



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

Report to:	Pensions Committee
Date:	17 March 2022
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters for the quarter ending 31 December 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. Member Training Needs
7. Conference and Training Attendance

Recommendation(s):

That the Committee consider and note the 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 £131.0m (+4.4%) to £3,085.0m on 31 December 2021.

Asset Allocation

- 1.2 Appendix A shows the Fund's distribution as at 31 December. 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.

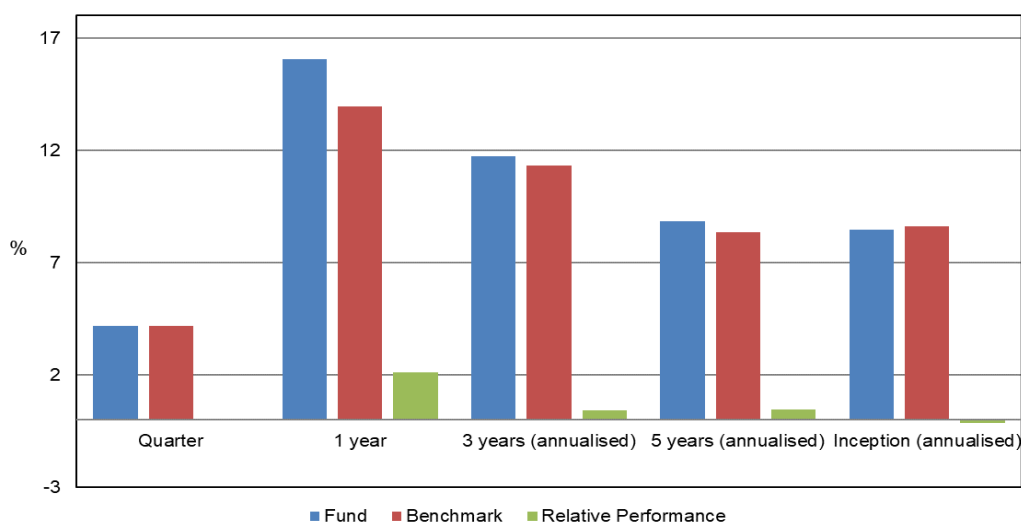
- 1.3 The underweight property position will increase further due to the closure of the Aviva UK Commercial Property Fund, which started returning money to unit holders in January 2022 with further distributions expected over the coming months as assets are sold. To reduce the cash drag on performance ahead of the investment into the Border to Coast Global Property Fund, due to launch in late 2022, an additional investment has been made to increase the existing holding in the Aberdeen European Property Growth Fund.
- 1.4 The higher than benchmark cash position will be used to fund expected drawdowns in property and infrastructure investments.
- 1.4 The Fund's overall position relative to its benchmark is set out in the table below.

Asset Class	Q4 2021 £m	Q3 2021 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	475.0	475.5	15.5	15.0	0.5
Global Equities	1,256.0	1,213.9	41.0	40.0	1.0
Alternatives	660.5	586.7	21.5	21.5	0.0
Property	241.2	220.4	7.9	10.0	(2.1)
Fixed Interest	378.0	373.3	12.3	12.5	(0.2)
Cash	54.3	63.9	1.8	1.0	0.8
Total *	3,065.0	2,933.7	100.0	100.0	

(* Excludes transactional cash and Border to Coast shareholding)

Fund Performance

- 1.5 The graph and table below show 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	4.20	4.17	0.03
1 year	16.05	13.95	2.10
3 years*	11.75	11.34	0.41
5 years*	8.84	8.36	0.48
Inception**	8.46	8.60	(0.14)

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

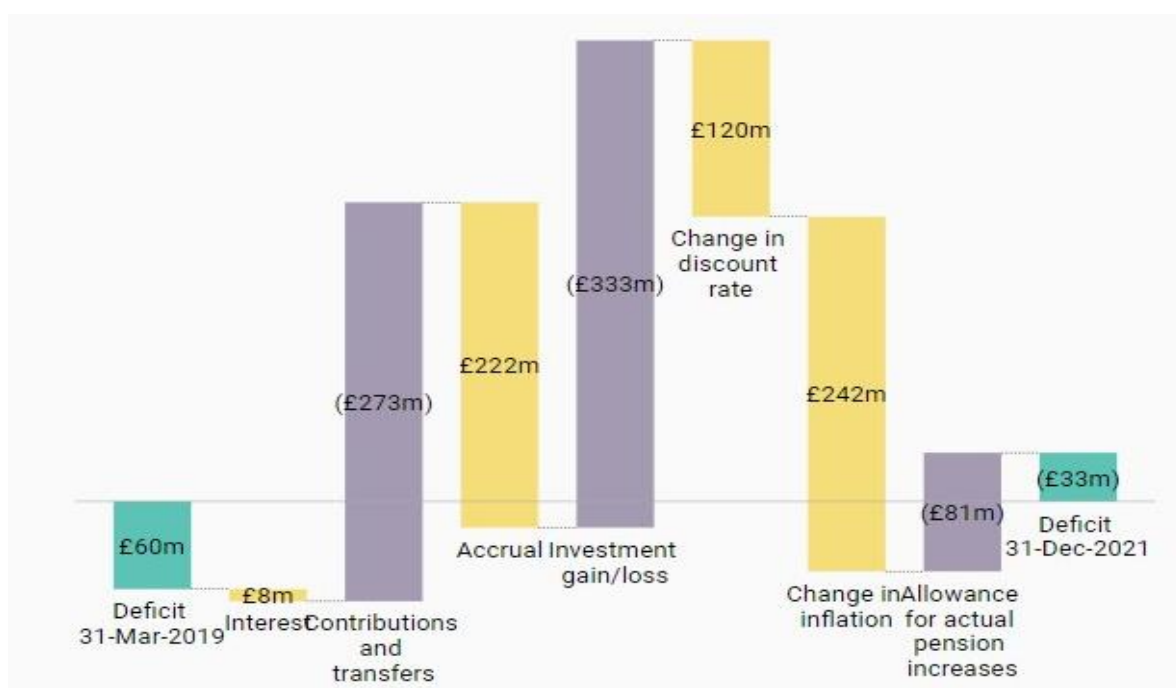
- 1.5 Over the quarter, the Fund produced a positive return of 4.2% (as measured by Northern Trust), outperforming the benchmark by 0.03%. The Fund was also ahead of the benchmark over the one, three and five year periods, but slightly underperformed since inception.
- 1.6 Appendix B shows the market returns over the three and twelve months to 31 December 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 December 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 higher 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 3.2% to 100.7%. 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 December 2021 the deficit, in real money, has fallen from £60m to a surplus of £33m. The biggest impactor is the investment gain, although this has been partially offset by the change in inflation 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 – As set out in the Fund's Training policy, it is a mandatory requirement that all PC members complete this in addition to the PB members and provide copies of the completion certificate to the Head of Pensions. 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 all the new Committee members. As set out in the training policy, members do have a six month window to complete this mandatory training, which should therefore have been completed by November. At the time of writing this report, two 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 have 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 9, updating the Committee on all monthly employer contribution breaches over quarter.

3.2 Further to the concerns previously raised about the Fund's AVC provider, Prudential, a review has been undertaken by Barnett Waddingham, the Fund's Benefits Consultant, and is covered in paper 15 on the 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.

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

5. Asset Pooling Update

5.1 The situation with Ukraine and Russia has brought to the fore discussions about geopolitical risk, with partner funds wanting a greater understanding of how that is factored into investment decisions by Border to Coast and their external managers. Border to Coast held a meeting with Funds on 2 March to discuss this and have been

working with Funds to ensure they have a clear understanding of the direct and indirect exposure to assets impacted by the current situation, with regular updates being provided.

Sub Funds

- 5.2 Border to Coast launched a Listed Alternatives sub-fund on 31 January, to compliment the suite of alternative offerings already available. Lincolnshire has not invested with Border to Coast yet in the alternatives range, as this mandate is currently managed by Morgan Stanley. Discussions are continuing between the Fund, Morgan Stanley and Border to Coast to ensure that the alternatives exposure is managed in the most appropriate way to meet the Fund's requirements. Further information will be brought to the Committee at its June meeting.
- 5.3 Work has continued on the development of the real estate funds, with the next expected transition for Lincolnshire expected to be into the Core Global Property fund, due to be launched later in 2022. It is expected that the new Head of Property will be appointed in March.
- 5.4 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, carbon metrics and Responsible Investment.

Joint Committee Meetings

- 5.5 The latest Joint Committee meeting was held on 8 March. Minutes of the Joint Committee meeting held on 23 November, 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:
- Ratification of Decision Taken at 23 November Meeting (due to it not being quorate)
 - Schedule of Future Meetings
 - Annual Elections
 - Joint Committee Budget
 - 2021 Partner Fund Satisfaction Survey
 - Market Review
 - Shareholder Governance Review (exempt paper)
 - Emerging Market Equity Alpha Launch (exempt paper)
 - CEO Report
 - Investment Review Quarter Ended 31 December 2021 (exempt report)
 - Verbal Update on Emerging Matters (exempt item)
- 5.6 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.

- 5.7 The next Joint Committee is being held on 14 June 2022, this is the Annual Meeting and there will also be a Responsible Investment Workshop held that day.

Shareholder Matters

- 5.8 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.
- 5.9 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.
- 5.10 There has been one shareholder resolutions since the last report, which Lincolnshire voted in favour of:
- to approve the Strategic Plan 2022-25 and supporting budgets for 2022-23.

6. Member Knowledge and Training Needs

- 6.1 The Markets in Financial Instrument Directive 2014/65 (MiFID II) came into force in 2018 and classified all investors as either retail or professional. Local Authorities, and therefore the Pension Fund, were automatically classified as retail investors, with an option to opt-up to gain an elective professional client status. This opt-up process had to be completed with every investment related firm that the Fund dealt with, requiring completion of updated questionnaires and evidence. The status is reviewed by the investment firms on a regular basis.
- 6.2 The criteria to be accepted as an elected professional client is rigorous, requiring completion of a detailed questionnaire that provides evidence of decision-making processes, training policies, knowledge and qualifications of investors and advisors, amongst other things. The evidence is required to show that the Pensions Committee has the collective knowledge and ability to make investment decisions, having taken appropriate advice from officers and advisors. Once an investment manager receives the questionnaire and accompanying evidence, they decide on a client-by client basis as to whether they will opt the Fund up.
- 6.3 Should the Fund not meet the criteria set within the Directive, the Fund would return to its default classification as a retail investor. This would mean that all financial services firms like banks, brokers, advisers and fund managers would have

to treat the Fund in the same way they do non-professional individuals and small businesses. This would mean that the Fund would not be able to access the wide range of assets needed to implement an effective, diversified investment strategy, and specifically would not be able to invest with many of the managers we currently use, including Border to Coast.

- 6.4 To ensure that the Lincolnshire Fund can continue to meet the requirements under MiFID II, we will be issuing a knowledge and training needs questionnaire to all Committee members in the coming weeks. Once these have been returned to officers, they will be collated to evidence the collective knowledge of the Committee, and to assist in directing any areas that require further training or information being brought to the Committee.

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 Annual LGPS Governance Conference held in Bournemouth in January. No representatives from the Fund attended this event, but conference highlights, provided by Hymans Robertson, are attached at appendix E 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 100.7% funded as at the end of December, with an overall value of £3,085.0m.
9. Committee members will each receive a knowledge and training needs questionnaire that they are asked to complete. Once these have been returned to officers, they will be collated to evidence the collective knowledge of the Committee, and to assist in directing any areas that require further training or information being brought to the Committee. This will enable the Fund's professional status under MiFIDII to be retained.

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of

Pensions.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Distribution of Investments
Appendix B	Market Returns
Appendix C	TPR Checklist Dashboard
Appendix D	Breaches Register
Appendix E	Hymans Robertson LGA 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.