



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

Report to:	Pensions Committee
Date:	14 July 2022
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters for the quarter ending 31 March 2022 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. Internal Audits
7. PLSA Research Report
8. 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's invested assets fell by £33.9m (-1.1%) to £3,031.1m on 31 March 2022.

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. 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.

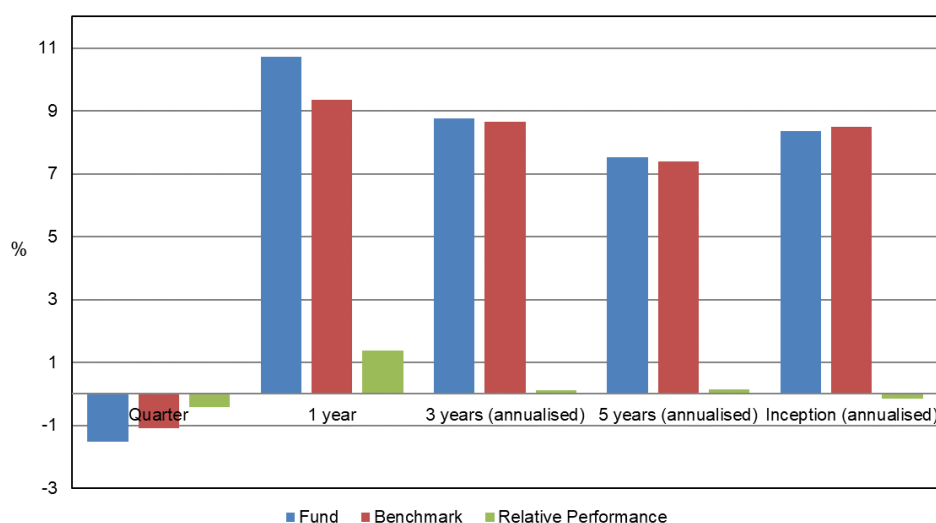
- 1.3 The underweight property position will increase further due to the closure of the Aviva UK Commercial Property Fund, which started returning money to unit holders in January 2022 with further distributions expected over the coming months as assets are sold. To reduce the cash drag on performance 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. This will show in the next quarter's distribution.
- 1.4 The higher than benchmark cash position will be used to fund expected drawdowns in property and infrastructure investments.
- 1.5 The Fund's overall position relative to its benchmark is set out in the table below.

Asset Class	Q1 2022 £m	Q4 2021 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	477.8	475.0	15.8	15.0	0.8
Global Equities	1,207.3	1,256.0	39.7	40.0	(0.3)
Alternatives	671.2	660.5	22.1	21.5	0.6
Property	220.0	241.2	7.3	10.0	(2.7)
Fixed Interest	355.2	378.0	11.8	12.5	(0.7)
Cash	99.6	54.3	3.3	1.0	2.3
Total *	3,031.1	3,065.0	100.0	100.0	

(* Excludes transactional cash and Border to Coast shareholding)

Fund Performance

- 1.6 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	(1.51)	(1.10)	(0.41)
1 year	10.72	9.35	1.37
3 years*	8.76	8.65	0.11
5 years*	7.53	7.39	0.14
Inception**	8.35	8.50	(0.15)

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

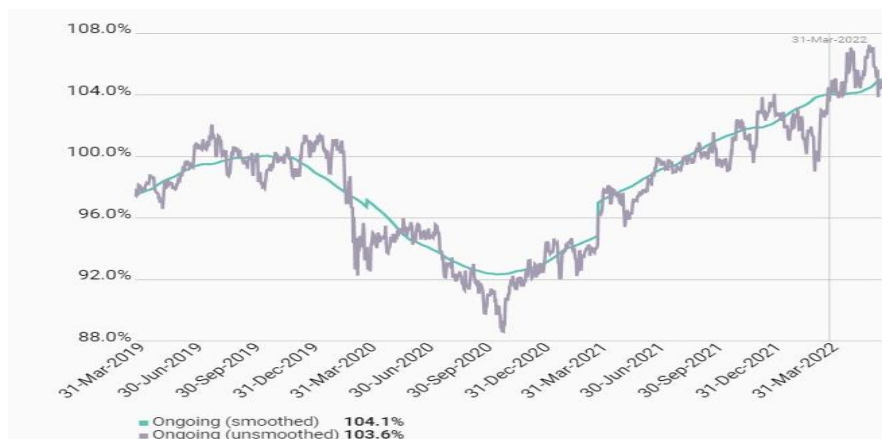
1.7 Over the quarter, the Fund produced a negative return of -1.51% (as measured by Northern Trust), underperforming the benchmark by -0.41%. The Fund was ahead of the benchmark over the one, three and five year periods, but slightly underperformed since inception. Details of managers' performance are covered in the Investment Performance report later in the agenda.

1.8 Appendix B shows the market returns over the three and twelve months to 31 March 2022.

Funding Level

1.9 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 will 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.

1.10 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 6.6% to 104.1%. The graph below shows the volatility of the changes over the period since then, both on a smoothed and unsmoothed basis.



1.11 Over the period 31 March 2019 to 31 March 2022 the deficit, in real money, has fallen from £60m to a surplus of £116m. 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, one certificate 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 10, updating the Committee on all monthly employer contribution breaches over quarter.

4. Risk Register Update

- 4.1 The risk register annual review is at agenda item 12 on the agenda, so no update is provided here.

5. Asset Pooling Update

Sub Funds

- 5.1 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. The new Head of Property, Alistair Smith, joined the company in May.
- 5.2 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, sustainable/green bonds and Responsible Investment.

Joint Committee Meetings

- 5.3 The latest Joint Committee meeting was held on 20 June. Minutes of the Joint Committee meeting held on 8 March, 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:

- Update on Elections at Each Fund
- Elections and Nominations 2022 (JC Chairman and Vice-Chairman, and company NED)
- Joint Committee Budget
- Market Review
- Governance Review (exempt paper)
- Summary of External Equity Fund's Annual Reviews (exempt report)
- Emerging Market Allocation in Global Equity Alpha – proposed changes to structure (exempt paper)
- CEO Report (exempt paper)
- Performance Report (exempt report)
- Verbal Update on Emerging Matters (exempt item)

- 5.4 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.

- 5.5 The next Joint Committee is being held on Thursday 29 September 2022, ahead of the Border to Coast Annual Conference in Leeds, to which all Committee members are invited.

Shareholder Matters

- 5.6 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. A review of this document is currently underway, with the latest progress set out in the June Joint Committee papers.
- 5.7 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.
- 5.8 There has been two shareholder resolutions since the last report, which Lincolnshire voted in favour of:
- to approve the total remuneration of the Chief Executive Officer
 - to approve the total remuneration of the Deputy Chief Executive Officer

6. Internal Audits

- 6.1 There have been two audits carried out by the LCC Internal Audit Team and the scope and conclusions are shown below.

6.2 Pensions Administration

Scope – to provide assurance over the adequacy of Pension Administration arrangements helps to inform the Head of Internal Audit's annual opinion of the Council's control environment. In order to maximise efficiencies and to avoid duplication, the internal audit team take assurance on relevant work conducted by Bradford MDC, who undertake the internal audit service for WYPF.

The areas reviewed and the outcomes given were:

- Transfers In = Excellent
- New Pensions & Lump Sums- Death Benefits = Excellent
- Local Government Scheme Contributions = Good
- Life Existence = Good
- Purchase of Additional Pension = (Draft report Good)

- Annual benefit statement = Excellent

Conclusion – LCC Internal audit continue to place assurance on the robust nature of the audits completed by Bradford MDC. They are pleased to see that the audits continue to have positive assurance levels to date and that actions are implemented promptly. They will liaise with the Bradford MDC team to confirm that management actions are fully implemented within agreed timescales. They are happy to place reliance on this assurance over Pension Administration and plan to maintain their relationship with Bradford MDC. They will share future information and assurances to help support one another's audit work.

Overall assurance given – Green – no issues

6.3 Key Control Testing

Scope - Key Control testing is undertaken on a periodic basis to:

- enable the Head of Internal Audit to form an opinion on the Council's financial control environment
- inform External Audit's control evaluation
- support the risk based reviews completed on these systems, as transactions are sampled across the year.

Key controls and a sample of transactions were reviewed in the following areas:

- reconciliations, existence and valuation of investment

Conclusion - The review found that processes are well controlled and continue to work well. We have therefore provided a high assurance opinion.

The testing confirmed the following robust controls to be in place and working effectively:

- Monthly reconciliation of pension fund valuations with independent review
- Review of valuation discrepancies or those valuations outside set parameters. These are supported by clear documentation of the investigation outcome
- Maintenance of comprehensive internal valuation records which correspond to third party records held from individual Fund Managers and the Pension Fund Custodian
- Monthly valuation updates to the Pensions Committee and Pension Board, with more frequent updates when required due to market uncertainty

Audit identified no findings or service improvements as part of this review.

Overall assurance given – High Assurance

7. PLSA Research Report

- 7.1 As you will be aware, the Fund is a member of the PLSA (Pensions and Lifetime Savings Association), who represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. They work closely with the LGPS Funds and stakeholders to

influence Government policies and collaboratively find solutions to the many issues that we share.

- 7.2 The PLSA Policy Board guides and decides on public policy positions. Its remit and representation stretches across all aspects of policy work on pensions and lifetime savings and its goal is to shape the policy agenda for all aspects of retirement income.
- 7.3 To assist the work of the Policy Board, there are four Committees aligned to the current regulatory regime, those being Defined Benefit, Defined Contribution, Local Authority and Master Trusts. I am pleased to report that the Head of Pensions was recently appointed to be a member of the Local Authority Policy Committee.
- 7.4 PLSA have recently released their LGPS research project 'LGPS: Today's Challenges, Tomorrow's Opportunities', intended to provide PLSA members and those with an interest in the LGPS, additional information to aid and inform ongoing debates about the scheme's purpose and on how to prioritise the opportunities available. It also aims to suggest practical next steps to some of the challenges highlighted. The full report can be found at <https://www.plsa.co.uk/Policy-and-Research/Document-library/The-Local-Government-Pension-Scheme-todays-challenges-tomorrows-opportunities>, and the Executive Summary is attached at appendix E.
- 7.5 The research covered four themes:
- The LGPS Regulatory and Operating Environment
 - LGPS Employers
 - LGPS and Scheme Members
 - Operational Sustainability – Systems and People
- 7.6 The document highlights the key issues impacting all Funds, to a greater or lesser extent, and proposes recommendations for solutions. LPF will continue to work with the PLSA, all stakeholders and other Funds to ensure the long term sustainability of the LGPS.

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 There has been one main LGPS Conference since the last meeting, which was the PLSA Local Authority Conference held in the Cotswolds in June. Cllr Mike Thompson, Cllr Mark Whittington and the Head of Pensions attended the event, and conference highlights provided by Hymans Robertson are attached at appendix F for your information.

8.3 The Committee and officers are 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 last year and is 104.1% funded as at the end of March, with an overall value of £3,031.1m.

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	PLSA LGPS Research Project Executive Summary
Appendix F	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.

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