



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

Report to:	<b>Pensions Committee</b>
Date:	<b>16 December 2021</b>
Subject:	<b>Pension Fund Update Report</b>

### Summary:

This report updates the Committee on Fund matters for the quarter ending 30 September 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. Budget and Business Plan Update
7. Conference and Training Attendance

### Recommendation(s):

That the Committee consider and note the report and approve the addition to the risk register detailed in section 4.

### Background

#### 1. Funding and Performance Update

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £62.9m (+2%) to £2,933.7m on 30 September 2021.

#### Asset Allocation

- 1.2 Appendix A shows the Fund's distribution as at 30 September. 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. The October meeting of this Committee approved an allocation to

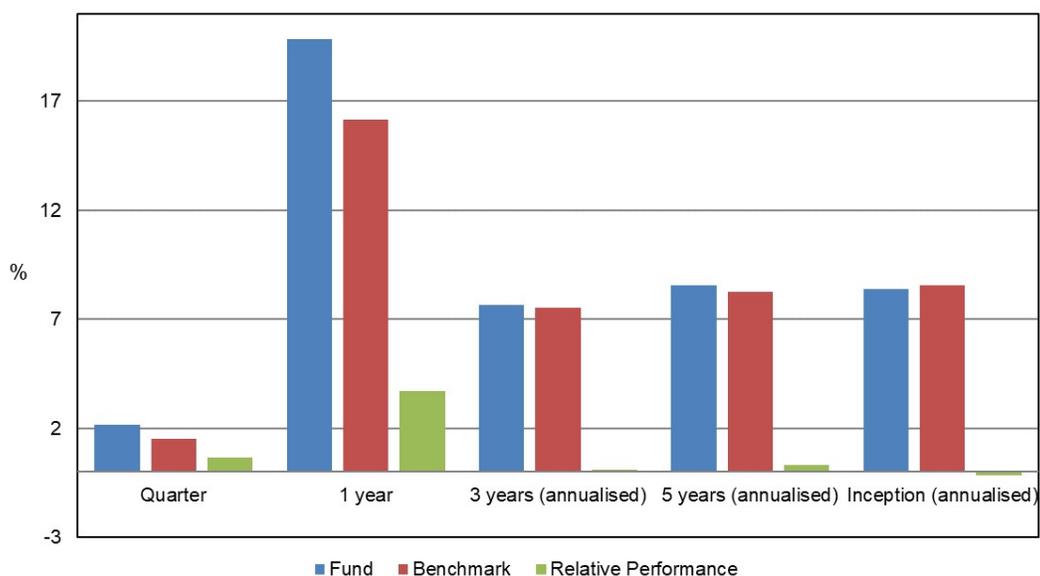
the Border to Coast Global Property Fund, due to launch in 2022. This will reduce the underweight position over time. The higher cash level is a result of the rebalancing undertaken during the transition from Invesco into the LGIM Future World Fund and the Border to Coast Global Equity Alpha Fund. This 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	Q3 2021 £m	Q2 2021 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	475.5	466.1	16.2	15.0	1.2
Global Equities	1,213.9	1,200.0	41.4	40.0	1.4
Alternatives	586.7	552.4	20	21.0	(1.0)
Property	220.4	211.0	7.5	10.0	(2.5)
Fixed Interest	373.3	356.9	12.7	13.0	(0.3)
Cash	63.9	84.4	2.2	1.0	1.2
<b>Total</b>	<b>2,933.7</b>	<b>2,870.8</b>	<b>100.0</b>	<b>100.0</b>	

### 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.



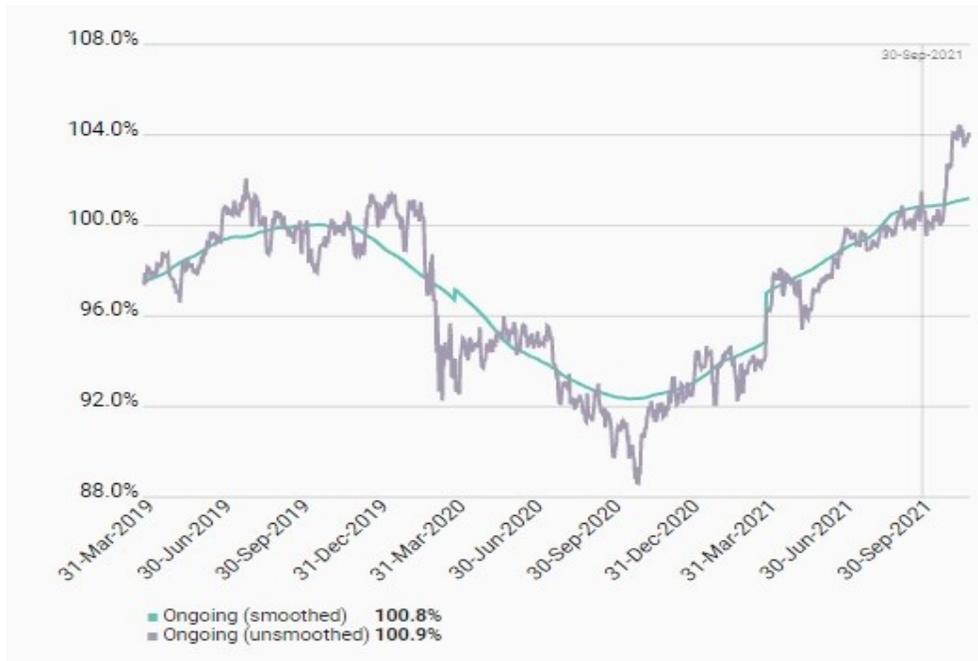
	Fund %	Benchmark %	Relative Performance %
Quarter	2.18	1.51	0.67
1 year	19.86	16.14	3.72
3 years*	7.64	7.53	0.11
5 years*	8.58	8.28	0.30
Inception**	8.40	8.54	(0.14)

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

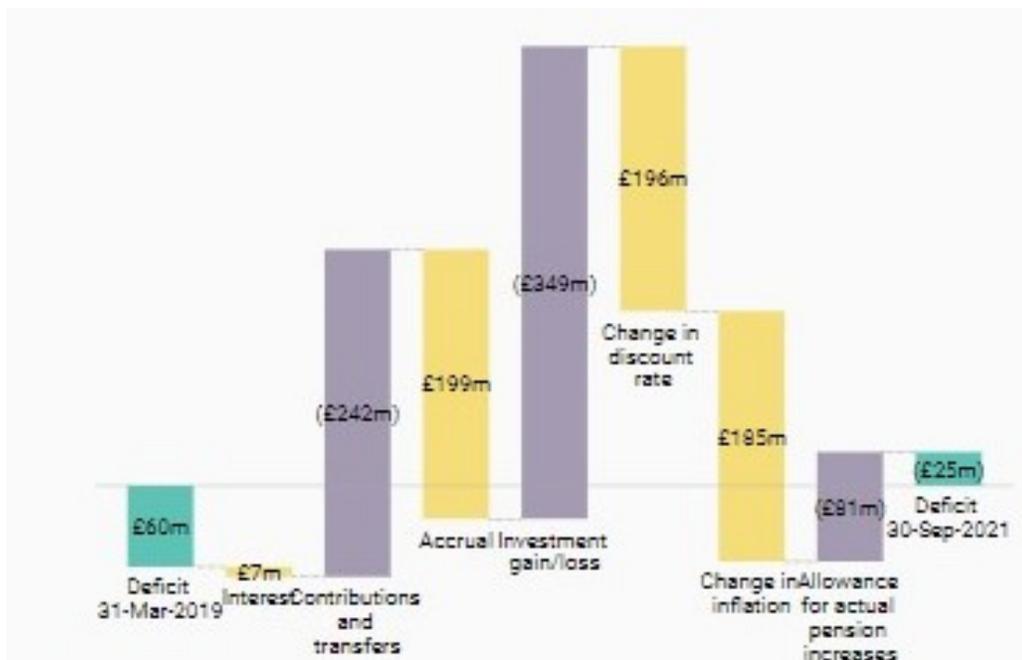
- 1.5 Over the quarter, the Fund produced a positive return of 2.18% (as measured by Northern Trust), outperforming the benchmark by 0.67%. The Fund was also ahead of the benchmark on the one, three and five year periods, but slightly underperformed since inception.
- 1.6 Appendix B shows the market returns over the three and twelve months to 30 September 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 September 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 3.3% to 100.8%. 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 30 September 2021 the deficit, in real money, has fallen from £60m to a surplus of £25m. 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. At the time of writing this report, all certificates had not been received.*

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 over the last twelve months. Since the last quarter end, one breach has been added, detailed below:

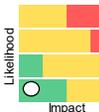
- **Late payment of contributions** – a separate paper is presented to the Committee at paper 10, updating the Committee on all monthly employer contribution breaches over quarter.

3.2 Prudential, the Fund's AVC provider, provided an update on their situation in a letter to all Pension Managers dated 12 November 2021, which is attached at appendix E. The message from them was that the situation had improved significantly over the last four months, with most claims being processed in around five working days from receipt of all required information. One area that we are still awaiting, at the time of writing, is the year end accounts information for inclusion in the notes to the Pension Fund Accounts, which will be mentioned in paper 12 later in this agenda.

### **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 As has been detailed in the Local Pension Board Report, the Pension Board recommend a new risk be added to the register in relation to the. This has been added as risk O16, and is set out below:

Risk Description	Current Risk Score (Copy and paste the white dot onto the matrix)	Target Risk Score (Copy and paste the white dot onto the matrix)	Assurance Status (High, Substantial, Limited, Low)	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
AVC provider does not meet the regulatory requirements or timescales agreed in service provision.			Limited	 	<b>Existing</b> <ul style="list-style-type: none"> <li>• Regular reporting and monitoring from WYPF</li> <li>• FRC Regulated company appointed</li> <li>• Client service manager relationship</li> <li>• Pension Board oversight</li> </ul> <b>New &amp; Developing</b> <ul style="list-style-type: none"> <li>•</li> </ul>

4.3 There have been no other changes in risk level on the register, and there are currently no red risks.

4.4 The Committee are asked to approve the addition of risk O16 as shown above.

## 5. Asset Pooling Update

5.1 The Committee were informed of the personnel changes at Border to Coast in an email on 15 November. Two colleagues will be leaving in the coming months. Given that the company has been live for over three years, some turnover is to be expected.

5.2 The Chiel Investment Officer (CIO), Daniel Booth, joined in mid-2018 and has been key in developing our investment capabilities and building a strong and capable team. He is leaving to establish a UK-based family office for a wealthy individual seeking a CIO to manage his assets. John Harrison, who was the interim CIO before Daniel, and continued to provide support and advice to Border to Coast since leaving, has been appointed as the interim CIO.

5.3 The Head of Real Estate, Tim Sankey, will be leaving to join a specialist real estate manager closer to his home in Surrey. The Global Real Estate offering, which is managed by Paul Campbell, is expected to launch as planned in H1 2022. Work on the UK Fund operational model will continue as planned, whilst the recruitment for a replacement Head of Property will be later in the year. It is not expected that the launch of the UK Fund will be materially impacted.

5.4 Rachel Elwell, CEO of Border to Coast, has had discussions with Fund Officers, Joint Committee members and S151 Officers to reassure all Partner Funds on the management of these departures.

## **Sub Funds**

- 5.5 The Border to Coast Multi Asset Credit (MAC) Sub-fund launched in November, and the Fund transitioned the 3.5% of the Fund held with Pimco and invested an additional 1.5% of the Fund into this new vehicle. The transition went smoothly, and although the final review of the transition is yet to be received, it is expected that it was within the expected range of costs, if not slightly below.
- 5.6 Since the last Committee meeting, Border to Coast has held a number of workshops and meetings with officers and advisors covering quarterly external and internal funds, property, alternatives, tax risk, and Responsible Investment.
- 5.7 In addition, Border to Coast have held RI Briefing sessions for the Joint Committee, ahead of the Joint Committee meeting held in November.

## **Joint Committee Meetings**

- 5.8 The latest Joint Committee meeting was held on 23 November. Minutes of the Joint Committee meeting held on 30 September, 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
  - Joint Committee Budget
  - Responsible Investment Policies Annual Review 2021
  - Summary of Investment Performance and Market Returns
  - Border to Coast Asset Transfer Planning - 2022-2025
  - UK Equity Alpha - Manager Search Outcome
  - Alternatives Series 2 and Climate Opportunities
  - CEO Report
  - Performance Reports
    - UK Listed Equity
    - Overseas Developed Equity
    - Emerging Markets Equity
    - UK Listed Equity Alpha
    - Global Equity Alpha
    - Sterling Investment Grade Credit
  - Update on Emerging Matters
- 5.9 Any questions or comments on the papers should be directed to Cllr Strengiel, Chairman of the Pensions Committee, who can raise them at the next meeting.
- 5.10 The next Joint Committee is being held on 8 March 2022.

## **Senior Officers Meetings**

- 5.11 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.
- 5.12 A strategy meeting of the Senior Officers of the Partner Funds was held with Border to Coast on 23 November. The agenda covered the areas below:
- Recap on 2021/22
  - Strategic plan 22-25 key development areas
  - Strategic Risks
  - 2022/23 Budget
  - Future Strategic Developments
  - Partner Fund only Session

## **Shareholder Matters**

- 5.13 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 the reappointment of Cllr Holtby to the Partner Fund NED position.

## **6. Budget and Business Plan Update**

- 6.1 The Pension Fund budget and business plan were brought to the Committee at the March 2021 meeting. The paragraphs below update the Committee on the budget position to 30 September, and to highlight any areas on the key tasks from the business plan for 2021/22 where progress is behind expectations.

6.2 The budget for operating the Lincolnshire Pension Fund for 2021/22 plus actual costs incurred up to the end of September 2021 are set out in the table below, with additional narrative at 6.3:

	Original Budget 2020/21 £'000	Q2 Actuals 2020/21 £'000	Variance Budget vs. Actuals Q2 £'000
<u>Administration Costs</u>			
- Charge from Shared Services Administrator	1,050	1,206	156
- Other	1	0	-1
<u>Investment Management Expenses</u>			
- Management Fees	7,422	-706	-8,128
- Performance Related Fees	1,500	-23	-1,523
- Other Fees	791	21	-770
<u>Oversight and Governance Costs</u>			
- Contracted Services	425	126	-299
- Recharge of Actuarial Services	-174	-27	147
- Recharge from Administering Authority (inc. Staffing Costs)	249	125	-124
- Border to Coast Governance Costs	280	300	20
- Other Costs	27	4	-23
	<b>11,571</b>	<b>1,026</b>	<b>-10,545</b>

6.3 Administration Costs: The annual administration charge from West Yorkshire Pension Fund has been received and paid. This was slightly higher than the original budget, due to a smaller refund from 2020/21 than originally expected and more members than originally forecast.

Investment Management Costs: Most of the Fund's investments are made via pooled vehicles. The costs for these investments are mainly accounted for annually in March. For directly charged fees, billing from managers is in arrears. There is one invoice outstanding for quarter four 2020/21, which was accrued at year end, plus further invoices for quarter one and two fees which will be received in future months.

Costs incurred on management fees reflect the size of the portfolio and investment returns. Costs in this area are very difficult to predict, particularly when markets are volatile.

Oversight and Governance Costs: Contracted services, the recharge of actuarial services and the recharge from the admin authority are spread throughout the financial year. It is expected that these budgets will be fully utilised by year end. The governance charge from Border to Coast has been paid, this was £20k more than originally budgeted for.

## Pension Fund Business Plan Update

- 6.4 The key tasks set out in the Business Plan are set out below, with narrative to explain whether it is on track or otherwise:

Subject	21/22 Actions	Progress
Pensions Committee and Board meetings	Ensure all papers are prepared and presented in a clear and concise manner. Ensure that all relevant matters are reported to the Committee and /or Board. Induction and training for any new Committee members following the election or new Board members following the end of current terms of office.	On-going – all meetings held as expected.  Initial 1:1 training completed for all new members. Some mandatory TPR training outstanding.
Asset Pooling with Border to Coast	Continued partnership with Border to Coast to develop appropriate sub-funds for investment and ensuring appropriate oversight and governance of the company. Expected investment into Multi Asset Credit sub-fund (Q3) and further development of the property and alternative propositions.	On-going – new investments made and further investments in the pipeline. Multi Asset Credit investment made as expected.
Administration Service (including employer data quality)	Continued partnership and oversight of West Yorkshire Pension Fund (WYPF) in the delivery of the administration service and to improve the reporting on data quality and management information.	On-going – generally a good administration service provided.  Work underway to progress the reporting.
Annual Report and Accounting	A detailed project plan has been put in place, built on experience from previous years and updated for new requirements. On-going engagement with the external auditors to ensure all requirements can be met in a timely manner.	Delayed receipt of opinion due to a number of factors including issue with the Council's accounts. Pension Fund accounts ready by deadline with an expected unqualified opinion to be received in

		early December.
Responsible Investment (RI)	Continued information and training for the Committee and Board to understand RI. Working closely with external managers and Border to Coast to ensure that it is embedded across all investment decisions.	On-going – improved stewardship reporting, close working with Border to Coast and Stewardship Code Statement submitted and awaiting FRC approval.
Investment Consultancy Services Tender	Call off the national framework to recommend an investment consultancy appointment to the October meeting of the Committee.	Completed – current Investment Consultant re-appointed w.e.f 1 January 2022.
Work by the Scheme Advisory Board (SAB)	Participate in projects where possible and respond to any actions required – e.g. Good Governance Review, data quality.	Progress delayed due to other priorities in SAB.
Employer Accounting	Work with employers, the Actuary and WYPF to ensure employers understand their choices, accurate and timely data is sent to the Actuary and accounting reports are received and understood by employers.	On-going – all reports issued as required to date.
Staffing and Structure Review	A full review of workloads across the team will be undertaken to review the staffing levels and structure to ensure it is appropriately resourced to meet current and future requirements.	Review undertaken and additional resource requirement identified, and approved by Executive Director of Resources. Currently working with HR to agree the job description and grade.

6.5 As can be seen from the table above, year-to-date most key tasks are on track or completed, except for work with the Scheme Advisory Board and the year-end accounts sign off, where delays are beyond the control of the Pensions team.

## **7. Conference and Training Attendance**

- 7.1 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.
- 7.2 There has been one main LGPS Conference since the last meeting, which was the Pension Managers Annual Conference held in Torquay in November. No representatives from the Fund attended this event, but conference highlights, provided by Hymans Robertson, are attached at appendix F for your information.
- 7.3 The Committee and officers are requested to share information on relevant events they have participated in since the last Committee meeting.

## **Conclusion**

8. The Fund has maintained its recovery from the falls last year, and is 100.8% funded as at the end of September, with an asset value of £2,933.7m.
9. The Committee are asked to approve an additional risk to the register relating to the AVC service provided by Prudential.

## **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	Prudential Update Letter 12 November 2021
Appendix F	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](mailto:jo.ray@lincolnshire.gov.uk).