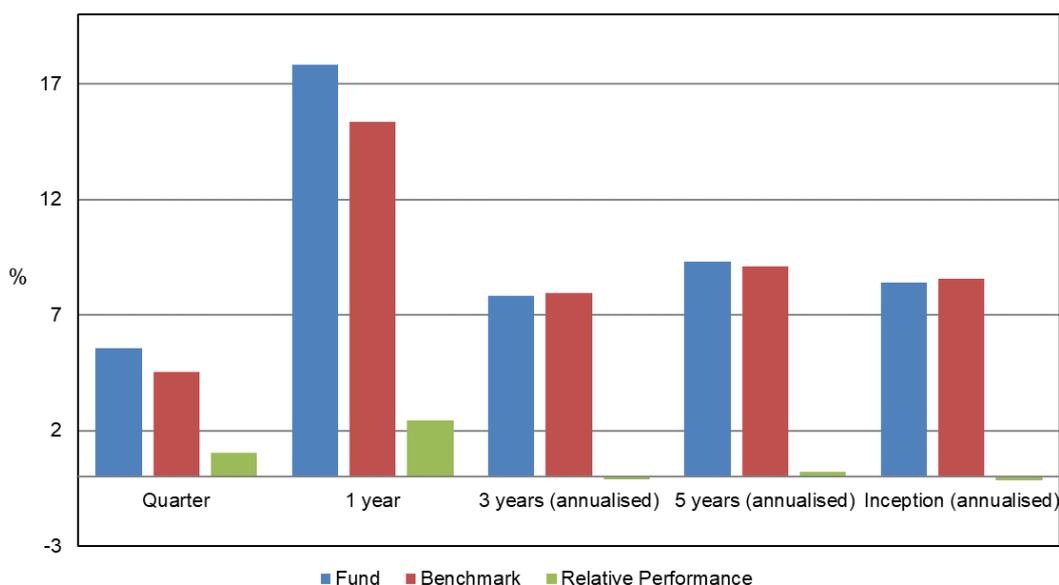
Commitments made to residential property funds in 2020 and 2021 are beginning to be drawn down, however the property allocation will still be underweight once these are fully drawn. Following the training session on Investment Strategy held on 16 September, a further paper on the property allocation is at agenda item 13 of this meeting. 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	Q2 2021 £m	Q1 2021 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	466.1	442.9	16.2	15.0	1.2
Global Equities	1,200.0	1,124.6	42.0	40.0	2.0
Alternatives	552.4	516.7	19.1	21.0	(1.9)
Property	211.0	203.8	7.3	10.0	(2.7)
Fixed Interest	356.9	349.4	12.5	13.0	(0.5)
Cash	84.4	97.1	2.9	1.0	1.9
Total	2,870.8	2,734.6	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	5.58	4.55	1.03
1 year	17.83	15.37	2.46
3 years*	7.84	7.96	(0.12)
5 years*	9.32	9.11	0.21
Inception**	8.39	8.56	(0.17)

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

- 1.5 Over the quarter, the Fund produced a positive return of 5.58% (as measured by Northern Trust), outperforming the benchmark by 1.03%. The Fund was also ahead of the benchmark on the one year and 5 year periods, but slightly underperformed on the three year period and since inception.
- 1.6 Appendix B shows the market returns over the three and twelve months to 30 June 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, 30 June 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, reworked under the methodology of Barnet Waddingham, the funding level was 97.5%, with assets and liabilities measured at £2.33bn and £2.39bn respectively. Since the valuation date, the funding level has increased by 1.3% to 98.8%. The graph below shows the volatility of the changes over the period since then, both on a smoothed and unsmoothed basis.



1.9 Over the period 31 March 2019 to 31 March 2021 the deficit, in real money, has fallen from £60m to £36m. The biggest impactor is the investment gain, although this has been partially offset by the change in discount rate over the period. Since the valuation, contributions and transfers have been greater than the accrual of new benefits. The table below shows the analysis of the change in deficit.



2. TPR Checklist Dashboard and Code of Practice

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 have been no changes since the last quarter's report. The areas that are not fully completed and/or compliant are listed below.

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, which should therefore be completed by November.

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.

- 2.3 Members will be aware that TPR have been consulting on a new combined Code of Practice. The draft Code combined 10 Codes into one, including encompassing the dedicated public service Code of Practice 14 with those covering private sector schemes.
- 2.4 TPR received a strong response to the consultation with 103 respondents submitting over 10,000 individual answers. It is therefore taking them time to work through and fully consider the responses in detail. In doing so TPR note that they will be able to further develop their policy positions, as well as potentially incorporating the Pension Schemes Act 2021 into the first issue of the new Code, and, for the public service schemes, clarifying some of the key confusions arising in the draft Code.
- 2.5 Importantly, the key messages for the public service schemes are that TPR:
- do not now expect to lay the new Code before Parliament before spring 2022, and so it is unlikely to become effective before summer 2022;
 - will explore ways to make the audience for each module clearer;
 - will examine how to resolve the difficulties of using the term Governing Body for the public service schemes;
- 2.6 No date has been given for when the full consultation response will be issued addressing these key issues, as well as the many others raised across the consultation responses. TPR's commitment to clarify these key issues of concern raised by the public service sector is much welcomed.

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 Regulator. The Breaches Register attached at appendix D shows those breaches logged over the last twelve months. Since the last quarter end, one 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.
- 3.2 Prudential, the Fund's AVC provider, have been contacted for an update on their situation, which was causing issues with processing contributions and resulted in late provision of AVC cash to retiring members, delaying their final pension

calculations and payment. However, at the point of writing this report, no response had been received.

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 amendments to the risk register since the last Committee meeting and there are currently no red risks.

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 and meetings with officers and advisors covering property an alternatives fund design, performance, and Responsible Investment.
- 5.3 In addition, Border to Coast have held two new member virtual training sessions in September. Slides from these sessions and links to the recordings of them were circulated to Committee members on 20 September.

Joint Committee Meetings

- 5.4 The latest Joint Committee meeting was held on the morning of the annual Border to Coast Conference, on 30 September. Minutes of the Joint Committee meeting held on 13 July, and the agenda items for the latest meeting were shared with Committee and Board members. 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
- Summary of Investment Performance and Market Returns
- CEO Report
- Consideration of Climate Change Transition Benchmarks
- Alternatives – Annual Review

- Performance Reports
 - 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 next meeting.

5.6 Border to Coast facilitated a second Joint Committee Responsible Investment Workshop on 7 September, following up on questions raised at the workshop held in 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 The next strategy meeting of the Senior Officers of the Partner Funds is being held with Border to Coast on 23 November.

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 has been one shareholder resolutions since the last report, which Lincolnshire voted in favour of:

- To approve additional resources for Real Estate.

6. Conference and Training Attendance

6.1 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.

6.2 Conferences attended by Officers and Councillors since the last meeting are:

- LGC Investments and Pensions Summit – 9-10 September, Leeds
Conference highlights, provided by Hymans Robertson, are attached at appendix E

- Border to Coast Annual Conference – 30 September – 1 October, Leeds
Topic highlights included:
 - What makes an effective investment strategy;
 - How asset classes work;
 - Pooling in perspective;
 - Delivering for Partner Funds;
 - RI oversight;
 - The road to Net Zero; and
 - The next 12 months.

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

6.4 Following the training day held on 16 September, it was agreed that the investment beliefs would be reviewed and considered at the next training meeting to be held in February 2022. As there will also be a training session on the triennial valuation, given that the next valuation falls on 31 March 2022, it is suggested that the February training be extended to a full day, to ensure that both subjects are given enough time for consideration. Officers will identify a suitable date and invitations will be issued in the coming weeks.

Conclusion

7. The Fund has maintained its recovery from the falls last year, and is 98.8% funded as at the end of June, with an asset value of £2,870.8m.

8. Given the detailed topics to be considered at the next Committee training meeting, of investment beliefs and the triennial valuation, the Committee are asked to agree to a full days training in February, in place of the normal half day session.

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	Market Returns (31 March 2021)
Appendix C	TPR Checklist Dashboard
Appendix D	Breaches Register
Appendix E	Hymans Robertson LGC Conference Highlights

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.