

Lincolnshire County Council's Pension Fund

Pension Fund Account - For the year ended 31 March 2011

	See Note	2009-10 £000	2010-11 £000
Contributions and Benefits			
Contributions Receivable	6	82,384	85,672
Transfers in	7	15,728	8,587
		98,112	94,259
Benefits Payable	8	59,998	61,771
Leavers	9	10,630	6,829
Administrative expenses	10	1,022	1,123
		71,650	69,723
Net additions from dealings with fund members		26,462	24,536
Returns on Investments			
Investment Income	11	28,808	22,015
Profit (Loss) on Forward Deals & Currency Deals	12	(1,876)	(4,137)
Change in Market Value of Investments	13	243,225	75,706
Investment management expenses	10	(3,315)	(3,185)
Net returns on investments		266,842	90,399
Net increase in the Fund during the year		293,304	114,935
Opening net assets of the Fund		910,063	1,203,367
Closing net assets of the Fund		1,203,367	1,318,302
Net Assets statement as at 31 March 2011			
Investments			
	13		
Fixed Interest Securities		150,664	0
Equities		712,573	781,950
Index Linked Securities		61,252	0
Pooled Investments:			
Property		135,929	145,272
Private Equity		82,780	95,206
Emerging Markets		21,923	0
Fixed Interest		0	136,352
Index Linked Bonds		0	23,621
Alternatives		0	92,064
Cash Deposits		13,931	20,190
Other Investment Balances	14	794	969
		1,179,846	1,295,624
Current Assets and Liabilities			
	15		
Cash Balances		16,657	11,880
Debtors		9,024	8,666
Long Term Debtors		0	3,837
Creditors		(2,160)	(1,705)
		23,521	22,678
Net Assets of the Fund at 31st March		1,203,367	1,318,302

Notes to the Pension Fund Account

1 Pension Fund Account

The Pension Fund is administered by the County Council on behalf of their own employees (except teachers), the District Councils and other bodies in the County. There were 19,043 contributors to the Fund at 31 March 2011 and 13,865 individuals were in receipt of pensions. A separate detailed Annual Report, including a statement of investment principles, is available from the Executive Director of Resources and Community Safety, Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL. A list of all scheduled bodies in the Fund is shown at note 21.

During the year, a new asset allocation for the investment of the Fund was agreed by the Pensions Committee, resulting in a number of manager changes. These are detailed below.

Asset allocation	Old allocation	New allocation
UK Equities	32.5%	20.0%
Global Equities	32.5%	40.0%
Private Equity	5.0%	0.0%
Property	11.5%	11.5%
Fixed Interest	18.5%	13.5%
Alternative Investments (incl. Private Equity)	0.0%	15.0%
	<u>100.0%</u>	<u>100.0%</u>

Manager Changes

Terminated

New Star - UK Equities
Martin Currie - UK Equities
Alliance Bernstein - Global Equities
Aviva - Fixed Interest
Pictet - Emerging Markets

Appointed

Neptune - Global Equities
Schroders - Global Equities
Blackrock - Fixed Interest
Goodhart - Fixed Interest
Morgan Stanley - Alternative Investments

Basis of Preparation

Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010-11, based on International Financial Reporting Standards (the Code), and relevant statute, and the 2007 Statement of Recommended Practice (Financial Reports of Pension Schemes). The publication includes guidance on how to apply International Financial Reporting Standards (IFRS's) and International Accounting Standards (IAS's) to local authority accounts.

These are the first set of accounts prepared under the Code, based on International Financial Reporting Standards.

The Financial Statements do not take into account liabilities to pay pensions and other benefits after the period end. These liabilities are dealt with through the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined by these valuations.

The accounting policies set out below have been applied consistently to all periods presented within these financial statements.

2 Accounting Policies

Investment Income

Dividends, interest, stock lending and other investment income have been accrued for in the accounts where amounts were known to be due at the end of the accounting period.

Contributions Receivable and Benefits Payable

Contributions receivable are included in the accounts in the year to which they relate and benefits payable are included in the accounts in the year of payment. Deficit funding payments are payable over a maximum of 20 years. Transfer values receivable and payments to and on account of leavers are accounted for in the year of receipt and payments respectively.

Expenses

These are accrued appropriately to ensure charges are incurred within the relevant accounting period.

Valuation of Assets

Investments are stated at market values at the close of business on the final working day of the financial year as follows:

UK listed securities are stated at either bid or last traded closing prices.

Overseas listed securities are stated at either bid or last traded closing prices.

The sterling value of investments held in foreign currencies at 31st March is calculated using the exchange rate at that date as shown in note 22.

Unit Trusts are stated at bid price from the most recent official valuation.

Other investments are stated at fair value, as estimated by the manager of the particular investment.

Transaction costs are included in the purchase and sale costs of investments and are identified in the notes to the accounts.

Prior Period Adjustments

The Code requires prior period adjustments to be made when material omissions or misstatements are identified (by amending opening balances and comparative amounts for the prior period). Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

The following disclosures will be made:

- the nature of the prior period error;
- for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and
- the amount of the correction at the beginning of the earliest prior period presented.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change. They do not give rise to a prior period adjustment.

There are no prior period adjustments to the accounts as at 31st March 2011.

Changes in Accounting Policies

Changes in accounting policy may arise through changes to the Code or changes instigated by the Council. For changes brought in through the Code, the Pension Fund will disclose the information required by the Code. For other changes we will disclose: the nature of the change; the reasons why; report the changes to the current period and each prior period presented and the amount of the adjustment relating to periods before those presented. If retrospective application is impracticable for a particular prior period, we will disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

There are no material changes to the statements arising from the transition to the IFRS-based code.

3 Actuarial Valuation

An actuarial valuation of the Fund undertaken as at 31 March 2010 indicated that the Fund's assets were £1,203.4m and covered 76% of the Funds liabilities. This compared with assets of £1,145.5m at the valuation as at 31 March 2007, which covered 86% of the Fund's liabilities. The main actuarial assumptions for the 2010 valuation were as follows:

	Nominal % per annum	Real % per annum
Investment Return		
- Equities	6.1	2.8
- Bonds	4.5	1.2
Rate of Pensionable pay inflation	5.3	2.0
Rate of Price inflation	3.3	

The Fund is valued using the projected unit method, which is consistent with the aim of achieving a 100% funding level. The changes in contribution rates resulting from the actuarial valuation as at 31 March 2010 were effective from April 2011. The contribution rates have been set by the Actuary to target a funding level, for most employers, on an ongoing basis of 100% over a period of 20 years. The next actuarial valuation will be undertaken as at 31 March 2013. A copy of the Fund Valuation report can be obtained from the Council's website.

4 Actuarial Present Value of Promised Retirement Benefits

Below is the report provided by the Fund's Actuary, Hymans Robertson, to provide the Actuarial present value of the promised retirement benefits, as required under the Code.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2010/11 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. This change is one of many which are being adopted by employers reporting under CIPFA guidance in the financial year 2010-11.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

In order for the Administering Authority to comply, I have provided the information required below.

Assumptions

The assumptions used are those adopted for the Administering Authority's FRS17/IAS19 reports at each year end as required by the code of practice. These can be found at the end of this report.

Balance sheet

Year ended	31 Mar 2011 £m	31 Mar 2010 £m
Present value of Promised retirement benefits	1,765	2,089

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2011 comprises £843m in respect of employee members, £274m in respect of deferred pensioners and £648m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the administering Authority only for preparation of the accounts of the pension fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2011 % p.a.	31 Mar 2010 % p.a.
Inflation/Pension Increase rate	2.8%	3.8%
Salary Increase Rate	5.1%	5.3%
Discount Rate	5.5%	5.5%

* Salary increases are 1% p.a. nominal for the year to 31 March 2011 and the year to 31 March 2012 reverting to 5.1% p.a. thereafter.

Mortality

As discussed in the accompanying report, life expectancy is based on the fund's Vitacurves with improvements from 2007 in line with the Medium Cohort and a 1% p.a. underpin.

Based in these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	females
Current Pensioners	21.2 years	23.4 years
Future Pensioners	23.7 years	25.7 years

* Future pensioners are assumed to be currently aged 45 as at 31 March 2010

Historic Mortality

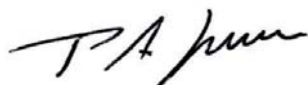
Life expectancies for the below year ends are based on the PFA92 and PMA92 tables. The allowance for future life expectancies are shown in the table below.

Year ended	Prospective Pensioners	pensioners
31 March 2010	year of birth, medium cohort and 1% p.a. minimum improvements from 2007	year of birth, medium cohort and 1% p.a. minimum improvements from 2007

Age ratings and loadings are applied to the above tables based on membership profile.

Commutation

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-april 2008 service and 63% of the maximum tax-free cash 2008 service.



Peter Summers FFA
10 May 2011

5 Pension Fund Investments 2010/11

Surplus funds are invested in a wide variety of UK and overseas companies, Government Securities, property and other investments, in line with a Statement of Investment Principles. The assets are managed in a number of active and passive investment portfolios. Investment performance is monitored by the Pensions Committee of the County Council.

Fund manager	31 March 2010		31 March 2011	
	£m	%	£m	%
EXTERNALLY MANAGED				
Alliance Bernstein	105	9	0	0
Invesco	207	18	260	20
Martin Currie	115	10	0	0
Neptune	0	0	81	6
New Star	41	4	0	0
Schroders	0	0	90	7
Threadneedle	67	6	92	7
Morgan Stanley	0	0	100	8
Blackrock	0	0	78	6
Aviva	179	15	0	0
Goodhart	0	0	81	7
Pictet	22	2	0	0
INTERNALLY MANAGED				
UK Index Linked Gilts	37	3	0	0
Pooled Investments:				
Property	136	11	146	11
Private Equity	83	6	96	7
UK Equity	186	16	268	21

The Pension Fund Statement of Recommended Practice was amended with effect from 2008/09 to require that managers report valuations at closing prices (either bid or last traded), rather than mid prices that had previously been used. The managers within the Pension Fund have reported their year end valuations at either bid or last traded, as detailed in the table below.

Fund Manager	Valuation Pricing
EXTERNALLY MANAGED	
Invesco	Bid
Neptune	Bid
Schroders	Bid
Threadneedle	Bid
Morgan Stanley	Bid
Blackrock	Bid
Goodhart	Bid
INTERNALLY MANAGED	
Pooled Investments:	
Property	Bid/Fair Value
Private Equity	Bid/Fair Value
UK Equity	Last Traded

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, JP Morgan. The total amount of stock on loan at the year-end was £21,410,082, and this value is included in the net assets statement to reflect the Funds continuing economic interest in the securities on loan. As security for the stocks on loan, the Fund was in receipt of collateral at the year end valued of £22,933,225, which represented 107.11% of the value of securities on loan.

Income received from stock lending activities, before costs, was £106,404 for the year ending 31 March 2011 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

6 Contributions Receivable

Contributions receivable are analysed below:

	2009-10	2010-11
	£000	£000
Employers		
Normal	46,237	45,027
Deficit Funding	13,606	17,373
Additional - Augmentation	2,516	3,502
Members		
Normal	19,701	19,477
Additional years	324	293
	82,384	85,672

These contributions are analysed by type of Member Body as follows:

	2009-10	2010-11
	£000	£000
Lincolnshire County Council	47,833	46,984
Scheduled Bodies	31,383	34,529
Admitted Bodies	3,168	4,159
	82,384	85,672

7 Transfers In

During the year individual transfers in from other schemes amounted to £8.587m (£15.728m in 2009/10).

There were no material outstanding transfers due to or from the Pension Fund as at 31 March 2011.

8 Benefits Payable

	2009-10	2010-11
	£000	£000
Pensions	46,212	48,108
Commutations & Lump Sum Retirement Benefits	11,932	12,137
Lump Sum Death Benefits	1,854	1,526
	59,998	61,771

These benefits are analysed by type of Member Body as follows:

	2009-10 £000	2010-11 £000
Lincolnshire County Council	32,989	32,955
Scheduled Bodies	25,221	26,570
Admitted Bodies	1,788	2,246
	59,998	61,771

9 Payments to and on account leavers

	2009-10 £000	2010-11 £000
Individual transfers to other schemes	10,657	6,820
Refunds to members leaving service	(27)	9
	10,630	6,829

10 Administrative and Investment Management Expenses

The Local Government Pension Scheme Regulations permit costs incurred in connection with the management of the investments and benefit administration to be charged against the Fund. Breakdowns of these costs are set out below:

	2009-10 £000	2010-11 £000
Benefit Administration Expenses	943	995
Actuarial & other Professional Charges	79	128
Administrative expenses	1,022	1,123
Investment, Management & Custody	3,229	3,094
Performance Measurement and	86	91
Other advisory charges		
Investment Management expenses	3,315	3,185

11 Investment Income

	2009-10 £000	2010-11 £000
Fixed Interest Securities	7,667	(533)
Equities	18,573	20,196
Index Linked Securities	1,042	257
Pooled Investments		
Property	1,060	1,510
Private Equity	0	1
Alternatives	0	116
Cash deposits	200	361
Stock Lending	257	106
Underwriting / Commission Recapture	9	1
	28,808	22,015

12 Profit (Loss) on Forward Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of the normal trading of the Fund's managers who manage multi-currency portfolios. It also includes the unrealised loss of £2.2m (loss of £3.9m in 2009/10) from the Fund's two Currency Overlay Managers and Alternative Investment Manager. The two Currency Overlay Managers each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco. This reduces the overall currency exposure risk to the Fund.

13 Investments

	Value at 31 March 2010 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31 March 2011 £000
Fixed Interest Securities	150,664	35,790	189,497	3,043	0
Equities	712,573	434,275	413,682	48,784	781,950
Index Linked Securities	61,252	21,080	82,507	175	0
Pooled Investments					
Property	135,929	4,294	834	5,883	145,272
Private Equity	82,780	14,617	10,501	8,310	95,206
Emerging Markets	21,923	0	22,493	570	0
Fixed Interest	0	134,036	17	2,333	136,352
Index Linked Bonds	0	22,366	0	1,255	23,621
Alternatives	0	98,236	11,525	5,353	92,064
	1,165,121	764,694	731,056	75,706	1,274,465
Cash Deposits	13,931				20,190
Other Investment Balances	794				969
Current Assets & Liabilities	23,521				22,678
	1,203,367	764,694	731,056	75,706	1,318,302

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £631,301 (£762,196 in 2009/10). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments. The amount of indirect costs is not separately provided to the scheme

A further analysis of the market value of investments is given below:

	31 March 2010		31 March 2011	
	£000	%	£000	%
Fixed Interest Securities				
UK Public Sector Quoted	48,109	4	0	0
UK Quoted	82,157	7	0	0
Overseas Public Sector Quoted	20,398	2	0	0
Overseas Quoted				
	150,664	13	0	0
Equities				
UK Quoted	360,140	31	301,112	23
Overseas Quoted	352,433	30	480,838	37
	712,573	61	781,950	60
Index Linked				
UK Public Sector	60,221	5	0	0
Other	1,031	0	0	0
	61,252	5	0	0
Pooled Investments				
Property	113,409	10	118,546	9
Private Equity	3,628	0	3,061	0
Fixed Interest	0	0	54,875	4
Index Linked Bonds	0	0	23,621	2
Alternatives	0	0	92,064	8
Total UK Pooled	117,037	10	292,167	23
Property	22,520	2	26,726	2
Private Equity	79,152	7	92,145	7
Fixed Interest	0	0	81,477	6
Emerging Markets	21,923	1	0	0
Total Overseas Pooled	101,672	10	200,348	15
Total Pooled Investments	218,709	20	492,515	38
Cash				
Short Term Loans/External Deposits	13,931	1	20,190	2
Total	1,157,129	100	1,294,655	100

An analysis of the type of pooled investment vehicles is given below:

	2009-10	2010-11
	£000	£000
Emerging Markets		
Unit Trusts	21,923	0
Property		
Unit Trusts	90,522	95,282
Other managed funds (LLP's)	45,407	49,990
Private Equity		
Other managed funds (LLP's)	82,780	95,206
Fixed Interest		
Other managed funds	0	136,352
Index linked gilts		
Other managed funds	0	23,621
Alternatives		
Other managed funds	0	92,064
Total Pooled Vehicles	240,632	492,515

It is required to disclose where there is a concentration of investment (other than in UK Government Securities) which exceeds 5% of the total value of the net assets of the scheme. Two investments that were not held last year fall into this category as follows:

Investment	2010-11	
	Value (£000)	% of net assets
Goodhart Absolute Return Bond Fund	81,477	6.1
Morgan Stanley Alternative Investments	100,337	7.6

14 Other Investment Balances

	2009-10 £000	2010-11 £000
Dividends Receivable	2,450	2,683
Bond Accrued Income	3,065	0
Recoverable Tax	387	761
Outstanding Foreign Exchange	(3,859)	(3,060)
Unsettled Trades - Purchases	(3,425)	(7,030)
- Sales	2,176	7,615
	794	969

15 Current Assets and Liabilities

Debtors are recorded in the accounts when income due to the Pension Fund, for example from sales of investments or dividend payments, has not actually been received. Debtors include a figure of £4,249,889 for contributions due from employers (2009/10 £4,663,147). Long term debtors are amounts due to the Pension Fund that will not be received within 12 months. The Pension fund only has one long term debtor, the Magistrates Court, who are funding the cost of their pensioner and deferred member liabilities over a 10 year period. This has arisen as a result of the Magistrates Courts leaving the Local Government Pension Scheme and moving to the Civil Service Scheme. The Government Actuaries Department agreed a final transfer figure in February 2011. Similarly, creditors are recorded where services supplied to the Pension Fund, or purchases of investments have been made by 31 March, but payment is not made until the following financial year. As required by the Code, creditors and debtors are split by type below:

	2009-10 £000	2010-11 £000
Debtors		
Central Government Bodies	173	649
Other Local Authorities	6,466	6,617
NHS Bodies	8	0
Public Corporations and Trading Funds	202	207
Other Entities and individuals	2,175	1,193
	9,024	8,666
Long Term Debtors		
Central Government Bodies	0	3,837
Other Local Authorities	0	0
NHS Bodies	0	0
Public Corporations and Trading Funds	0	0
Other Entities and individuals	0	0
	0	3,837
Creditors		
Central Government Bodies	(522)	(559)
Other Local Authorities	(257)	0
NHS Bodies	0	0
Public Corporations and Trading Funds	(912)	(992)
Other Entities and individuals	(469)	(154)
	(2,160)	(1,705)

16 Contractual Commitments

Investment commitments have been made to a number of pooled vehicles that make private equity or property investments. At the year end, the value of outstanding commitments to 24 investment vehicles amounted to £62,852,307.

17 Additional Voluntary Contributions

Scheme members may make additional contributions to enhance their pension benefits. All Additional Voluntary Contributions (AVC) are invested in a range of investment funds managed by the Prudential plc. At the year end, the value of AVC investments amounted to £9,052,803 and member contributions of £1,081,138 were received by the Prudential in the year to 31st March. The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

AVC Fund	With Profits Cash Acc Fund	Deposit Fund	Unit Linked Funds	Total
Opening value at 31 March 2010	7,660,448	596,857	469,888	8,727,193
Income				
Contributions	597,016	276,695	207,427	1,081,138
Transfers In	59,950	12,045	57,251	129,246
Interest & Bonuses	353,808	3,310		357,118
Expenditure				
Benefits	965,735	148,969	8,407	1,123,111
Transfers out	167,948	15,535	5,759	189,242
Charges			4,266	4,266
Market movement			74,727	74,727
Closing Value at 31 March 2011	7,537,539	724,403	790,861	9,052,803

18 Dividend Tax Claims

During the financial year 2006/07, the County Council lodged a number of claims with HM Revenue and Customs for the recovery of dividend tax credits relating to earlier years. The total value of the claims is £793,498 and relates to both Foreign Income Dividends paid by UK companies and certain dividends paid by overseas companies. The claims are based on interpretations of European Union law and a number of recent relevant judgements. The County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2009/10, the County Council lodged a claim with HM Revenue and Customs for the recovery of withholding tax suffered on manufactured overseas dividends. This is a tax imposed on overseas dividends due to the Pension Fund when the stock is on loan to another party, through the stock lending service provided by the Fund's custodian, JP Morgan. The value of the claim is approximately £714,000 and relates to the periods from 2004/05 to 2008/09. During the current year a top up claim was submitted for the year 2009/10, for approximately £278,000. As with the tax claim detailed in the paragraph above, the County Council is participating with other pension funds in progressing a legal test case to support the claims.

It is expected that resolution of the both of these claims will take a number of years and, if unsuccessful, the Fund could incur a share of the costs of the Commissioners of the Inland Revenue.

19 Related Party Transactions

In accordance with Financial Reporting Standard 8 'Related Party Disclosures' material transactions with related parties not disclosed elsewhere are detailed below:-

Under legislation, introduced in 2003/04, Councillors are entitled to join the Scheme. No Members of the Pensions Committee currently receive pension benefits from the Fund.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

The Treasury Management section of the County Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the County Council's cash and lent out in accordance with the Council's Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £22.1m and interest of £183k was earned over the year.

Lincolnshire County Council paid contributions of £35.5m into the Pension Fund during the year and all payments were received within agreed timescales.

20 Nature and Extent of Risks and How the Pension Fund Manages those Risks

The Pension Fund's activities expose it to a variety of financial risks, the key risks are:

Credit Risk - The risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.

The Pension Fund is exposed to credit risk through Securities Lending, forward currency contracts and its daily treasury activities.

The securities lending programme is run by the Fund's custodian, JPMorgan, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon type of transaction. This level is assessed daily to ensure it takes account of market movements. To further mitigate risk, JPMorgan provide an indemnity to cover borrower default, overnight market risks, falls on return of loaned securities and entitlements to securities on loan. Securities lending is capped by investment regulations and statutory limits are in place to ensure that no more than 25% of eligible assets can be on loan at any one time.

Forward currency contracts are undertaken by the Fund's two currency overlay managers - Record and HSBC Berkhart and Trinkaus. The responsibility for these deals therefore rests with the appointed managers. Full due diligence was undertaken prior to the appointment of these managers and they are regularly monitored and reviewed. Both managers are FSA regulated and meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009.

The Pension Fund's bank account is held at HSBC, which holds an AA long term credit rating (or equivalent) across three ratings agencies and it maintains its status as a well capitalised and strong financial organisation. The management of the cash held in this account is carried out by the Council's Treasury Manager, in accordance with an agreement signed by the Pensions Committee and the Council. The agreement stipulates that the cash is pooled with the Council's cash and managed in line with the policies and practices followed by the Council, as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services and detailed in its Treasury Management Practices

Liquidity Risk - The risk that the Pension Fund will have difficulties in paying its financial obligations.

The Pension Funds holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed equities - instruments that can be liquidated at short notice, normally three working days. As at 31st March 2011, these assets totalled £782m, with a further £13.3m held in cash. Currently, the Fund is cash flow positive each month (i.e. the contributions received exceed the pensions paid). This position is monitored regularly and reviewed at least every three years alongside the Triennial Valuation.

Market Risk - The risk that fair value of cash flows of a financial instrument will fluctuate due to changes in market process. Market risk reflects interest rate risk, currency risk and other price risk.

To mitigate market risk, the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories, having taken advice from the Fund's Investment Consultant. The management of the assets is split between a number of managers with different performance targets and investment strategies. Each manager is expected to maintain a diversified portfolio within their allocation. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to the Pensions Committee where they are monitored and reviewed.

The interest rate risk is the risk to which the Pension fund is exposed to changes in interest rates and relates to holdings in bonds. The Fund has a passive investment in bonds managed by Blackrock (£78m). To reduce the risk, the investment is diversified across three different bond types, with 50% of the holding in Corporate bonds, 30% in index linked bonds and 20% in overseas Government bonds. The active bond investment is in an absolute return fund, managed by Goodhart (£81m), aiming to out perform the return on cash by an excess of 4% per annum.

The currency risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. Of the Pension Fund's 40% allocation to Global equities, the allocation to Invesco, which is passively managed, has a currency overlay programme in place to reduce the currency risk. The remaining allocation is managed by active managers, who will take account of currency risk in their investment decisions.

The price risk is the risk of losses associated with the movement in prices of the underlying assets. By diversifying investments across asset classes and managers, the Pension Fund aims to reduce the exposure to price risk. Diversification of asset classes seeks to reduce correlation of price movements, whilst employing specialist managers enables the Fund to benefit from investment expertise. In addition to the Fund's own strategy, prescribed statutory limits are in place to avoid concentration of risk in specific areas.

An additional area of risk is in the outsourcing of services to third party service organisations.

The main service areas that the Pension Fund outsources, and the controls in place to monitor them, are:

Pensions Administration

This service is performed by Mouchel, alongside a Council wide contract. In addition to the contract management that the Council undertakes, regular meetings are held between Fund Officers and the Pensions Manager at Mouchel. The Pension Fund is also a member of the CIPFA benchmarking club for Pensions Administration, to allow service comparisons to be made with other Funds.

Custody

JPMorgan are the Pension Fund's appointed Custodian, with responsibility for safeguarding the assets of the Fund. JPMorgan are a global industry leader, with more than \$16.6 trillion in assets under custody. They have been the Fund's Custodian since 2004, and were reappointed at the end of their seven year contract in March 2011. Monthly reconciliations of holdings are performed to ensure that the Custodians records match those of the Managers. Regular meetings and conference calls are held to discuss performance, and quarterly key performance indicators are produced.

Fund Management

The Fund appoints a number of segregated and pooled fund managers to manage portions of the Pension Fund. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009. Managers report performance on a monthly basis to officers and performance is reported to the Pensions Committee on a quarterly basis. All segregated managers present in person to the Committee at least once a year. Regular meetings and discussions are held between officers and managers.

21 Scheduled Bodies Contributing to the Fund

County and District Councils

Lincolnshire County Council
Boston Borough Council
East Lindsey District Council
City of Lincoln Council
North Kesteven District Council
South Holland District Council
South Kesteven District Council
West Lindsey District Council

Police and Probation

Lincolnshire Police Authority
Lincolnshire Probation Service

Further Education Establishments

Boston College
Grantham College
Lincoln College
Stamford College

Parish and Town Councils

Aubourn & Haddington Town Council
Bourne Town Council
Cherry Willingham Parish Council
Crowland Parish Council
Deeping St James Parish Council
Gainsborough Town Council
Greetwell Parish Council
Heighington Parish Council
Horncastle Town Council
Ingoldmells Parish Council
Langworth Parish Council
Louth Town Council
Mablethorpe and Sutton Town Council
Market Deeping Town Council

Metheringham Parish Council
Nettleham Parish Council
North Hykeham Town Council
Saxilby & Ingham Parish Council
Skegness Town Council
Skellingthorpe Parish Council
Sleaford Town Council
Stamford Town Council
Sudbrooke Parish Council
Washingborough Parish Council
Woodhall Spa Parish Council

Internal Drainage Boards

Black Sluice Internal Drainage Board
Lindsey Marsh Drainage Board
North East Lindsey Internal Drainage Board
South Holland Internal Drainage Board
Upper Witham Internal Drainage Board
Welland and Deeping Internal Drainage Board
Witham First Internal Drainage Board
Witham Fourth Internal Drainage Board
Witham Third Internal Drainage Board

Academies

Sleaford St Georges
Skegness Grammar
West Grantham Academy
Giles Academy
Alford QE Grammar
Caistor Grammar
Branston Community Academy
Bourne Abbey C of E Primary
William Farr CE Comprehensive
Priory Federation of Academies
Trent Valley Academy

22 Exchange Rates Applied

The exchange rates used per £1 sterling as at 31 March 2011 were:

Australian Dollar	1.5500
Bermudian Dollar	1.6030
Brazilian Real	2.6076
Canadian Dollar	1.5593
Swiss Franc	1.4665
Chinese Yuan	10.4969
Czech Koruna	27.7390
Danish Krone	8.4221
Egyptian Pound	9.5528
Euro	1.1296
Hong Kong Dollar	12.4681
Indonesian Rupiah	13,957.6870
Israeli Shekel	5.5675
Japanese Yen	132.8525
Korean Won	1,758.3559
Mexico Peso	19.0867
Malaysian Ringit	4.8549
Norwegian Krone	8.8671
New Zealand Dollar	2.1015
Phillippino Peso	69.5680
Polish Zloty	4.5520
Swedish Krona	10.1120
Singapore Dollar	2.0205
Thai Baht	48.4812
Turkish Lira	2.4747
Taiwan Dollar	47.1371
US Dollar	1.6030
South African Rand	10.8351