



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

Report to:	<b>Pensions Committee</b>
Date:	<b>22 September 2022</b>
Subject:	<b>Pension Fund Update Report</b>

**Summary:**

This report updates the Committee on Fund matters for the quarter ending 30 June 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. DLUHC Consultation – Governance and the reporting of climate change risks
7. Conference and Training Attendance

**Recommendation(s):**

That the Committee

- 1) consider and discuss the report and agree whether any action or additional information is required; and
- 2) approve the recommendation at paragraph 6.5 that the February training meeting is used for the Committee to consider its aspirations for net zero, and the implications and requirements to meet any agreed target.

**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 £126.6m (-4.2%) to £2,904.5m on 30 June 2022.

## Asset Allocation

1.2 Appendix A shows the Fund's distribution as at 30 June. At an asset class level, due property is now within its tolerance levels, having been underweight for a period of time. This is mainly due to relative movements across asset classes. Cash is overweight, as this is being 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.

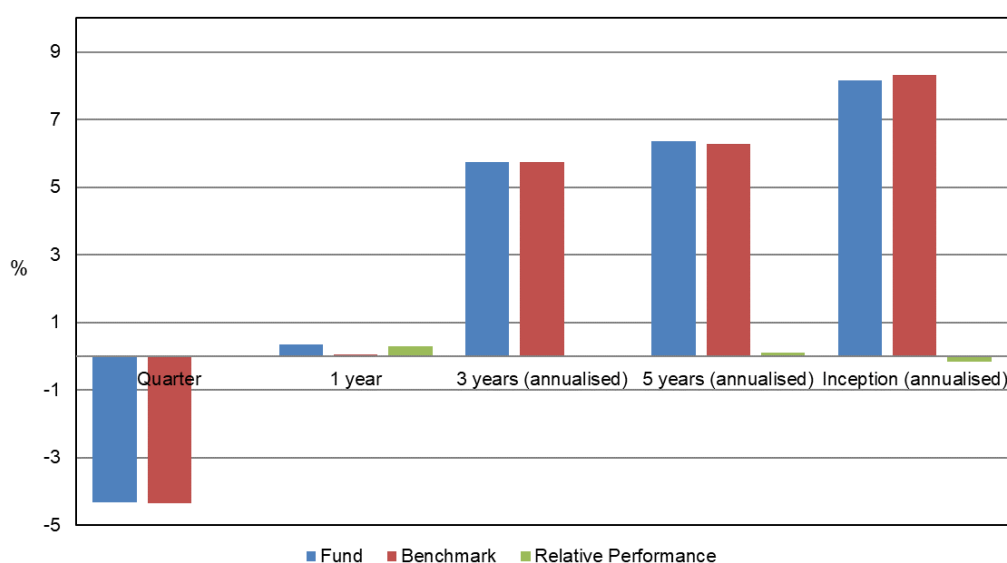
Asset Class	Q2 2022 £m	Q1 2022 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	459.8	477.8	15.8	15.0	0.8
Global Equities	1,114.0	1,207.3	38.3	40.0	(1.7)
Alternatives	673.6	671.2	23.2	21.5	1.7
Property	269.0**	220.0	9.3	10.0	(0.7)
Fixed Interest	324.5	355.2	11.2	12.5	(1.3)
Cash	63.5	99.6	2.2	1.0	1.2
<b>Total *</b>	<b>2,904.5</b>	<b>3,031.1</b>	<b>100.0</b>	<b>100.0</b>	

(\* Excludes transactional cash and Border to Coast shareholding)

\*\* An additional investment was made in the Abridged European Property Growth Fund during the quarter

## 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	(4.31)	(4.34)	0.03
1 year	0.34	0.05	0.29
3 years*	5.74	5.75	(0.01)
5 years*	6.37	6.27	0.10
Inception**	8.16	8.31	(0.15)

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

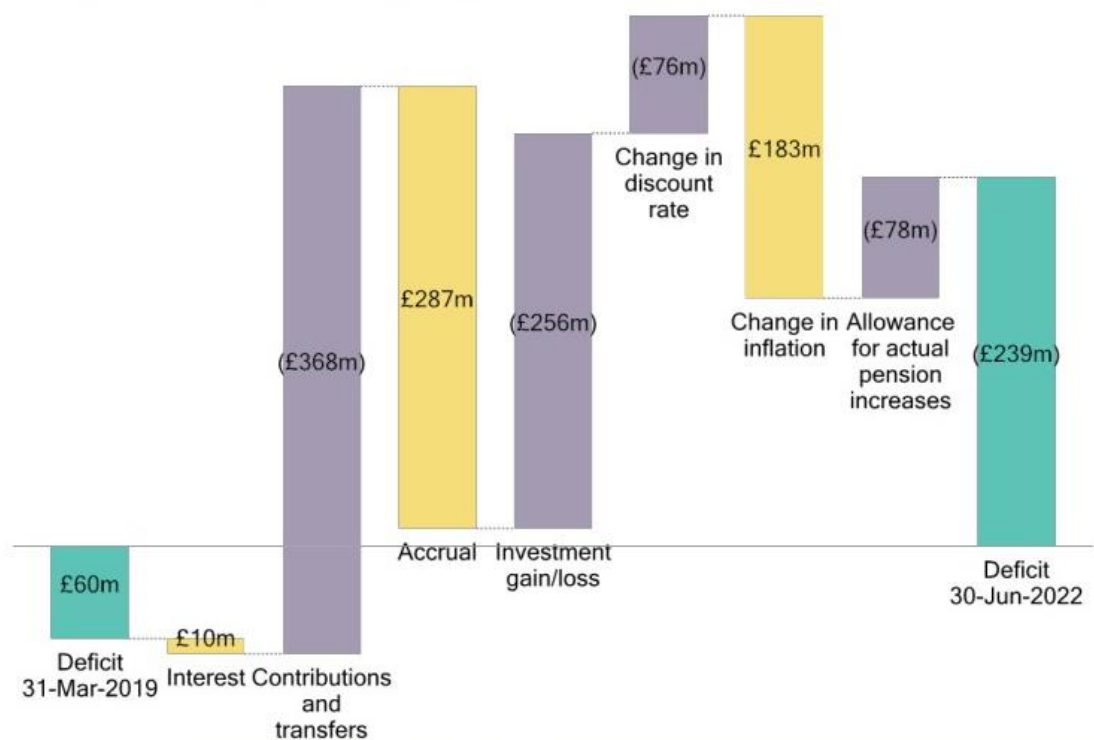
- 1.7 Over the quarter, the Fund produced a negative return of -4.31% (as measured by Northern Trust), outperforming the benchmark by 0.03%. The Fund was ahead of the benchmark over the one and five year periods, but slightly underperformed over 3 years and since inception. Details of managers' performance 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 30 June 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, 30 June 2022. 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 11.2% to 108.7%. 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 30 June 2022 the deficit, in real money, has fallen from £60m to a surplus of £239m. The investment gain has been positive, although this has been largely 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 2021. 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 – Training is a standing agenda item and opportunities are shared with the Pension Board as they arise. Pension Board members all complete a training log annually to record all training undertaken.*

### **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.

### **4. Risk Register Update**

4.1 The risk register had a full review at the July meeting where it had been refreshed to reflect the corporate risk reporting process. There have been no changes since that meeting to record on the register at this time.

### **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 or early in 2023.

5.2 Since the last Committee meeting, Border to Coast has held workshops and meetings with officers and advisors covering quarterly external and internal funds, property, alternatives, carbon metrics, and Responsible Investment.

### **Joint Committee Meetings**

- 5.3 There have been no meetings since the last Committee report. 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 had been invited.

### **Shareholder Matters**

- 5.4 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.
- 5.5 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.
- 5.6 There have been no shareholder resolutions since the last meeting.

### **Border to Coast Annual Report**

- 5.7 The Border to Coast Annual Report and Accounts has been completed and published. It can be found on their website at [Annual-Report-and-Accounts-2021-22.pdf \(bordertocoast.org.uk\)](https://www.bordertocoast.org.uk/Annual-Report-and-Accounts-2021-22.pdf).

## **6. DLUHC Consultation – Governance and the reporting of climate change risks**

- 6.1 On 1 September, DLUHC published the long-awaited consultation on reporting climate change risks for the LGPS, which can be found at this link: [Local Government Pension Scheme \(England and Wales\): Governance and reporting of climate change risks - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks). The consultation seeks views on policy proposals to require administering authorities to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate risks and opportunities. It also invites responses on proposals to disclose these in line with the recommendations of the international industry-led Taskforce on Climate-related Financial Disclosures (TCFD).
- 6.2 It proposes that LGPS administering authorities would calculate the 'carbon footprint' of their assets and assess how the value of each fund's assets or liabilities would be affected by different temperature rise scenarios, including the ambition to limit the

global average temperature rise to below 2 degrees set out in the Paris Agreement. It proposes that administering authorities should report on this annually, and that these reports will be summarised in an LGPS-wide report, including the overall carbon emissions of the scheme.

6.3 A summary of the proposals is set out below:

<b>Area</b>	<b>Proposal</b>
Overall	Each LGPS Administering Authority (AA) must complete the actions listed below and summarise their work in an annual Climate Risk Report.
Scope and Timing	The proposed regulations will apply to all LGPS AAs. The first reporting year will be the financial year 2023/24, and the regulations are expected to be in force by April 2023. The first reports will be required by December 2024.
Governance	AAs will be expected to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities. They must also maintain a process or processes by which they can satisfy themselves that officers and advisors are assessing and managing climate-related risks and opportunities.
Strategy	AAs will be expected to identify climate-related risks and opportunities on an ongoing basis and assess their impact on their funding and investment strategies.
Scenario Analysis	AAs will be required to carry out two sets of scenario analysis. This must involve an assessment of their investment and funding strategies. One scenario must be Paris-aligned (meaning it assumes a 1.5 to 2 degree temperature rise above pre-industrial levels) and one scenario will be at the choice of the AA. Scenario analysis must be conducted at least once in each valuation period.
Risk Management	AAs will be expected to establish and maintain a process to identify and manage climate-related risks and opportunities related to their assets. They will have to integrate this process into their overall risk management process.
Metrics	<p>AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below.</p> <p>Metric 1 will be an absolute emissions metric. Under this metric, AAs must, as far as able, report Scope 1, 2 and 3 greenhouse gas (GHG) emissions.</p>



**Area****Proposal**

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Metric 2 will be an emissions intensity metric. We propose that all AAs should report the Carbon Footprint of their assets as far as they are able to. Selecting an alternative emissions intensity metric such as Weighted Average Carbon Intensity (WACI) will be permitted, but AAs will be asked to explain their reasoning for doing so in their Climate Risk Report.

Metric 3 will be the Data Quality metric. Under the Data Quality metric, AAs will report the proportion the value of its assets for which its total reported emissions were Verified\*, Reported\*\*, Estimated or Unavailable.

Metric 4 will be the Paris Alignment Metric. Under the Paris Alignment Metric, AAs will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner.

Metrics must be measured and disclosed annually.

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**Targets**

AAs will be expected to set a target in relation to one metric, chosen by the AA. The target will not be binding. Progress against the target must be assessed once a year, and the target revised if appropriate. The chosen metric may be one of the four mandatory metrics listed above, or any other climate related metric recommended by the TCFD.

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**Disclosure**

AAs will be expected to publish an annual Climate Risk Report. This may be a standalone report, or a section in the AA's annual report. The deadline for publishing the Climate Risk Report will be 1 December, as for the AA's Annual Report, with the first Climate Risk Report due in December 2024. We propose that scheme members must be informed that the Climate Risk Report is available in an appropriate way.

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**Scheme Climate Report**

We propose that the Scheme Advisory Board (SAB) should prepare an annual Scheme Climate Report including a link to each individual AA's Climate Risk Report (or a note that none has been published) and aggregate figures for the four mandatory metrics. We also propose that a list of the targets which have been adopted by AAs. We are open to views as to whether any other information should be included in the Scheme Climate Report.

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Area	Proposal
Proper advice	We propose to require that each AA take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.

\*This refers to reported emissions calculated in line with the GHG Protocol and verified by a third-party.

\*\*This refers to reported emissions calculated in line with the GHG Protocol without verification by a third-party.

6.4 A summary of the twelve consultation questions asked is set out below:

Q1: Do you agree with our proposed requirements in relation to governance?

Q2: Do you agree with our proposed requirements in relation to strategy?

Q3: Do you agree with our suggested requirements in relation to scenario analysis?

Q4: Do you agree with our proposed requirements in relation to risk management?

Q5: Do you agree with our proposed requirements in relation to metrics?

Q6: Do you agree with our proposed requirements in relation to targets?

Q7: Do you agree with our approach to reporting?

Q8: Do you agree with our proposals on the Scheme Climate Risk Report?

Q9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

Q10: Do you agree with our proposed approach to guidance?

Q11: Do you agree with our proposed approach to knowledge, skills and advice?

Q12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

6.5 The document also suggests pension funds belonging to the same pooling organisation align their strategies and targets within the pool, and ensure the pool's strategy aligns with theirs, as this would enable Administering Authorities to commission their pool to conduct analysis for both pooled and non-pooled assets on a consistent basis with the pool's own reporting. As the Committee are aware, Border to Coast have set a net zero target of 2050, and will be publishing their roadmap later this year. In order to meet the required timeframe of the climate reporting, which will be for the 2023/24 financial year, it is recommended that the February training meeting is used for the Committee to consider its aspirations for net zero, and the implications and requirements to meet any agreed target.

6.6 The consultation is for a twelve-week period, closing on 24 November 2022. Discussion will be had with Border to Coast, Partner Funds, the Investment Consultant and the Actuary to consider the questions and officers will share the proposed responses with the Committee by email for comments. Once agreed, officers will submit the response through the on-line survey by the deadline date.

## 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 conference since the last meeting attended by the Chairman of the Committee, Steve Larter, the Head of Pensions and the Accounting, Investment and Governance Manager. This was the LGC Investment Summit held in Leeds on 8/9 September. The Accounting, Investment and Governance Manager was shortlisted for the LGC Rising Star award for Fund officers which was to be presented at this conference, but the presentation was cancelled.
- 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 108.7% funded as at the end of March, with an overall value of £2,904.5m.

### **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

### **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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