



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

Report to:	Pensions Committee
Date:	16 March 2023
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters for the quarter ending 31 December 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. Pensions Committee Academy Representative
7. Independent Investment Advisor
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) agree to consider what their independent advice requirements are, and how best to meet them, following the publication of the Good Governance review.

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 £71.5m (-2.5%) to £2,926.8m on 31 December 2022.

Asset Allocation

1.2 Appendix A shows the Fund's distribution as at 31 December. At an asset class level, property and fixed income are below their tolerance levels. Funds being committed to the Border to Coast Global Property Fund will help rebalance this underweight. The relative returns of equities and fixed income have contributed to the underweight position on fixed income. In addition, work being progressed on the strategic asset allocation may rebalance some of the weightings. Cash is overweight, as this is being used to fund expected drawdowns in property and infrastructure investments.

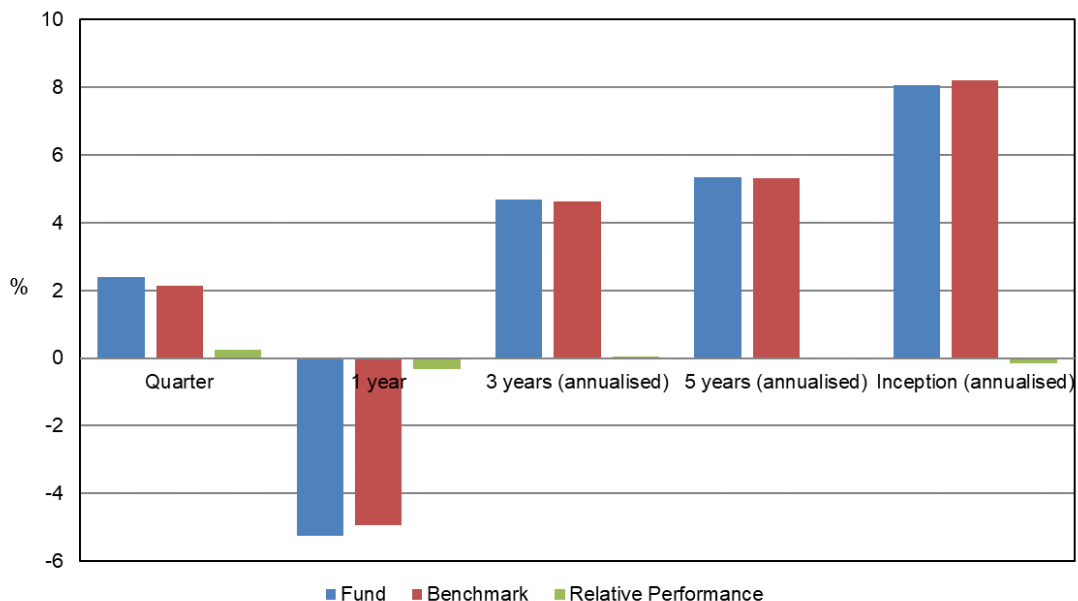
1.5 The Fund's overall position relative to its benchmark is set out in the table below.

Asset Class	Q4 2022 £m	Q3 2022 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	486.4	446.2	16.6	15.0	1.6
Global Equities	1,171.8	1,119.5	40.1	40.0	0.1
Alternatives	673.0	675.8	23.0	21.5	1.5
Property	230.5	255.4	7.9	10.0	(2.1)
Fixed Interest	300.7	288.8	10.2	12.5	(2.3)
Cash	64.4	69.6	2.2	1.0	1.2
Total *	2,926.8	2,855.3	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.



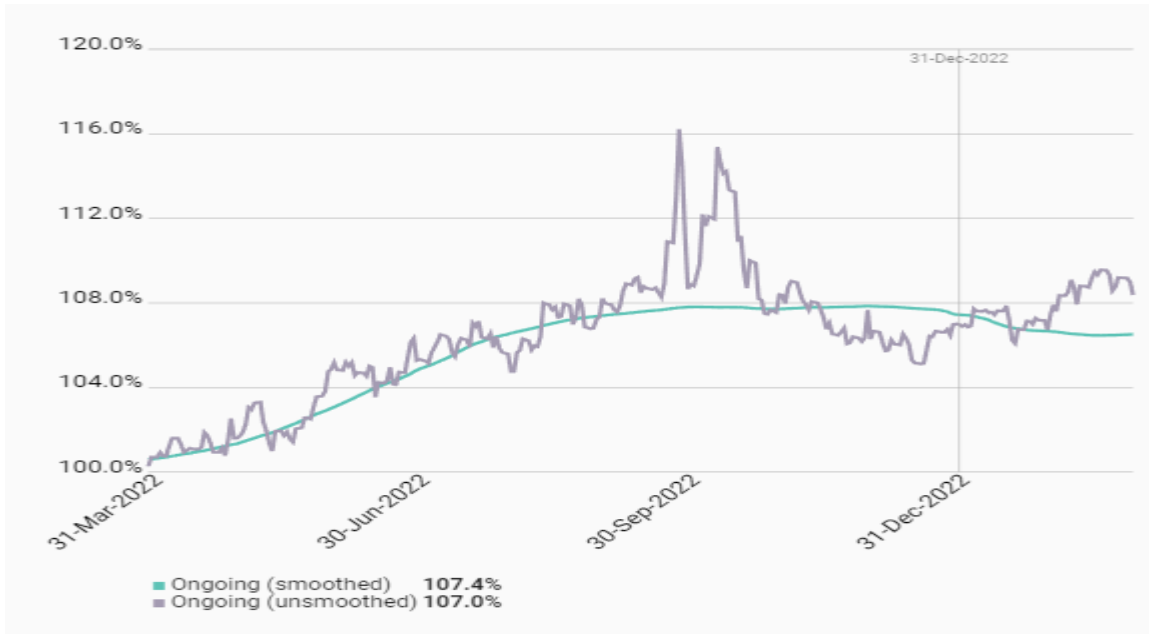
	Fund %	Benchmark %	Relative Performance %
Quarter	2.39	2.14	0.25
1 year	(5.25)	(4.93)	(0.32)
3 years*	4.69	4.63	0.06
5 years*	5.34	5.31	0.03
Inception**	8.05	8.2	(0.15)

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

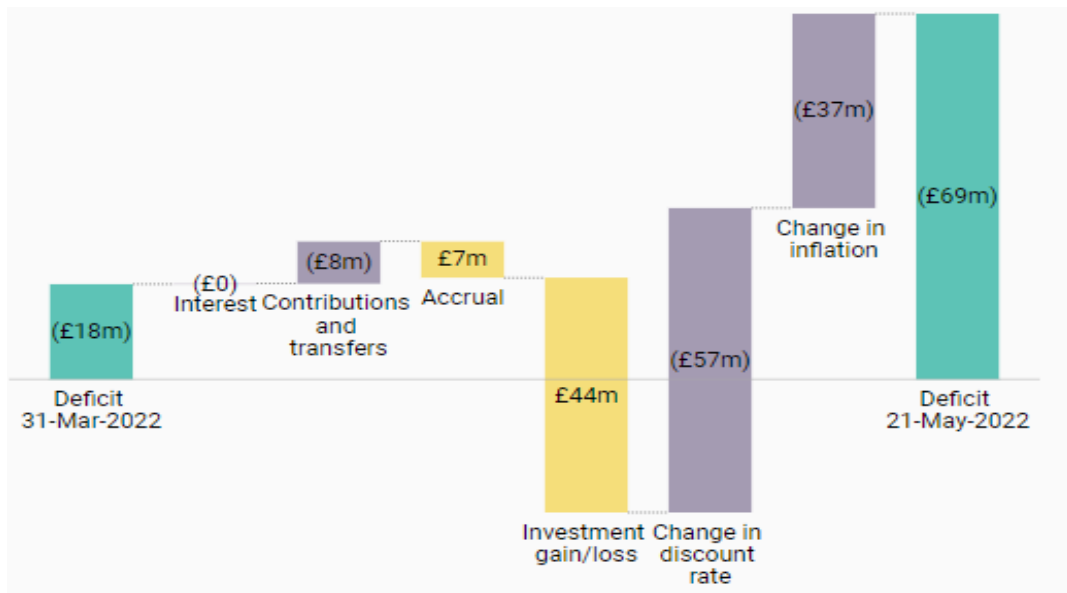
- 1.7 Over the quarter, the Fund produced a positive return of 2.39% (as measured by Northern Trust), outperforming the benchmark by 0.25%. The Fund was also marginally ahead of the benchmark over the three- and five-year periods, but slightly underperformed over 1 year and since inception. Details of 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 31 December 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 2022, to the current quarter end, 31 December 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, as at 31 March 2022, the funding level was 101%, with assets and liabilities measured at £3.01bn and £2.99bn respectively. Since the valuation date, the funding level has increased by 6.1% to 107.4%. 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 2022 to 30 December 2022 the surplus, in real money, has risen from £18m to £69m. The investment gain has been negative, but this has been offset by the change in discount rate and in inflation over the period. Since the valuation, contributions and transfers have been slightly 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, there have been two new members to the Pensions Committee who have a period of six months to complete their training, therefore this should be green by September 2023, if not earlier.

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. 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. There have been no changes to the risk register over this quarter.

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, completed as expected, as detailed at the January manager presentation from Border to Coast.

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 Wednesday 30 November 2022 and papers were shared with the Committee. The agenda items were:

The following items were included in the agenda:

- Appointment of a Scheme Member Representative

- Joint Committee Budget
- Governance Review - Update
- Responsible Investment Policies Annual Review 2022
- Responsible Investment Update
- Summary of Investment Performance and Market Returns
- Development of Investment Capabilities
- Alternatives Series 2b
- CEO Report
- Performance Report
- Update on Emerging Matters

5.5 The next meeting of the Joint Committee is being held on 21 March, and papers will be shared with this Committee once they become available. Any questions or comments on the papers should be directed to Cllr Strenziel, 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 recently updated following review and approved by Full Council in February 2023.

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 have been three shareholder resolutions since the last meeting, which were all approved by Lincolnshire:

- The Non-Executive Director reward framework update
- The Strategic Plan 2023-26 and supporting budgets for 2023/24
- The updated Articles of Association following the governance review

6 Pensions Committee Academy Representative

6.1 The Committee approved an additional member for the Pension Committee to represent the Academy Sector at its September meeting, which was approved through the constitution changes at the Full Council meeting in December.

6.2 Expressions of interest were requested from the academies and multi-academy trusts in the Fund, and three submissions were received. Following interviews, Tom Hotchin, Finance Director at Market Rasen De Aston School, was appointed, and he is welcomed today by the Committee.

7 Independent Investment Advisor

7.1 Peter Jones, the Committee's Independent Investment Advisor, is stepping down from his role as of 30 April 2023. Peter has worked with the Committee since 2011, providing advice and guidance on investment matters. The Committee would like to offer their thanks to Peter and wish him an enjoyable retirement.

7.2 In considering how this position is replaced, it is recommended that the Committee await the publication of the Good Governance review, which will set out guidance and requirements on how Pension Funds should be managed. This is now expected in the Summer or Autumn of 2023. Following that, it is suggested that the Committee consider what they require going forwards, and how best to meet those needs.

7.3 In the interim, Hymans Robertson will provide a market commentary report each quarter, and will be attending each Investment and Stewardship quarterly meeting to provide their professional advice and guidance as required.

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 conference since the last meeting, the LGA Annual Governance Conference held in Cardiff in January. The was attended by the Chairman of the Committee. Conference notes produced by Hymans Robertson are attached at appendix E.

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 Committee members have had access to the Hymans Robertson on-line Academy, LOLA, since September. Training progress is monitored monthly and a report will be included in the annual report and accounts, as required. Hymans have developed a new version of LOLA, that will be released shortly, and funds will need to transition across by the end of the calendar year. Further information on this will be brought to the July meeting of the Committee, as all training on the initial platform should be completed ahead of each fund transitioning to the new platform.

- 8.5 And finally, as requested, officers have organised for the next Committee meeting and training session on 8 June to be held at Border to Coast's offices in Leeds. This will enable the Committee to meet a wider range of staff from Border to Coast and have a better insight into the governance of the company. Officers will confirm timings and travel arrangements nearer to the time.

Conclusion

9. The Fund is 107.4% funded (on a roll-forward basis) as at the end of December, with an overall value of invested assets of £2,926.8m.
10. It is recommended that the Committee await the publication of the Good Governance review before deciding on the independent advice they require going forwards, to replace the position left by Peter Jones.

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 – LGA Governance Conference

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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