



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

Report to:	Pensions Committee
Date:	1 December 2022
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters for the quarter ending 30 September 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. Budget and Workplan Update
7. Investment Consultant Change
8. 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 proposed changes to the risk register.

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 £49.2m (-1.8%) to £2,855.3m on 30 September 2022.

Asset Allocation

- 1.2 Appendix A shows the Fund's distribution as at 30 September. 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.

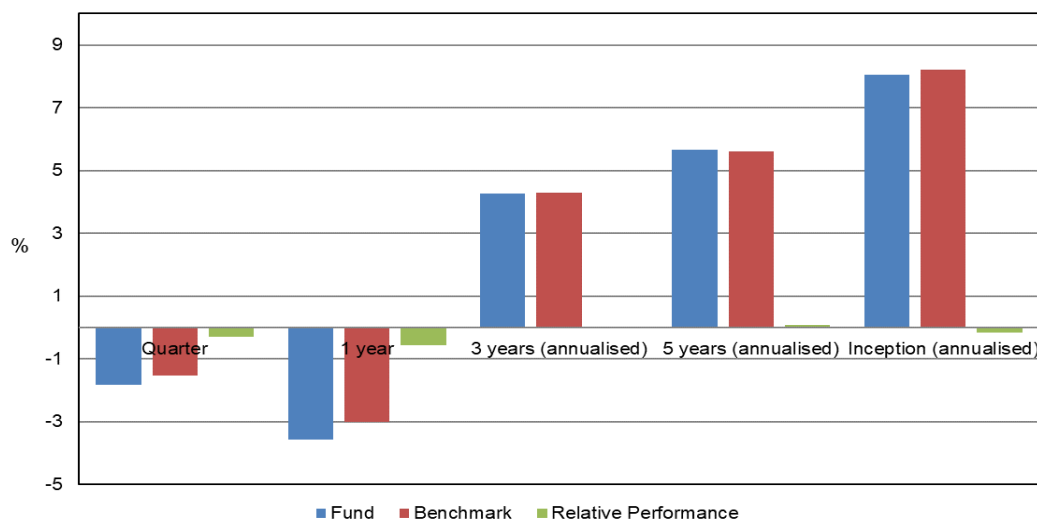
1.5 The Fund's overall position relative to its benchmark is set out in the table below.

Asset Class	Q3 2022 £m	Q2 2022 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	446.2	459.8	15.6	15.0	0.6
Global Equities	1,119.5	1,114.0	39.2	40.0	(0.8)
Alternatives	675.8	673.6	23.8	21.5	2.3
Property	255.4	269.0	8.9	10.0	(1.1)
Fixed Interest	288.8	324.5	10.1	12.5	(2.4)
Cash	69.6	63.5	2.4	1.0	1.4
Total *	2,855.3	2,904.5	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.



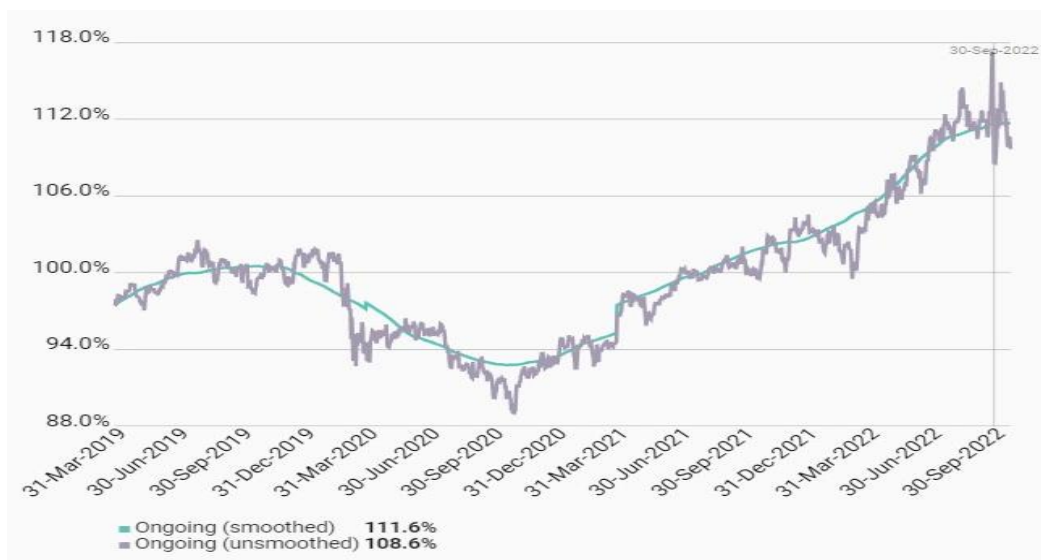
	Fund %	Benchmark %	Relative Performance %
Quarter	(1.82)	(1.52)	(0.30)
1 year	(3.58)	(3.02)	(0.56)
3 years*	4.27	4.30	(0.03)
5 years*	5.67	5.60	0.07
Inception**	8.04	8.20	(0.16)

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

- 1.7 Over the quarter, the Fund produced a negative return of -1.82% (as measured by Northern Trust), underperforming the benchmark by 0.3%. The Fund was ahead of the benchmark over the five-year period, but slightly underperformed over 1 year, 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 September 2022.

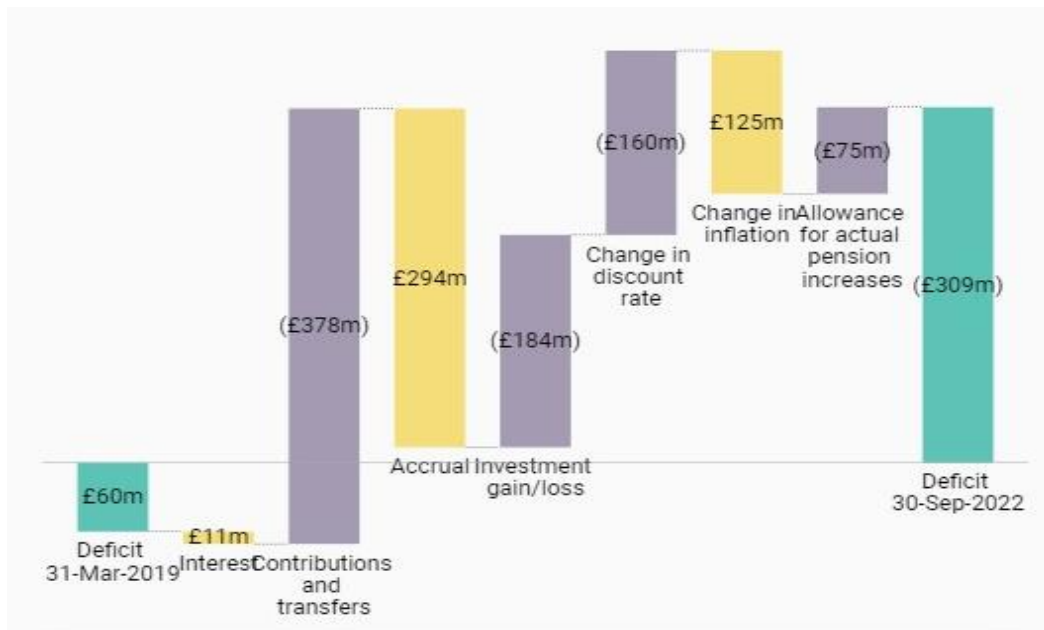
Funding Level

- 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 September 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 14.1% to 111.6%. 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 September 2022 the deficit, in real money, has fallen from £60m to a surplus of £309m. The investment gain has been positive, as has the movement in the discount rate, with an 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 and the member has been approached to complete it.

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

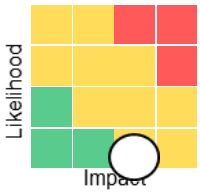
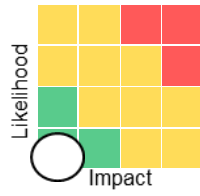
3.1 The Fund and those charged with its governance have a requirement to log and, where necessary, report breaches to the Pensions Regular. The Breaches Register attached at appendix D shows those breaches logged over the last twelve months. Since the last quarter end, one breach has been added, detailed 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.

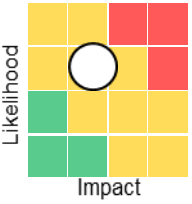
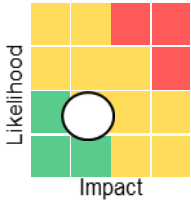
4. Risk Register Update

- 4.1 The risk register 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 Consideration was given to how the increasing inflation issue could be reflected in the risk register, and discussion was had with the Principal Risk Officer. It was agreed that from a pension fund perspective, this is an issue rather than a risk so it would not be included on the risk register as an item, however, it might affect some of the existing risks on the register.
- 4.3 Given these discussions, one risk has been added and one risk amended to reflect the current inflation environment.

Risk 15 added to the investment and funding risks, with substantial assurance, and a static direction of travel:

Description	Current risk score	Target risk score	Actions
<p>Cashflow - not enough income to meet pension payments due, as a result of:</p> <ul style="list-style-type: none"> • increasing pension payments due to inflation • reduction in active members and therefore contributions • increase in retirements and therefore pensioners • reduction in employers' secondary contributions due to higher funding levels 			<p>Existing</p> <ul style="list-style-type: none"> • Asset allocation review to increase income generating assets when required • Cashflow monitoring <p>New & Developing</p> <ul style="list-style-type: none"> • expanded cashflow monitoring with Actuary as part of 2022 valuation • work with Border to Coast on income options from their investment vehicles

Risk O3 in the operational risks has been expanded and updated, with substantial assurance, and a static direction of travel:

Description	Current risk score	Target risk score	Actions
<p>Increased risk of employers exiting as a result of:</p> <ul style="list-style-type: none"> • reducing employer covenant strength • unaffordability of scheme • reducing membership <p>Leading to:</p> <ul style="list-style-type: none"> • costly cessation surplus payments • deficit payments not meeting actual long-term liabilities • insolvency of employers 			<p>Existing</p> <ul style="list-style-type: none"> • Admission agreements • Pass through policy • Exit credit policy • Bonds • Employer covenant monitoring • Contribution monitoring • Employer communication • PFR roles <p>New & Developing</p> <ul style="list-style-type: none"> • Actuaries Employer Database being developed • Developing additional employer monitoring internally

5. Asset Pooling Update

Sub Funds

- 5.1 Work has continued with 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 in 2023.
- 5.2 The transitions to include an Emerging Market ex China manager and a China manager to the Global Equity Alpha Fund, as discussed at the July Committee, is planned to happen before the calendar year end. Officers have had workshops with the transition managers to understand the transition planning.
- 5.3 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, and Responsible Investment.

Joint Committee Meetings

5.4 The last Joint Committee was held on Thursday 29 September 2022, ahead of the Border to Coast Annual Conference in Leeds, and papers were shared with the Committee. The agenda items were:

The following items were included in the agenda:

- Joint Committee Election Results – Cllr Doug McMurdo was elected Chairman and Cllr Patrick Mulligan was elected Vice Chairman.
- Joint Committee Budget
- Responsible Investment Update
- Summary of Investment Performance and Market Returns
- Governance Review – more information is presented in paper 12 on this agenda
- Net Zero Implementation Plan
- TCFD Consultation
- Annual Reviews
 - UK Listed Equity
 - Overseas Developed Equity Sub-Fund
 - Alternatives
- CEO Report
- Performance Report
- Update on Emerging Matters

5.5 The next meeting of the Joint Committee is being held on 30 November, and papers will be shared with this Committee once they become available. Any questions or comments on the papers should be directed to Cllr Strengiel, Chairman of the Pensions Committee, who can raise them at the meeting.

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 the governance documents is nearing completion, and further information is included in paper 12 on this agenda.

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 one shareholder resolutions since the last meeting, which was approved by Lincolnshire:

- The appointment of Cllr David Coupe (Teesside Pension Fund) as a Partner Fund-nominate non-executive director of Border to Coast.

6. Budget and Workplan Update

6.1 The Pension Fund budget and business plan were brought to the Committee at the March 2022 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 2022/23 where progress is behind expectations.

6.2 The budget for operating the Lincolnshire Pension Fund for 2022/23 plus actual costs incurred up to the end of September 2022 are set out in the table below, with additional narrative at 6.3:

	Original Budget 2022/23 £'000	Q2 Actuals 2022/23 £'000	Variance Budget vs. Actuals Q2 £'000
<u>Administration Costs</u>			
- Charge from Shared Services Administrator	1,287	1,398	111
- Other	1	0	-1
<u>Investment Management Expenses</u>			
- Management Fees	9,500	-947	-10,447
- Performance Related Fees	1,500	-1,570	-3,070
- Other Fees	1,000	33	-967
<u>Oversight and Governance Costs</u>			
- Contracted Services	450	136	-314
- Recharge of Actuarial Services	-160	-24	136
- Recharge from Administering Authority (inc. Staffing Costs)	258	128	-130
- Border to Coast Governance Costs	315	304	-11
- Other Costs	30	5	-25
	14,181	-537	-14,718

6.3 Administration Costs: The annual administration charge from West Pension Fund has been received and paid. The actual cost is higher than the budget, as the number of members was higher 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 from the sector wide Cost Transparency Initiative, where investment managers provide information on indirect costs deducted from investments at source. For

directly charged fees billing from managers is in arrears. There are six months of costs and the performance fee for one manager from 2021/22 outstanding.

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 and 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.

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	2022/23 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. No new Committee members over the period. One 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 Overseas Property sub-fund (Q3/4) and further development of the UK property and alternative options.	On-going. Overseas Property now expected to launch later in 2023. Alternative solution agreed.
Alternative Investments	Working with Morgan Stanley, Border to Coast and the Investment Consultant, and the Committee, to agree the optimal solution for the management of the Fund’s alternative	Agreed to retain Morgan Stanley and amend the mandate to focus on a more concentrated private markets portfolio. Morgan Stanley to

	investments in the short to medium term.	continue with full service solution. IMA agreed from 1 October 2023.
Administration Service (including employer data quality)	<p>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.</p> <p>Work to be undertaken to look at the options for the administration service as the shared service arrangement comes to the end of its term in March 2024. Benchmarking exercise to be carried out in Summer 2022.</p>	<p>On-going – generally a good administration service provided.</p> <p>Work progressing on the reporting.</p> <p>Discussions with the limited potential alternative administrators being had, further work to be done in Q1 2023 to bring a recommendation paper to the Committee in March 2023.</p>
Annual Report and Accounting	<p>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.</p>	<p>Delayed receipt of opinion due to issues with the Council's accounts.</p> <p>Pension Fund accounts ready by deadline with an expected unqualified opinion to be received at the same time as the Councils.</p>
Responsible Investment (RI)	<p>Continued information and training for the Committee and Board to understand RI.</p> <p>Working closely with external managers and Border to Coast to ensure that it is embedded across all investment decisions.</p>	<p>On-going – improved stewardship reporting, close working with Border to Coast and Stewardship Code Statement submitted for 21/22 and awaiting FRC approval.</p>
Work by the Scheme Advisory Board (SAB)	<p>Participate in projects were possible and respond to any actions required – e.g. Good Governance Review, data quality.</p>	<p>Progress delayed due to other priorities in SAB. Consultation now expected early 2023.</p> <p>High level review undertaken, awaiting</p>

	Undertake a high-level governance review in Summer 2022 to identify potential gaps against the Good Governance proposed recommendations.	final guidance to do full review and take recommendations to Committee.
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	To successfully recruit to the Principal Investment, Accounting and Governance Officer post and integrate them into the team.	Recruitment unsuccessful. Changing to a career grade post to develop within the team. Expecting to recruit in 2023.
Triennial Valuation	Work with the Fund Actuary, Committee, Board, WYPF and employers to ensure good quality data is used for the triennial valuation, employer rates are stable and affordable and that the process is understood and communicated to all stakeholders. Produce an updated Funding Strategy Statement (FSS), after consultation with employers, for the statutory deadline of 31 March 2023.	Data sent to the Actuary in good condition and on time. Draft whole Fund results taken to the Committee's September meeting. Employer results sent out in November and employer meeting organised for 23 November. FSS sent to employers for consultation.

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 Investment Consultant Change

7.1 The Fund's current Lead Investment Consultant, David Morton, is leaving Hymans Robertson at the end of the year to move to pastures new. His colleague, Iain

Campbell, will remain as our Investment Consultant, with David Morton is being replaced by David Walker, Hymans Robertson's Chief Investment Officer.

7.2 Further information on David's background is set out below:

David is an actuary and Partner at Hymans and has been there for over 20 years. As Chief Investment Officer (CIO), David is responsible for setting the investment research agenda, developing thought leadership and understanding the investment needs across the firm. Prior to this, David was Head of LGPS Investments for over five years, developing our advice and services for public sector clients.

David currently advises five public sector clients and three private sector clients across the whole range of investment services, including the setting of high-level investment strategy, advice on detailed asset allocation and investment manager structures, managing manager procurement and selection exercises, evaluation and mapping of investment arrangements into LGPS pools, and monitoring investment arrangements. David also supports clients in carrying out reviews of a project basis and is currently helping the South Yorkshire Pension Fund with their strategic review incorporating net zero requirements.

David has significant experience in engaging with key LGPS stakeholders including Treasury and DLUHC, responding to consultations and regulatory change in the interests of our clients. He is a member of the England and Wales Scheme Advisory Board Investment Engagement and Governance Sub-committee.

David is Chair of Hymans Research Oversight Group, ensuring LGPS clients' interests are central to discussions when considering new investment ideas and whether they provide attractive investment opportunities for clients. This includes evolving the approach to responsible investments, developing policy at fund level but also engagement as an investment consultancy having become a founding member of the Investment Consultants Net Zero Initiative in 2021.

David's professional qualifications are:

- Fellow of the Faculty of Actuaries (2009); and
- Certificate in Investment and Finance (Faculty of Actuaries).

7.3 David Walker will attend the January meeting of this Committee with Iain Campbell, to provide the training requested on asset classes.

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 have been three conferences since the last meeting. The Border to Coast Annual Conference held in Leeds on 29/30 September was attended by the Chairman of the Committee, Cllr Mike Thompson, Andy Antcliff, and Fund officers. The Room151 Investment Forum was held in London on 2 November and was attended by the Head of Pensions, who also attended the Pension Managers Conference in Torquay on 15/16 November. Conference notes produced by Hymans Robertson are attached at appendices E and F for the two latter conferences.
- 8.3 The Committee and officers are requested to share information on relevant events they have participated in since the last Committee meeting.
- 8.4 And finally, Claire Machej, Accounting, Investment and Governance Manager, won the 2022 LGC Rising Star Award for Fund officers. This should have been presented at the LGC conference held at the beginning of September, but the awards were cancelled. There was some stiff competition for this award, and it is a great achievement for Claire.

Conclusion

9. The Fund is 111.6% funded (on a roll-forward basis) as at the end of March, with an overall value of invested assets of £2,855.3m.
10. There have been two proposed amendments to the Fund’s risk register, reflecting the impact of the changes in inflation and its outlook, that the Committee are asked to approve.

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	Conference Highlights – Room151 LGPS Investment Forum
Appendix F	Conference Highlights – Pension Managers Conference

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.

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