County Offices
Newland
Lincoln
LN1 1YL

1 October 2014

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 9 October 2014** in **Committee Room One, County Offices, Newland, Lincoln LN1 1YL** at **10.00 am** for the transaction of business set out on the attached Agenda.

Yours sincerely

Tony McArdle
Chief Executive

Membership of the Pensions Committee
(8 Members of the Council and 3 Co-Opted Members)

Councillors M G Allan (Chairman), R J Phillips (Vice-Chairman), N I Jackson, B W Keimach, C E D Mair, Mrs S Rawlins, A H Turner MBE JP and 1 UK Independence Party Vacancy

Co-Opted Members

Mr A N Antcliff, Employee Representative
M G Leaning, District Councils Representative
Mr J Grant, Non-District Council Employers Representative

PENSIONS COMMITTEE AGENDA
THURSDAY, 9 OCTOBER 2014

Item	Title	Report Reference
1	**Apologies/replacement members**	
2	**Declarations of Members' Interests** *(Councillors are reminded that there is no need to declare an Interest if it has already been recorded on the register of disclosable pecuniary interests (DPIs) or notified to the Monitoring Officer in accordance with the regulations. However, Councillors declaring interests must state what the DPI is and accordingly not speak or vote on the item)*	
3	**Minutes of the previous meeting of the Pensions Committee held on 24 July 2014**	(Pages 5 - 12)
4	**Independent Advisor's Report** *(A report by Peter Jones, the Committee's Independent Financial Advisor, which provides a market commentary by the Committee's Independent Advisor on the current state of global investment market)*	(Pages 13 - 16)
5	**Pension Fund Update Report** *(A report by Jo Ray, Pensions and Treasury Manager, which provides updates on current issues and Fund matters over the quarter ending 30th June 2014)*	(Pages 17 - 30)
6	**Investment Management Report** *(A report by Nick Rouse, Investment Manager, which covers the management of the Lincolnshire Pension Fund assets, over the period from 1st April to 30th June 2014)*	(Pages 31 - 54)
7	**Pension Administration Report** *(The quarterly pensions administration report from the pension administrator, Mouchel. Graeme Hall, the Service Delivery Manager, will update the committee on current administration issues)*	(Pages 55 - 58)
8	**Manager Report - Invesco Asset Management - Global ex UK Enhanced Index Equity Portfolio** *(A report by Jo Ray, Pensions and Treasury Manager, which introduces a presentation from Invesco Asset Managers, who manage the Global ex UK Enhanced Index Equity Portfolio. Representatives of the manager will report on how our investments have performed)*	(Pages 59 - 62)
9	**Pension Fund External Audit ISA 260 Report** *(A report by Jo Ray, Pensions and Treasury Manager which brings the ISA 260 report to those charged with governance of the Pension Fund, submitted by the external auditors for the Council, KPMG)*	(Pages 63 - 76)

10 **Performance Measurement Annual Report**
(A report by Jo Ray, Pensions and Treasury Manager, which sets out the Pension Fund's longer term investment performance, for the periods ending 31st March 2014) (Pages 77 - 82)

11 **Asset Allocation**
(A report by Jo Ray, Pensions and Treasury Manager, which provides updates following the first meeting of the working group to discuss asset allocation, following the asset liability study undertaken by Hymans Robertson) (Pages 83 - 86)

Democratic Services Officer Contact Details

Name:	**Catherine Wilman**
Direct Dial	**01522 553788**
E Mail Address	catherine.wilman@lincolnshire.gov.uk

Please Note: for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting

- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details set out above.

All papers for council meetings are available on:
www.lincolnshire.gov.uk/committeerecords

Lincolnshire COUNTY COUNCIL
Working for a better future

PENSIONS COMMITTEE
24 JULY 2014

PRESENT: COUNCILLOR M G ALLAN (CHAIRMAN)

Councillors R J Phillips (Vice-Chairman), N I Jackson, B W Keimach, Mrs S Rawlins and A H Turner MBE JP

Other members: Andy Antcliffe (Employee Representative), Cllr M Leaning (District Council Representative)

Independent Adviser: Peter Jones

Officers in attendance:- Jo Ray (Group Manager, Pensions and Treasury), Nick Rouse (Investment Manager), Catherine Wilman (Democratic Services Officer)

9 APOLOGIES FOR ABSENCE/MEMBER REPLACEMENT

Apologies were received from Councillor C E D Mair.

10 DECLARATIONS OF MEMBERS' INTERESTS

Councillor M G Allan requested that a note be made in the minutes that he was currently a contributing member of the Pension Fund as a North Kesteven District Councillor and as a County Councillor.

Mr A Antcliff requested that a note should be made in the minutes that he was currently a contributing member of the Pension Fund as an employee of Lincolnshire County Council.

Councillor R J Phillips declared a personal interest in all items on the agenda as a member of the Upper Witham Internal Drainage Board and as a contributing member of the Pension Fund.

Councillor M Leaning stated he was now a pensioner and in receipt of a pension from the fund.

11 MINUTES OF THE PREVIOUS MEETING OF THE PENSIONS COMMITTEE HELD ON 29 MAY 2014

RESOLVED

That the minutes of the meeting held on 29 May 2014 be agreed and signed by the Chairman as a correct record.

12 INDEPENDENT ADVISOR'S REPORT

Consideration was given to a report by Peter Jones, the Committee's Independent Advisor, which provided a market commentary on the current state of global investment markets.

Inflation worldwide was too low to be healthy. It was currently below 2% in the US and UK inflation had gone down quite quickly in recent months. However, wage inflation had meant that China was not likely to be a cheap producer of goods any longer.

It was expected that the Bank of England base rate would begin to rise shortly.

RESOLVED

That the update be noted.

13 PENSION FUND UPDATE REPORT

Consideration was given to a report which updated the Committee on current issues and Fund matters over the quarter ending 31 March 2014.

It was noted that the Fund's ten largest single company investments were the same companies as the previous quarter. A request was noted for the full list of holdings to be produced for the Committee. It was agreed to present it at Committee once a year.

Voting had been relatively quiet over the quarter.

Councillor Jackson updated the Committee on the most recent meeting of the Local Authority Pension Fund Forum. The Scheme Governance Regulations were discussed.

There was discussion about the ongoing issue with IRFS reporting requirements and whether banks were fully showing debts on statements. There had been extensive discussion in the UK and US about the legality of the accounting process. The issue was currently in a pre-pre-judicial review stage.

It was highlighted that the contract with Mouchel to provide Pensions Administration services to the Fund would end on 31 March 2015. Committee members had already been notified by email that West Yorkshire Pension Fund had been chosen as the preferred provider for pension administration services from 1 April 2015. A project board and team had been set up to help manage the transfer.

Employers within the scheme had been informed, but not members of the Fund. Members should not experience any change in the service, except for different contact details.

RESOLVED

That the report be noted.

14 INVESTMENT MANAGEMENT REPORT

Consideration was given to a report which updated the Committee on current issues and Fund matters over the quarter ending 31 March 2014.

It was noted that the Fund's ten largest single company investments were the same companies as the previous quarter. A request was noted for the full list of holdings to be produced for the Committee. It was agreed to present it at Committee once a year.

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Employers within the scheme had been informed, but not members of the Fund. Members should not experience any change in the service, except for different contact details.

RESOLVED

That the report be noted.

15 PENSION ADMINISTRATION REPORT

Consideration was given to a quarterly report by the pension administrator from Mouchel. Stuart Duncombe, the Communications Coordinator was present to take the Committee through the report.

It was highlighted that six out of 21 performance indicators had dipped below 100% in the period March to May 2014. It was explained this had been due to the late issuance of the Transitional Regulations, which resulted in a period when the pensions unit was not in a position to calculate benefits and be confident that they were correct.

This issue was likely to cause a ripple effect in other indicators in the coming months.

RESOLVED

That the report be noted.

16 UK EQUITY PORTFOLIO ANNUAL REPORT

The Committee considered the annual report covering the performance of the UK Equity index-tracking portfolio, which was managed internally, for the year ended 31 March 2014. The Investment Manager summarised the report for Members

The objective of the portfolio was to deliver the total return of the MSCI UK IMI index +/-0.5% pa. This was to be achieved while maintaining a predicted portfolio tracking error within 0.5% of the index.

RESOLVED

That the report be noted.

17 ANNUAL REPORT ON THE FUND'S PROPERTY INVESTMENT

Consideration was given to a report which outlined the performance of the Fund's property and related investments for the year ended 31 March 2014. The Investment Manager summarised the report and the following points were noted:

- The UK Commercial Property Investments had returned above the benchmarks since inception;
- The retail industry had undergone huge changes due to online sales. There was a high chance that retail properties may not be used as shops again once their businesses had closed;

RESOLVED

That the report be noted.

18 PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS

Consideration was given to a report which provided the Committee with the draft Annual Report and Accounts for the Pension Fund.

The Pension Fund Annual Report and Accounts for the year ended 31 March 2014 would shortly be presented to the Audit Committee, along with the Council's Annual Report and Accounts, however the Council's external auditors KPMG had requested that the report be approved by the Pensions Committee first.

Once approved by the Pensions Committees, the report would be signed off by the auditors and taken to the September Audit Committee. Once opinion has been given, the Report and Accounts will be made available to all Councillors. Additionally, the report would be available on the Pension Fund website.

RESOLVED

That the draft Annual Report and Accounts be approved and that delegated authority be given to officers to add an addendum to the accounts to meet additional CIPFA reporting requirements, if needed.

19 PENSION FUND POLICIES REVIEW

A report was considered which brought to the Committee the main policies of the Pension Fund for review. As the Administering Authority of the Lincolnshire Pension Fund, the Pensions Committee was required to review a number of key policy documents annually, the last review being in July 2013.

There had been minimal changes to the policies in the intervening year and therefore the Committee approved the policies for another 12 months.

RESOLVED

That the policies be agreed and the report be noted.

20 PENSION FUND RISK REGISTER

The Committee considered a report which presented the Pension Fund Risk Register for annual review and it was reported that there were currently no red risks.

The end of the council's contract with Mouchel was approaching and the project managing the transfer to the new pensions administration provider had its own risk register.

If changes in risks were identified, they would be highlighted in a quarterly update. Changes in risk could be plotted on a risk matrix and Jo Ray offered to complete this for the Committee's next meeting, should any risks change.

RESOLVED

That the risk register be agreed.

21 DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT (DCLG) DRAFT SCHEME GOVERNANCE REGULATIONS

Consideration was given to the draft Local Government Pension Scheme Governance regulations issued by the Department for Communities and Local Government (DCLG) as part of the Public Services Pensions Act 2013 (PSPA 2013)

PSPA 2013 effected a number of changes to public service pension schemes, some of which would impact on the governance of such schemes and the changes would come into force in April 2015. Of the changes to be made:

- Local pensions boards (PSPA Boards) would be introduced whose role would be to assist in administering authorities to ensure compliance with the LGPS regulations;
- A national scheme advisory board would be set up, and be responsible for providing advice to the Secretary of State on the desirability of making changes to the LGPS.

Officers felt the Council's scheme already had good governance in place and the Local Pensions Boards required by the Act had a "one size fits all" structure, not all of which needed to be implemented by the Council but was required to be in place nevertheless.

The Pensions Committee would continue as normal and its role would not change; the Local Pensions Board would run parallel to it.

The consultation provided two alternatives relating to how procedures would be established for the Local Pensions Boards and was asking authorities to indicate their preferred method:

- For local authorities, Part 6 of the Local Government Act could be made to apply to the LPB as if it was a local authority committee, or
- Each administering authority determined its own procedures.

The Group Manager, Pensions and Treasury, would respond to the consultation on behalf of the committee and Members' views were sought to feed into the response. The following comments were made:

- It was felt that potential Board members would be hard to meet the criteria set out in the Act;
- It was suggested that an East Midlands pension board would be more effective than lots of smaller local ones. This view could be incorporated into the response, however the Act specifically required a Local Pensions Board for each Fund.

The Committee was taken through the suggested responses to the consultation, as detailed in the report. The Committee agreed with all suggested responses and added the following comments:

- Response 25 – Employee events were slightly too infrequent. This had been the feedback after the previous employee event, with a request to have more of them;
- Response 27 – The training schedule provided for the Committee was very comprehensive and setting up a minimum level of required knowledge would be a good suggestion. Training in pensions related issues was an ongoing process which could take many years.

RESOLVED

1. That the report be noted and the suggested response to the consultation be agreed;

2. That the Assistant Director of Resources and the Group Manager, Pensions and Treasury work with Democratic Services and legal Services Officers to progress the requirements.

22 REVIEW OF INVESTMENT STRATEGY

A report was considered which introduced the review of the investment strategy by Hymans Robertson, the Fund's Investment Consultant, following the 2013 Triennial Valuation.

Following the reappointment of Hymans Robertson in December 2013, the company was asked to undertake an asset liability study based on the 2013 Triennial Valuation.

The setting of the high level asset allocation was the most important investment decision the Committee was required to make. Generally 80% of the return of the fund was generated by the asset allocation, with the remaining 20% generated by the performance of managers.

A presentation was received from Paul Potter from Hymans Robertson which provided a series of options to the Committee looking at a range of funding level outcomes, based on the ratio of growth assets to low risk assets.

A recommendation of the report was to create a working group of officers, committee members and the Independent Advisor to consider the detailed asset allocation for the Fund and to report recommendations to the Committee.

Councillor N I Jackson volunteered to be a member of the working group and Jo Ray would email the Committee to seek further members.

RESOLVED

1. That the high level asset allocation strategy for the fund be agreed;

2. That a working group of officers, committee members and the Independent Advisor be set up to consider the detailed asset allocation for the Fund and to report recommendations to the Committee.

The meeting closed at 12.50 pm

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**09 October 2014**
Subject:	**Independent Advisor's Report**

Summary:

This report provides a market commentary by the Committee's Independent Advisor on the current state of global investment markets.

Recommendation(s):

That the Committee note the report.

Background

INVESTMENT COMMENTARY

October 2014

Global equity markets edge higher.

Global markets have edged higher in the last quarter- albeit reluctantly, led by the USA, which recently reached an all-time high. The economic news has been perfectly acceptable in the US and the UK but much less good in Europe where the growth rate continues to deteriorate. The central banks of the world have generally continued their easy money policy, whilst in the US and the UK, they have been warning that interest rates will probably need to rise in 2015. Fixed interest markets have seen prices little changed in response. Investors seemingly agree with the bankers that growth in the world economy remains fragile, that there is not going to be an abrupt reversal of such policies and that equities are the least bad place to be invested. Hence, the reluctance to push equities decisively higher.

Other indicators that are often correlated with improving economic prospects are inclined to be mildly negative. The obvious one is the rate of inflation in the principal global economies; these have declined pretty much everywhere in the last few months. Commodity prices have also been weaker; a particularly sensitive one is the oil price. This has fallen the best part of 10% in the past quarter (despite worries about continuity of supply because of Arab conflicts). A range of other commodities have also fallen similar amounts.

All in all, investors have little confidence in a robust economic future, outside the US and the UK, and are concerned about how durable it is in those two countries beyond 2015.

Opportunities for equities to fall?

All of the above having been said, it is fair to say that markets have had plenty of opportunities to be “spooked” into a significant set-back. There was a bout of jitters in late July, but short lived. The list of opportunities embraces a range of outbreaks of violence in the Arab world, the Ukraine, the Ebola outbreak in West Africa, the Scottish independent vote, to name a handful. Of these, perhaps the Isis uprisings are the most worrying because they are spreading broadly across the Muslim community to include large parts of North Africa as well as the Arab world, without any clears means of reversal.

Prospects for 2015.

As 2014 draws to a close, investors will, I think, begin to focus their attention more specifically on the coming rises in interest rates in the US and the UK. These are the two countries where forecast economic growth in that year is likely to be around 3%. Globally, the recovery remains fragile, but what separates the US and UK from the rest of the world is that they are the only two regions where unemployment is falling. As yet though, there is no sign of wage inflation above price inflation in either country. But central bankers never forget the old adage that their prime role is “to take away the punch bowl before the party gets out of hand”. So they will act as pre-emptively as they dare. The US Federal Reserve does also have a duty to promote adequate economic growth as well as to control price inflation.

Herein lies the core of the dilemma that investors will have to contend with in 2015. There will be a difficult transition from equity markets that have been driven, for some five years, by burgeoning liquidity to one that will depend on economic performance and specifically on growth in company earnings. It goes without saying that there are absolutely no precedents for this. Markets will hope that the judgement of the Fed and of the Bank of England is exemplary, in this respect. Opportunities for mis-judgements and false steps are obvious, though.

Confidence in continuing economic growth in the US and the UK beyond 2015 will be tied to prospects in the rest of the world. Inter-global trade is very important to global economic activity. Signs here are not especially encouraging. Emerging markets (dominated by China, Russia, India and Brazil) have struggled this year with little sign of any improvement. A recent IMF report suggested that long term economic prospects for Emerging Markets have fallen from 7% per annum to 5% per annum. Still robust, admittedly, but a significant reduction in their contribution to global economic activity.

In Europe, the news on inflation and growth is disappointing. More worrying is the lack of any political consensus on what to do about it. The intellectual bankruptcy of the European Union is becoming a major cause for concern. Neither higher growth nor higher inflation will support European equities in 2015: only abundant central bank liquidity. Investors are confidently relying on the fact that Mr Draghi is far too frightened to remove the “punch bowl”; after all, there is no party!

In summary, the potential for a significant setback in equity markets is rising. It is not yet, in my view, probable.

A positive feature of markets.

Now that the Lincolnshire Pension Fund’s actuarial valuation is complete, attention of the committee will turn to asset allocation. Since the financial crisis of 2008/9, equity markets have been driven largely by “macro events” rather than “micro matters”, as is usually the case. The good news is that there is a trend back towards normality. In particular, the correlation of individual stocks to the market indices has started to fall back from the unprecedentedly high levels of the past several years. That means that there will be more opportunities for individual stock picking and hence for active equity management.

On the subject of asset allocation, members may have noticed the recent news that the California Public Employees Retirement System (“Calpers”) has announced that it is ceasing to invest in hedge funds, seemingly, on cost grounds. It is not only in the UK that increased attention is being devoted to the fund management costs of public sector schemes. The long awaited LGPS review by DCLG will anyway focus the committee’s attention on costs of investment, as well as the financial benefits of diversification of assets.

Peter Jones
25th September 2014.

Conclusion

Consultation

a) Policy Proofing Actions Required

n/a

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 Peter Jones, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

Lincolnshire COUNTY COUNCIL
Working for a better future

Report Reference:
Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**09 October 2014**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Committee on current issues and Fund matters over the quarter ending 30th June 2014.

Recommendation(s):

That the Committee note this report.

Background

1 Fund Summary

1.1 Over the period covered by this report, the value of the Fund rose in value by £31.1m (2%) to £1,618.7m on 30th June 2014. Fund performance and individual manager returns are covered in the separate Investment Management report, item 6 on the agenda.

1.2 Appendix A shows the Fund's distribution as at 30th June. All asset classes are within the agreed tolerances. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 1.7%

UK Equities overweight by 0.2%

Global Equities overweight by 1.5%

Underweight Alternatives by 0.7%

Underweight Property by 0.2%

Underweight Bonds by 1.1

Overweight Cash by 0.4%

All movements in weight are due to the relative performance of the different asset classes.

1.3 The purchases and sales made by the Fund's portfolio managers over the period (including those transactions resulting from corporate activity such as take-overs) are summarised in Appendix B.

1.4 Appendix C shows the market returns over the three and twelve months to 30th June 2014.

1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 30th June, accounting for 9.4% of the Fund, which compares with 9.4% last quarter. Equity holdings in the Fund are now shown on the Pensions website, and updated on a quarterly basis.

	Company	**Total Value £M**	**% of Fund**
1	ROYAL DUTCH SHELL	25.9	1.6
2	HSBC	19.9	1.2
3	BRITISH AMERICAN TOBACCO	18.7	1.1
4	BP	16.0	1.0
5	GLAXOSMITHKLINE	13.6	0.8
6	UNILEVER	13.0	0.8
7	DIAGEO	13.0	0.8
8	NESTLE	12.1	0.7
9	APPLE	11.1	0.7
10	RECKITT BENCKISER	10.8	0.7
	TOTAL	**154.1**	**9.4**

1.6 Appendix D presents summarised information in respect of votes cast by the Manifest Voting Agency, in relation to the Fund's equity holdings. Over the three months covered by this report, the Fund voted at 526 company meetings and cast votes in respect of 8,532 resolutions. Of these resolutions, the Fund voted 'For' 6,175, 'Against' 2,085 and abstained on 58 and withheld votes on 216.

1.7 A breakdown of the issues covered by these resolutions together with an analysis of how the votes were cast between 'For', 'Abstain' or 'Against' a resolution is given in Appendix D. Votes were cast in accordance with the voting template last reviewed at the 9th January 2014 meeting of this Committee, and effective from 1st March 2014.

2 Local Authority Pension Fund Forum

2.1 The Fund participates in the Local Authority Pension Fund Forum that has a work plan addressing the following matters:

- **Corporate Governance** – to develop and monitor, in consultation with Fund Managers, effective company reporting and engagement on governance issues.

- **Overseas employment standards and workforce management** - to develop an engagement programme in respect of large companies with operations and supply chains in China.

- **Climate Change** - to review the latest developments in Climate Change policy and engage with companies concerning the likely impacts of climate change.

- **Mergers and Acquisitions** - develop guidance on strategic and other issues to be considered by pension fund trustees when assessing M&A situations.

- **Consultations** – to respond to any relevant consultations.

2.2 The latest LAPFF newsletter can be found on their website at www.lapfforum.org. During the quarter, the Forum:

- Attended Barclays Annual General Meeting (AGM) to challenge the company over governance and executive remuneration. Executive remuneration was also a focus in questions posed at the AGMs of Glaxosmithkline, G4S, WPP and Smith & Nephew.

- Spoke in support of the resolution co-filed at the National Express AGM on human capital management at US operations.

- Met with BP and Glencore to discuss carbon management and carbon asset risk. Addressed the BP chair on diversification into low carbon energy sources at the company's AGM.

- Questioned the chair of Rio Tinto at the company AGM on business strategy regarding the risk of thermal coal becoming a stranded asset and the chair at Royal Dutch Shell's AGM on approach to carbon asset risk management.

- Asked the chair of Anglo-American at the AGM about social, economic and community risk management moving from labour intensive mining operations to surface operations.

- Issued voting alerts on Glencore and Travis Perkins due to lack of board diversity. Other alerts in the quarter focussed on executive remuneration and carbon mitigation.
- Met with Stephen Hester of RSA Insurance Group to discuss the accounting irregularities in Ireland and company proposals for strategy going forward;

- Met with the UK Listing Authority regarding Essar Energy's proposal to delist from a premium listing and the implications for governance compliance.

2.3 Members of the Committee should contact the author of this report if they would like further information on the Forum's activities.

3 Treasury Management

3.1 At the April 2010 meeting, the Pensions Committee agreed a Service Level Agreement with the Treasury team within Lincolnshire County Council, for the continued provision of cash management services to the Pension Fund.

3.2 The Treasury Manager has produced the quarterly report detailing the performance of the cash balances managed by the Treasury. This shows an average cash balance of £4.6m. The invested cash has outperformed the benchmark from 1st April 2014 by 0.24%, annualised, as shown in the table below, and earned interest of £7.8k.

3.3 A new weighted benchmark (combining both 7 day and 3 month LIBID) has been adopted by the Council, replacing the 7 Day LIBID benchmark. This new benchmark is more reflective of the investment portfolio maturity profile.

Pension Fund Pooled Balance – to June 2014				
Pension Fund Average Balance £'000	**Interest Earned £'000**	**Cumulative Average Yield Annualised %**	**Cumulative Weighted Benchmark Annualised %**	**Performance %**
4,584.6	7.8	0.64	0.40	0.24

4 Pensions Administration

4.1 The contract with Mouchel to provide Pensions Administration services to the Fund ends on 31st March 2015. Committee members were notified by email on 15th May that West Yorkshire Pension Fund (WYPF) was the preferred provider for pensions administration services from 1st April 2015.

4.2 The change in Pensions Administration provider is part of the Future Delivery of Support Services programme (FDSS). A project board and team have been set up to work with WYPF and manage the transition. After much work from the project and legal teams on both sides, the collaboration agreement was signed in August.

4.4 The partnership will be governed through a collaboration board, comprising of officers from both Funds. The first meeting of the collaboration board was held in September, agreeing the terms of reference. This Board will report back to the Pensions Committee on a regular basis.

4.5 WYPF will base a satellite office in Lincoln, co-locating with the LCC Pensions Team, and all staff at Mouchel transferring to WYPF will be based here. A very successful "meet and greet" session was held in September to introduce the current Mouchel staff to the WYPF team.

5 Risk Register Update

5.1 There have been no new risks added to the risk register over the quarter. A separate risk register is being kept as part of the pensions administration transition to WYPF.

5.2 All controls for existing risks are being carried out and there have been no changes to the existing risk levels.

Conclusion

7.1 This reporting period saw the value of the Fund grow, increasing by £31.1m to close at £1,618.7m. At the end of the period the asset allocation, compared to the strategic allocation, was;

- overweight equities and cash;
- underweight alternatives, fixed interest and property.

7.2 The collaboration agreement with WYPF to manage the pensions administration service from April 2015 has been signed. The transition is being managed as part of the FDSS programme.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Distribution of Investments
Appendix B	Purchases and Sales of Investments
Appendix C	Changes in Market Indices
Appendix D	Equity Voting Activity

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.

APPENDIX A

DISTRIBUTION OF INVESTMENTS

INVESTMENT	30 June 2014			31 March 2014			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
UK Index Tracker	326,491,228	32.7	20.2	318,959,025	32.6	20.1	20.0	+/- 1.5%
TOTAL UK EQUITIES	**326,491,228**		**20.2**	**318,959,025**		**20.1**	**20.0**	
GLOBAL EQUITIES								
Invesco	338,749,574	33.9	20.9	333,440,938	34.1	21.0	20.0	+/- 1.5%
Threadneedle	89,614,986	9.0	5.5	87,978,532	9.0	5.5	5.0	+/- 1%
Schroder	86,622,173	8.7	5.4	84,539,978	8.6	5.3	5.0	+/- 1%
Neptune	80,183,778	8.0	5.0	78,632,843	8.0	5.0	5.0	+/- 1%
Morgan Stanley	76,514,346	7.7	4.7	74,714,992	7.6	4.7	5.0	+/- 1%
TOTAL GLOBAL EQUITIES	**671,684,857**		**41.5**	**659,307,283**		**41.5**	**40.0**	
TOTAL EQUITIES	**998,176,086**	**100**	**61.7**	**978,266,308**	**100**	**61.6**	**60.0**	**+/- 5%**
ALTERNATIVES	**230,870,134**		**14.3**	**228,023,708**		**14.4**	**15.0**	**+/- 1.5%**
PROPERTY	**182,550,960**		**11.3**	**176,081,336**		**11.1**	**11.5**	**+/- 1%**
FIXED INTEREST								
Goodhart F & C	102,127,622	50.7	6.3	100,617,139	50.7	6.3	6.75	+/- 1%
Blackrock	99,231,326	49.3	6.1	97,976,303	49.3	6.2	6.75	+/- 1%
TOTAL FIXED INTEREST	**201,358,948**	**100**	**12.4**	**198,593,442**	**100**	**12.5**	**13.5**	**+/- 1.5%**
TOTAL UNALLOCATED CASH	**5,697,331**		**0.4**	**6,542,406**		**0.4**	**0.0**	**+ 0.5%**
TOTAL FUND	**1,618,653,458**		**100**	**1,587,507,200**		**100**	**100**	

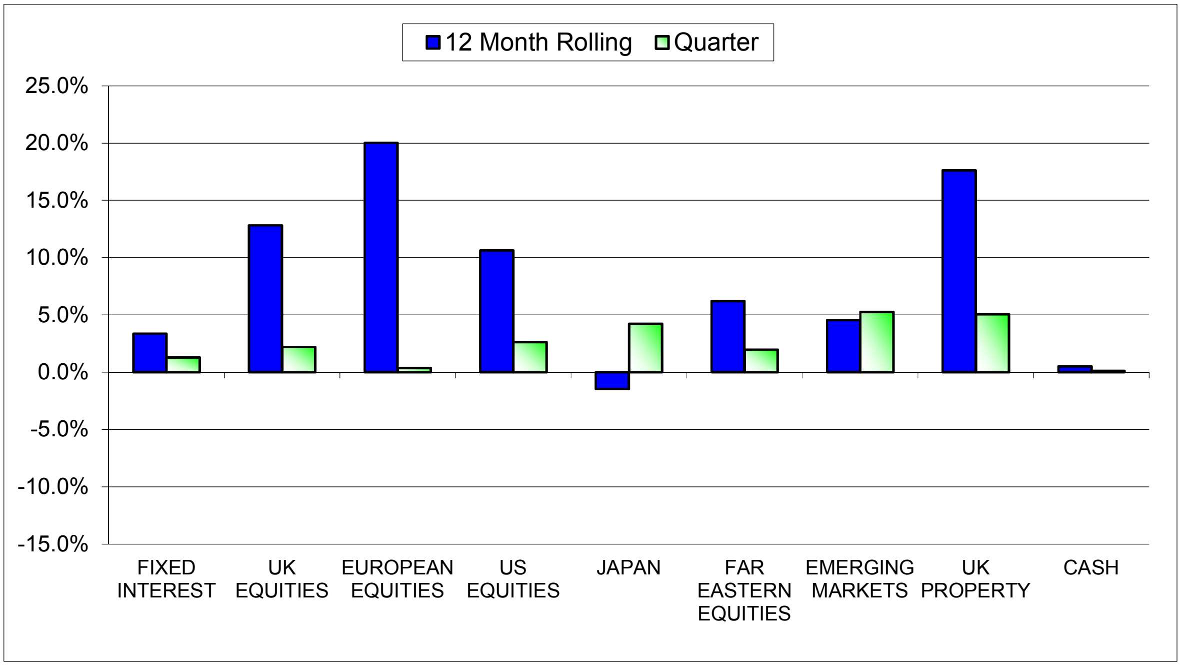
PURCHASES AND SALES OF INVESTMENTS – QTR ENDED 30th JUNE 2014

Investment	Purchases £000's	Sales £000's	Net Investment £000's
UK Equities			
In House	5,479	582	4,897
Global Equities			
Invesco	31,688	29,216	2,472
Threadneedle	20,525	20,189	336
Schroders	11,230	10,200	1,030
Neptune	25,015	21,072	3,943
Morgan Stanley Global Brands	0	0	0
Total Equities	**93,937**	**81,259**	**12,678**
Alternatives			
Morgan Stanley	0	0	0
Total Alternatives	**0**	**0**	**0**
Property	**1,900**	**2,290**	**(390)**
Fixed Interest			
BlackRock	0	0	0
Goodhart F & C	0	0	0
Total FI	**0**	**0**	**0**
TOTAL FUND	**95,837**	**83,549**	**12,288**

NB: Blackrock, Goodhart and both Morgan Stanley investments are Pooled Funds and therefore Purchases and Sales are only shown when new money is given to the manager or withdrawn from the manager.

APPENDIX C

MARKET RETURNS TO 30th JUNE 2014



INDEX RETURNS	12 Months to June '14	Apr-June '14
	%	%
FIXED INTEREST	3.4	1.3
UK EQUITIES	12.8	2.2
EUROPEAN EQUITIES	20.0	0.4
US EQUITIES	10.6	2.6
JAPANESE EQUITIES	(1.5)	4.3
FAR EASTERN EQUITIES	6.2	2.0
EMERGING MARKETS	4.6	5.3
UK PROPERTY	17.6	5.1
CASH	0.5	0.1

APPENDIX D

Votes Summarised by Votes Cast

Votes Cast at Management Group Level 01/04/14-30/06/14

	Resolutions			
Voting Guideline Code	**For**	**Abstain**	**Against**	**Total**
All Employee Share Schemes	18	0	15	33
Alternate Auditor	2	0	0	2
Amend Class of Capital	2	0	0	2
Annual Incentive Plan Metrics	14	0	0	14
Anti-Takeover Provisions	1	4	0	5
Any Other Business	1	0	1	2
Appoint Audit Committee Member	11	0	0	11
Appoint Chairman	6	0	2	8
Appoint Control Committee Member (Norway)	17	0	0	17
Appoint Corporate Assembly (Norway)	9	0	0	9
Appoint Independent Proxy	12	0	0	12
Appoint Nom Committee Member	12	0	0	12
Appoint Nomination Committee	4	0	0	4
Appoint Rem Committee Member	36	0	2	38
Approval of Executive's Remuneration Package	2	0	0	2
Approve Agreement	92	0	0	92
Approve CSR Report	1	0	0	1
Approve Cumulative Voting for Directors	0	0	1	1
Approve Minutes	7	0	0	7
Auditor - Appointment	368	1	97	466
Auditor - Deputy/Secondary	1	0	0	1
Auditor - Discharge	1	0	1	2
Auditor - Remuneration	130	0	70	200
Auth Board to Issue Shares	179	0	29	208
Auth Board to Issue Shares w/o Pre-emption	158	0	45	203
Authorise Board to set Board Size	1	0	0	1
Authorise Option Grants/Dilution	8	0	0	8
Authorise Political Donations & Expenditure	64	0	2	66
Authorised Capital	3	0	2	5
Authorised Capital [DE/CH/AT]	10	0	0	10
Board Alternate	1	0	0	1
Board of Stat Audit - Candidate List (Italy)	2	0	0	2
Board of Stat Audit - PR List System (Italy)	2	0	0	2
Board Re-election Frequency	2	0	0	2
Board Rem - Allow Board to Set	3	0	0	3
Board Rem - Approve Amounts Actually Paid	1	0	0	1
Board Rem - Approve Bonuses	21	0	0	21
Board Rem - Special/Retirement Bonuses	3	0	0	3
Board Size for Year	10	0	0	10
Board Size Range	2	0	0	2
'Bons Bretons' Warrants	1	0	0	1
Cancel Class of Capital	1	0	0	1

Voting Guideline Code	For	Abstain	Against	Total
Cancel Treasury Shares	33	0	1	34
Capital Raising	2	0	2	4
Chairs Corporate Responsibility Committee	4	0	1	5
Change Board Structure	1	0	0	1
Change Financial Reporting Period	3	0	0	3
Change Jurisdiction of Incorporation	0	0	0	0
Change of Name	6	0	0	6
Company Objectives	2	0	0	2
Conditional Capital [DE/CH/AT]	4	0	0	4
Confirm Director Independent	4	0	0	4
Convert to Società Europea	1	0	0	1
Corporate Governance Policy	1	0	0	1
Debt - Borrowing Powers	0	0	2	2
De-classify the Board	5	0	0	5
Delegate Powers	22	0	0	22
Director - Discharge from Liability	449	0	1	450
Director Election - All Directors [Single]	3486	25	1577	5088
Director Election - Candidate List (Italy)	0	0	0	0
Director Election - Chairman	121	1	269	391
Director Election - Chairs Audit Committee	322	1	57	380
Director Election - Chairs Nomination Com	233	1	116	350
Director Election - Chairs Remuneration Com	273	25	54	352
Director Election - Cumulative Voting	0	0	7	7
Director Election - Executives	608	0	715	1323
Director Election - Lead Ind. Director/DepCH	160	1	27	188
Director Election - Non-executive/Sup Board	2812	25	770	3607
Director Election - PR List System (Italy)	0	0	0	0
Director Election - Sits on Audit Committee	1040	0	177	1217
Director Election - Sits on Nomination Com	1157	18	201	1376
Director Election - Slate	7	0	1	8
Director Election - Sts on Remuneration Com	997	0	171	1168
Directors' Pensions	7	0	0	7
Distribute/Appropriate Profits/Reserves	139	0	5	144
Dividend - Approve Policy	26	0	0	26
Dividends - Ordinary	243	0	16	259
Dividends - Scrip	10	0	1	11
EGM Notice Periods	128	0	0	128
Elect Member Audit & Supervisory Board (JP)	88	0	0	88
Elect Supervisors (China)	1	0	0	1
Financial Statements	195	1	106	302
Financial Statements - Environmental Issues	182	1	97	280
Greenshoe Option	7	0	0	7
Individual Share Award	0	0	0	0
Individual Share Option Grant	0	0	3	3
Individual Total Remuneration - Past Year Approval	49	0	0	49
Internal Reorganisation	0	0	0	0
Issue Bonds (Other)	2	0	0	2

Voting Guideline Code	For	Abstain	Against	Total
Issue Bonds with warrants	2	0	0	2
Issue Convertible Bonds	4	0	0	4
Long-term Deferral Systems	12	0	0	12
Long-term Incentive Plans	27	0	81	108
LTI: Discretionary Share Option Plan	4	0	0	4
LTI: Performance Share Plan	0	0	7	7
LTIP Performance Measures	5	0	0	5
Meeting Formalities	44	0	0	44
Merger Related Compensation [US]	1	0	0	1
NED Remuneration - Fee Rate/Ceiling	21	0	0	21
NED Remuneration - Fees actually paid	5	0	0	5
NED Remuneration - Fees proposed for year	34	0	1	35
NED Remuneration - Policy	9	0	0	9
Non-voting agenda item	7	0	0	7
Other Capital Structure Proposal	3	0	0	3
Other Changes to Governance Arrangements	101	0	2	103
Other Meeting Procedures	18	0	0	18
Other Payments to Directors/Corp Auditors	2	0	0	2
Permit Holding of Treasury Shares	1	0	0	1
Poison Pills - NOLs	4	0	0	4
Procedure on Nom Com Appointment	3	0	0	3
Provision of Financial Assistance	1	0	0	1
Ratify Prior Charitable Donations	0	0	1	1
Ratify Prior Political Donations	0	0	1	1
Reduce Nominal Value	1	0	1	2
Reduce or Reclassify Capital or Reserves	1	0	0	1
Reduce Share Premium Account	3	0	0	3
Reissue (Use) Treasury Shares	11	0	1	12
Related Party Transaction - Approve Report on	17	0	0	17
Related Party Transaction - Mandate	3	0	0	3
Related Party Transaction - Specific Transaction	0	0	0	0
Remove Supermajority Provisions	10	0	0	10
Remuneration Policy	168	0	12	180
Remuneration Report	234	0	191	425
Research Pending	0	0	0	0
Return of Capital	0	0	0	0
Right to Nominate Directors - 'Proxy Access'	4	0	0	4
Say-on-pay Frequency	7	4	8	19
Scheme of Arrangement	0	0	0	0
Service Contract	2	0	0	2
Set Exclusive Jurisdiction	2	0	0	2
SH: Adopt Diversity & Equality Policies	0	0	0	0
SH: Adopt/amend Human Rights Policy	0	0	0	0
SH: Animal Testing (End/Phase Out)	0	0	0	0
SH: Approve Cumulative Voting for Directors	9	0	2	11
SH: Approve Majority Vote Standard for Directors	8	0	0	8
SH: Charitable Donations - Improve Disclosure	1	0	0	1

Voting Guideline Code	For	Abstain	Against	Total
SH: Director Election - All Directors [Single]	0	0	0	0
SH: Director Shareholding Requirement / Policy	7	0	3	10
SH: Director with Environmental Expertise	0	0	0	0
SH: Diversity & Equality Policies	1	0	0	1
SH: Establish Other Board Committee	2	0	1	3
SH: Improve CSR Disclosure	0	0	1	1
SH: Increase Board Independence	1	0	0	1
SH: Independent Chairman	17	0	9	26
SH: Internet Neutrality	0	0	3	3
SH: Introduce/Amend Other Ownership Limitations	3	0	0	3
SH: Introduce/Amend Ownership Ceiling	1	0	0	1
SH: Lobbying - Improve Disclosure	35	0	11	46
SH: Methane Emissions	3	0	0	3
SH: Nuclear	0	0	0	0
SH: Other Board-related Proposals	0	0	3	3
SH: Other Executive Pay Proposal	2	0	2	4
SH: Other Natural Resource Management Issue	0	0	0	0
SH: Performance Conditions - Introduce	0	0	2	2
SH: Performance Conditions - Strengthen	1	0	0	1
SH: Political Spending - Amend Policy	1	0	3	4
SH: Political Spending - Improve Disclosure	14	0	7	21
SH: Remove Director - Executive	0	0	0	0
SH: Remove Director [Officers]	0	0	0	0
SH: Remove Multiple Voting Rights	4	0	4	8
SH: Remove Supermajority Provisions	0	0	3	3
SH: Report on Climate Change Risks	0	0	1	1
SH: Report on Human Rights Issues	0	0	0	0
SH: Request Advisory Vote on Remuneration	1	0	0	1
SH: Request Capital Distribution	0	0	0	0
SH: Request CSR/Sustainability Report	4	0	0	4
SH: Request Increased Dividend	0	0	1	1
SH: Request Say on CSR Report	1	0	0	1
SH: Request Say on Dividend	0	0	1	1
SH: Request Special Audit	0	0	1	1
SH: Require Clawbacks	1	0	0	1
SH: Restrict Accelerated Vesting of LTIP Awards	6	0	1	7
SH: Restrict Number of Directorships	1	0	0	1
SH: Right to Nominate Directors - 'Proxy Access'	1	0	3	4
SH: Separate Chairman & CEO	3	0	0	3
SH: Setting GHG reduction goals	0	0	1	1
SH: Shareholder Action by Written Consent	17	0	14	31
SH: Shareholder Resolution - Disclosure	1	0	5	6
SH: Shareholder Resolution - Other	1	0	14	15
SH: Shareholder Resolution - Strategy	0	0	0	0
SH: Special Meetings - Lower Threshold	9	0	3	12
SH: Sustainable Water Supply	0	0	0	0
SH: Taxation Strategies	0	0	3	3

Voting Guideline Code	For	Abstain	Against	Total
SH: Total Remuneration - Restrain	2	0	0	2
SH: Voting Procedures	5	0	0	5
Share Buy-back Authority (inc Tender Offer)	180	0	66	246
Share Consolidation	5	0	0	5
Share Issue - Consideration for Offer	6	0	0	6
Share Issue - Contributions in Kind	10	0	0	10
Share Issue - Employees - Discr Opt/Shares	7	0	0	7
Share Issue - Employees - Free Shares	11	0	0	11
Share Issue - Employees - Savings Plans	18	0	1	19
Share Issue - Other	10	0	0	10
Share Issue - Overall Ceiling	6	0	0	6
Share Issue - Preferred Shares	2	0	0	2
Share Issue w/o Pre-emption w Priority Per	2	0	0	2
Share Split	4	0	0	4
Shareholder Action by Written Consent	1	0	0	1
Shareholder Resolution - General	1	0	0	1
Significant Transactions	0	0	0	0
Sits on Corporate Responsibility Committee	23	0	1	24
Special Meetings - Introduce Right	3	0	1	4
Stock Exchange Listing.	0	0	1	1
Substitute Member Audit & Sup Board (JP)	14	0	0	14
Termination Payments (Actual payoffs)	1	0	0	1
Termination Provisions (Contract clauses)	8	0	4	12
Unclassified	10	0	4	14
Voting Procedures	1	0	0	1
Waive Mandatory Takeover Requirement	1	0	4	5
TOTALS	**15307**	**108**	**5134**	**20549**

Agenda Item 6

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**09 October 2014**
Subject:	**Investment Management Report**

Summary:

This report covers the management of the Lincolnshire Pension Fund assets, over the period from 1st April to 30th June 2014.

Recommendation(s):

That the committee note this report.

Background

This report is split into four areas:

- Funding Level Update
- Fund Performance & Asset Allocation
- Hymans Robertson Manager Ratings
- Individual Manager Update

1. Funding Level Update

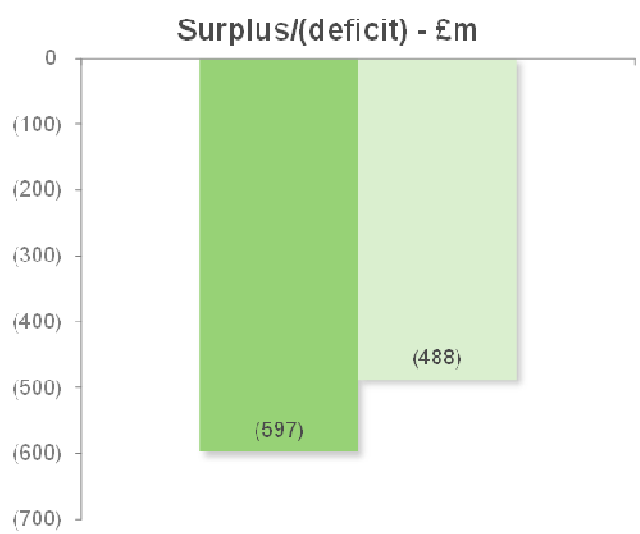
1.1 The funding update is provided to illustrate the estimated development of the funding position from 31st March 2013 to 30th June 2014, for the Fund.

1.2 As the graph below shows, the funding level at the latest formal valuation was 71.5%. As at 30th June 2014 the funding level has increased to 76.8%. This is largely as a result of an increase in bond yields, and subsequent higher discount rate, which places a lower value on the Fund's liabilities. The performance of the Fund's assets has also been greater than expected, serving to further increase the funding level.

1.3 In the period since 31st March 2014, yields have been relatively stable but asset performance has again been greater than expected. The combined effect of these items has been an increase in the funding level since 31st March 2014.

Change in funding level since last valuation

1.4 As shown below, the deficit in real money has reduced from £597m to £488m between the period 31st March 2013 and 30th June 2014. The deficit at 31st March 2014 was £489m.



2. Fund Performance & Asset Allocation

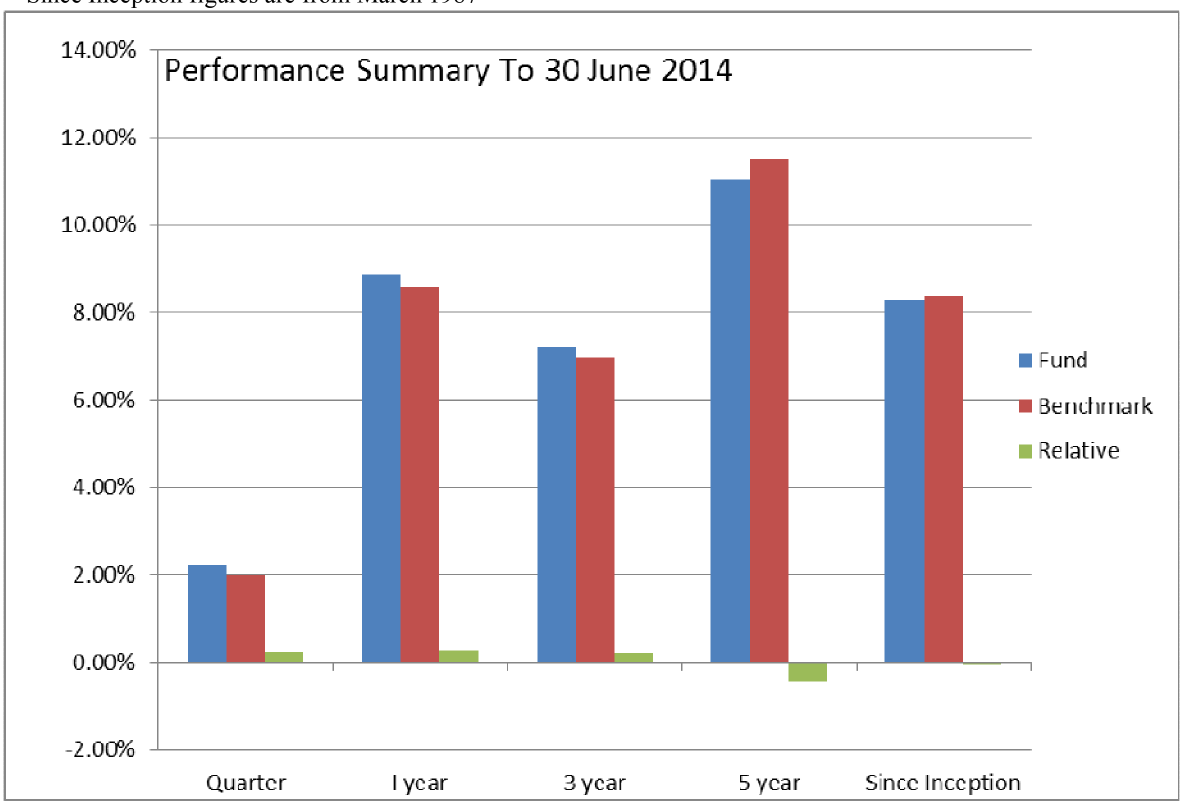
2.1 The Fund increased in value by £31.2m during the quarter from £1,587.5m to £1,618.7m, as the chart below shows. The Fund was overweight to UK and global equities and underweight fixed interest, alternatives and property.

Asset Class	Q1 2014 £	Q2 2014 £	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	326.5	319.0	20.2	20.0	0.2
Global Equities	671.7	659.3	41.4	40.0	1.4
Alternatives	230.9	228.0	14.3	15.0	(0.7)
Property	182.5	176.1	11.3	11.5	(0.2)
Fixed Interest	201.4	198.6	12.4	13.5	(1.1)
Cash	5.7	6.5	0.4	0.0	0.4
Total	**1,618.7**	**1,587.5**	100.0	100.0	

2.2 The graph below shows 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 1% per annum.

2.3 Over the quarter, the Fund produced a positive return of 2.23% and outperformed the benchmark which returned 2%. The Fund is slightly ahead of the benchmark over one and three years but is behind the benchmark over five years and since inception.

* Since Inception figures are from March 1987



3. Hymans Robertson Manager Ratings

3.1 Hymans Robertson regularly meet managers to discuss current issues, management changes and performance. The manager is then allocated one of five ratings between replace and retain. The table below shows Hymans

Robertson's rating of all managers that have been appointed by the Lincolnshire Pension Fund.

3.2 The Fund has twenty managers and there has been no change in the rating of any of these managers over the quarter. Hymans Robertson still rate sixteen managers as retain and have categorised three managers, Rreef Property Ventures Fund 3, Aviva Pooled Property Fund and Schroders, as "on watch" and Neptune as "strongly on watch". Officers will monitor these managers closely and arrange meetings to discuss any potential issues.

Manager	Rating				
	Replace		On Watch		Retain
Invesco Global Equities (Ex-UK)				X	
Threadneedle Global Equity				X	
Schroders Global Equity			X		
Neptune Global Equity		X			
Morgan Stanley Global Brands					X
F&C Absolute Return Bonds				X	
Morgan Stanley Alternative Investments					X
Blackrock Fixed Interest					X
Standard Life European Property				X	
Innisfree Continuation Fund 2					X
Innisfree Secondary Fund					X
Innisfree Secondary Fund 2					X
Franklin Templeton European Real Estate				X	
Franklin Templeton Asian Real Estate				X	
RREEF Ventures Fund 3			X		
Igloo Regeneration Partnership				X	
Aviva Pooled Property Fund			X		
Royal London PAIF				X	
Standard Life Pooled Property Fund				X	
Blackrock Property				X	

4. Individual Manager Update

4.1 The manager returns and index returns for equity, fixed interest and alternative managers are shown in the table below. A detailed report on each manager outlining the investment process, performance, purchases and sales and Hymans Robertson's manager view can be found after the table at 4.2.

4.2 Manager Returns – As shown below it was a good quarter for the Fund with all managers producing a positive absolute return. Over the quarter four managers outperformed their benchmark and two matched their benchmark. Neptune, Threadneedle and Invesco all underperformed their benchmark over the quarter. Over the 12 month period all mangers have produced positive absolute returns and only three of the managers underperformed against the index. Against their target, only the in house team, Invesco and Blackrock have matched or beaten the required return.

	3 months ended 30/06/14			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	Target p.a. %
Passive UK Equity In house	2.3	2.2	0.1	12.8	12.8	(0.1)	+/- 0.5
Invesco (Global Equities (ex UK))	1.6	2.1	(0.5)	10.9	9.8	1.0	+1.0
Threadneedle (Global Equities)	1.9	2.6	(0.7)	9.6	9.6	0.0	+2.0
Neptune (Global Equities)	2.1	2.6	(0.5)	8.0	9.6	(1.5)	+4.0
Schroder's (Global Equities)	2.4	2.4	0.0	8.2	9.1	(0.8)	+4.0
Morgan Stanley Global Brands	2.4	2.2	0.2	3.1	10.0	(6.3)	n/a
Blackrock (Fixed Interest)	1.3	1.3	0.0	3.4	3.4	0.0	Match Index
F&C (Fixed Interest)	1.5	0.9	0.6	5.1	3.6	1.5	3M LIBOR + 3%
Morgan Stanley (Alternative Investments)	2.2	1.1	1.0	7.6	4.6	2.9	3M LIBOR + 4%

Lincolnshire Pension Fund
UK Equities – In House (Passive UK)
Quarterly Report June 2014

Investment Process

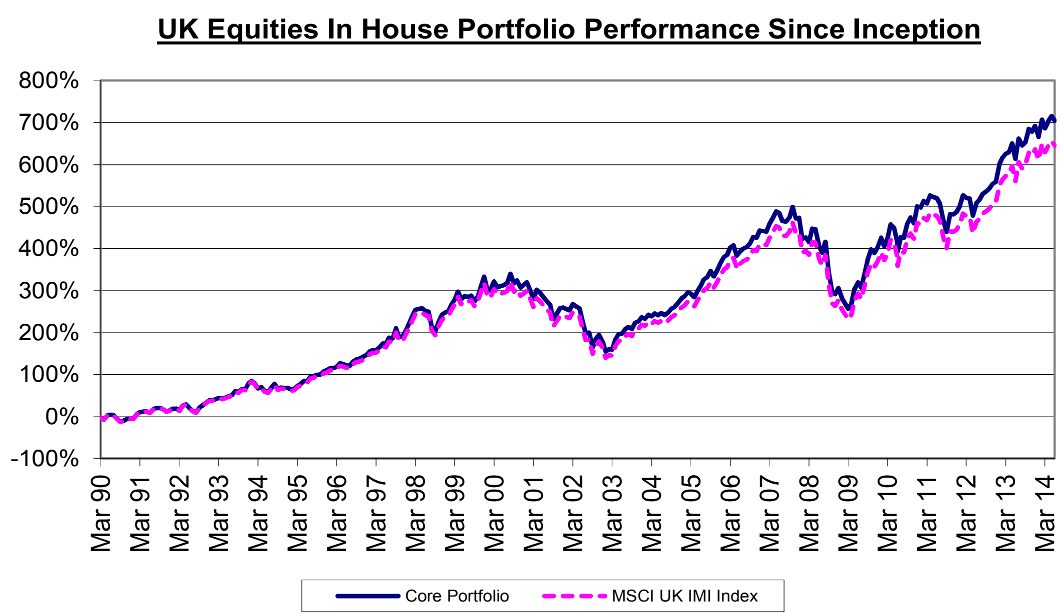
This portfolio is managed internally and mandated to track the MSCI UK IMI index +/- 0.5% around the index, with a tracking error of 0.5%. Approximately 250-300 stocks are held.

Portfolio Valuation

Value at 31.03.14	Value at 30.06.14
£318,959,025	£326,491,228

Performance

During the quarter the portfolio produced a positive return of 2.3% and outperformed the index by 0.1%. The outperformance was achieved through the portfolio's positioning in financials with overweight positions in Insurance, which produced positive returns, and an underweight position in Banks, which produced negative returns. Over all other periods the portfolio's performance is closely matching the index and within the target of +/- 0.5%.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
UK Equities – In House	2.3	12.8	9.1	14.6	8.8
MSCI UK IMI	2.2	12.8	8.9	14.4	8.4
Relative Performance	0.1	(0.1)	0.2	0.1	0.3

* annualised, inception date 01/10/1989

Turnover

Holdings at 31.03.14	Holdings at 30.06.14	Turnover in Quarter %	Turnover in Previous Quarter %
242	247	0.9	1.9

Purchases and Sales

During the quarter the manager performed a number of trades. Positions were increased in Direct Line, RSA Insurance, HSBC and Royal Dutch Shell, whilst new positions were taken in Quindell, The Restaurant Group and Bank of Georgia. The manager sold out of Debenhams, Fidessa Group, Renishaw and Supergroup as their weightings in the index had reduced below the level where the manager holds a stock.

Largest Overweights

Vodafone Group	0.13%
BP	0.11%
Rio Tinto	0.10%
British American Tobacco	0.09%
Royal Dutch Shell	0.08%

Largest Underweights

Lloyds Banking	(0.32%)
Shire PLC	(0.13%)
Barclays	(0.12%)
Astrazeneca	(0.09%)
Intu Properties	(0.08%)

* Measured against MSCI UK IMI

Top 10 Holdings

1	Royal Dutch Shell	£25,944,943
2	HSBC Holdings	£18,677,753
3	BP	£15,973,763
4	GlaxoSmithkline	£12,996,978
5	British American Tobacco	£11,078,856

6	Vodafone Group	£9,241,200
7	Astrazeneca	£8,688,680
8	Diageo	£7,799,730
9	BG Group	£6,882,840
10	Rio Tinto	£6,597,756

Risk Control

The portfolio has a tracking error limit of 0.5%. At the end of June 2014 the tracking error was 0.29%.

Lincolnshire Pension Fund
Global Equities – Invesco (Global Ex UK Enhanced)
Quarterly Report June 2014

Investment Process

This portfolio is mandated to track the MSCI World ex UK Index, with a performance target of +1% and a tracking error of 1%. The aim is to achieve long-term capital growth from a portfolio of investments in large-cap global companies. Active performance is generated through a quantitative bottom-up investment process, driven by stock selection and based on four concepts: Earnings Momentum, Price Trend, Management Action and Relative Value.

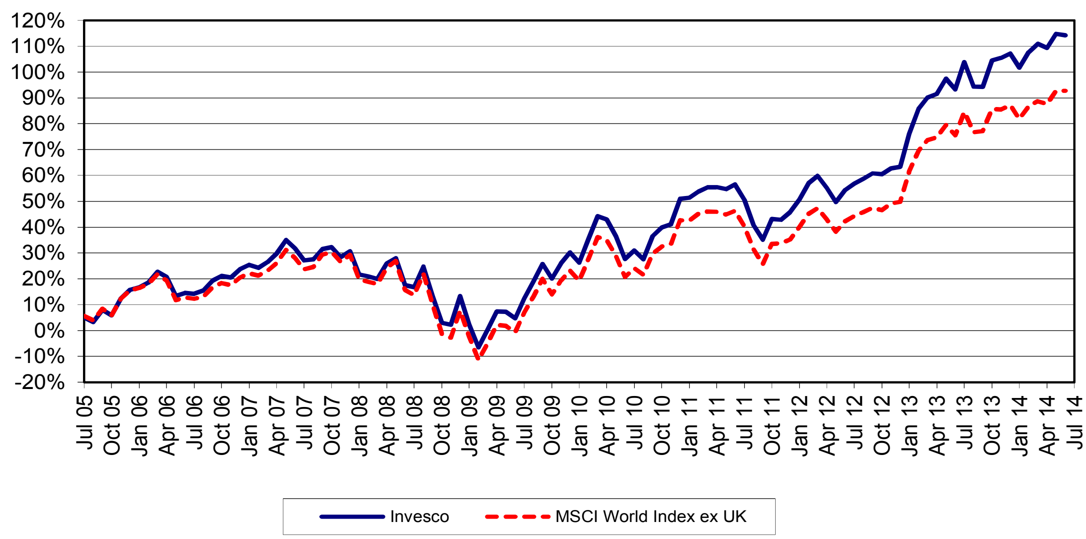
Portfolio Valuation

Value at 31.03.14	Value at 30.06.14
£333,440,937	£338,749,574

Performance

During the quarter Invesco underperformed their benchmark by 0.5%. The largest negative impact on the strategy was Stock Selection, with an overweight in Information Technology and an underweight in Consumer Discretionary being the main detractors. Contributions from Countries and Currencies were positive, in particular an underweight in Italian stocks. Over the longer period Invesco continue to outperform the index and match or outperform their target.

Invesco Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Invesco	1.6	10.9	11.1	15.4	8.8
MSCI World ex UK	2.1	9.8	9.6	14.2	7.6
Relative Performance	(0.5)	1.0	1.3	1.1	1.2

* annualised, inception date 1st July 2005

Turnover

Holdings at 31.03.14	Holdings at 30.06.14	Turnover in Quarter %	Turnover in Previous Quarter %
424	435	7.7	6.5

Purchases and Sales

During the quarter, Invesco made a number of stock adjustments to the portfolio as a result of their Stock Selection model. Invesco added General Dynamics, Capital One Financial and Convergys. They also increased their positions in Google and Merck and Co. Invesco sold out of Verizon Communications, Seacor, Devon Energy and Visa.

Largest Overweights

Pfizer	0.95%
Northrop Grumman	0.94%
Archer Daniels	0.90%
JP Morgan Chase	0.71%
Lockheed Martin	0.67%

Largest Underweights

Verizon Comms	(0.66%)
Google	(0.54%)
Walt Disney	(0.47%)
Amazon	(0.41%)
Sanofi	(0.41%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple Inc	£7,087,214
2	Microsoft Corp	£5,533,661
3	Pfizer Inc	£5,238,689
4	JPMorgan Chase	£4,748,241
5	Exxon Mobil Corp	£4,625,395

6	General Electric Co	£3,993,989
7	Citigroup Inc	£3,434,291
8	Northrop Grumman	£3,428,008
9	Google Inc	£3,419,364
10	Cisco Systems Inc	£3,363,038

Hymans Robertson View

High profile Invesco UK equity manager, Neil Woodford, has left Invesco to set up his own, rival business. St James Place (SJP) is withdrawing £8bn of assets from Invesco which represents just over 10% of Invesco's UK assets and under 2% of global assets. The revenue impact is less significant as the fees on the SJP assets were well below the typical retail fee on the majority of Invesco's UK assets. This is a blow to Invesco's reputation and finances but not sufficiently to lead to any changes in the firm's development plans.

Hymans do not anticipate any direct impact on the product that Lincolnshire is invested in.

Risk Control

The predicted tracking error of the portfolio decreased to 1.02% (actual target 1%).

Lincolnshire Pension Fund
Global Equities – Neptune
Quarterly Report June 2014

Investment Process

This portfolio is mandated to outperform the MSCI All Countries World Index by 2% to 4% over rolling three year periods, net of fees. This is achieved through generating capital growth from a concentrated portfolio of global securities, selected from across world equity markets. The investment process of Neptune means that they will usually generate more volatile returns that the Fund's other Global Equity Managers and are seen as benchmark agnostic.

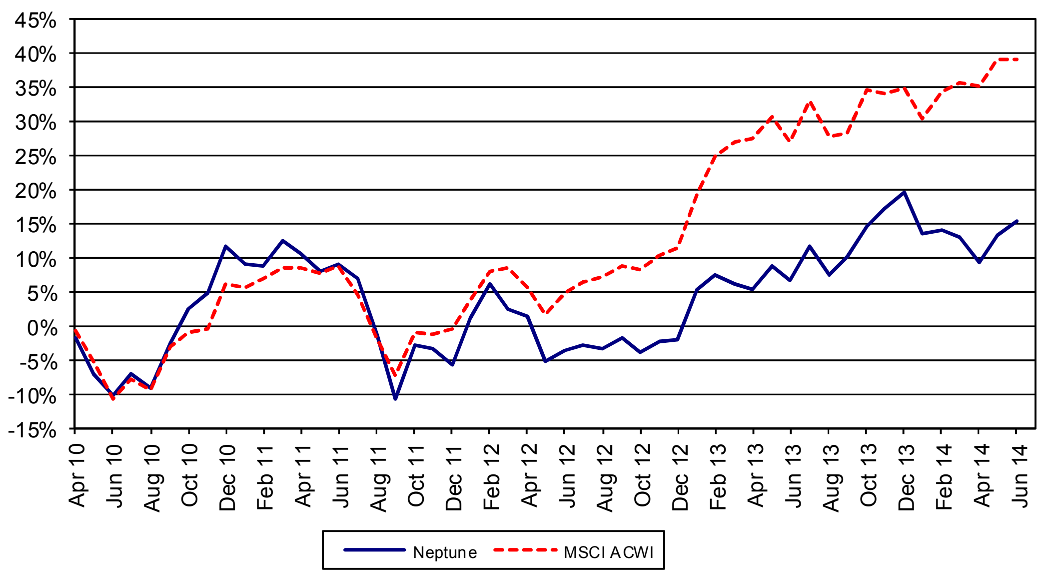
Portfolio Valuation

Value at 31.03.14	Value at 30.06.14
£78,632,843	£80,183,778

Performance

During the quarter Neptune produced a positive return of 2.1% but underperformed the index by 0.5%. This was due to continued concerns about US growth following the first quarter's bad weather and poor economic data, which led to strong performance from stocks which met investors' requirements for both defensive characteristics and yield. As it was throughout the first quarter, this was detrimental to the Fund given Neptune's overweight position in cyclical sectors, such as industrials, financials, consumer discretionary and IT. Towards the end of the quarter different factors were impacting the markets. The Federal Reserve reiterated its commitment to tapering quantitative easing and the European Central Bank moved closer to using unconventional monetary measures. Markets responded more positively to this news and as a result Neptune saw a strong end to the quarter and saw their performance move closer to benchmark.

Neptune Performance Since Inception



	Quarter %	1 Year %	3 Year %	5 Year %	Inception* %
Neptune	2.1	8.0	1.9	n/a	3.4
MSCI ACWI**	2.6	9.6	8.5	n/a	8.1
Relative Performance	(0.5)	(1.5)	(6.2)	n/a	(4.3)

* annualised, inception date 16/04/2010

Turnover

Holdings at 31.03.14	Holdings at 30.06.14	Turnover in Quarter %	Turnover in Previous Quarter %
55	51	25.39	1.2

Purchases and Sales

On the back of Modi's election in India, who promises to deliver long needed structural changes, Neptune initiated new positions in the Indian market, via blue chip stocks. This took Neptune back to being overweight emerging markets at the end of the quarter. Over the quarter Neptune also increased the size of their overweight in financials at the expense of selling down some names within the consumer discretionary sector.

Top 5 Contributions to Return

Baidu.Com Spon ADR	0.6%
Taisei Corp	0.5%
Apple Computer	0.4%
Estee Lauder Co	0.3%
Facebook Inc	0.2%

Bottom 5 Contributions to Return

Linkedin Corp	(0.4%)
Ping An Ins Grp	(0.3%)
Amazon	(0.2%)
Cme Group	(0.2%)
Icici Bank Spn ADR	(0.2%)

Top 10 Holdings

1	Amazon.Com Inc	£2,849,197
2	Baidu Inc	£2,731,380
3	Facebook Inc	£2,557,651
4	CME Group Inc	£2,489,692
5	Morgan Stanley	£2,457,292
6	Marsh & Mclennan	£2,423,604
7	Yum Brands Inc	£2,373,892
8	Fanuc Corp	£2,319,036
9	Taisei Corp	£2,263,066
10	Tencent Holdings	£2,231,749

Hymans Robertson View

There is no significant news over the quarter and Hymans maintain a central research rating of "2" – "on watch – review options".

Risk Control

The portfolio may invest up to a maximum of 10% of value in securities outside the benchmark index and, in addition, may hold a maximum of 20% of value in cash, in any currency. The portfolio has no regional constraints but will always maintain exposure to at least seven of the ten MSCI Global Sectors and a broad geographical reach.

Lincolnshire Pension Fund
Global Equities – Schroders
Quarterly Report June 2014

Investment Process

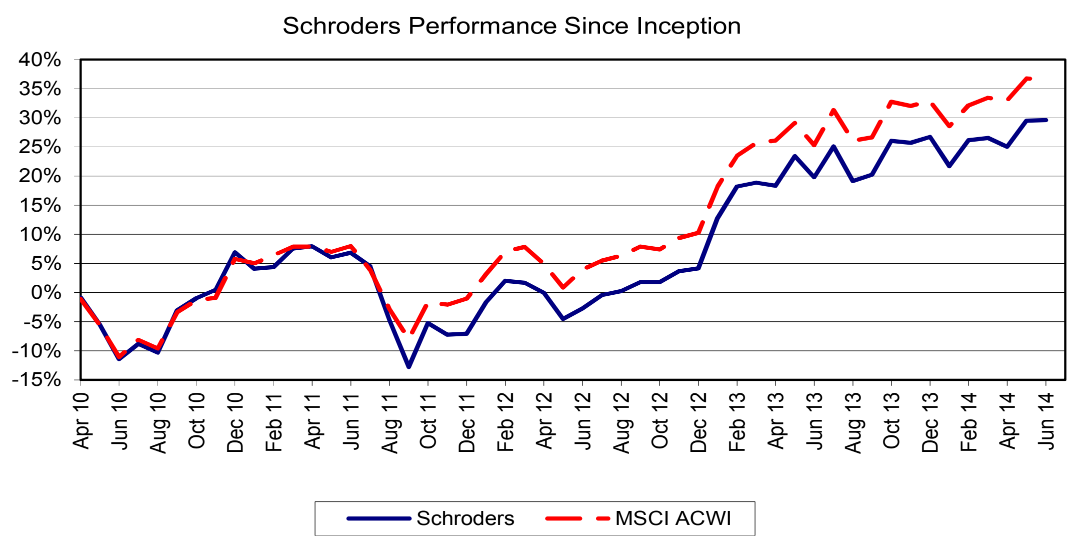
This portfolio is mandated to outperform the MSCI All Countries World Daily Net Index by 2% to 4% over rolling three year periods, gross of fees. This is achieved through an investment approach that is designed to add value relative to the benchmark through both stock selection and asset allocation decisions. Schroders believe that stock markets are inefficient and they can exploit this by undertaking fundamental research and taking a long term view.

Portfolio Valuation

Value at 31.03.14	Value at 30.06.14
£84,539,978	£86,622,173

Performance

During the quarter the portfolio produced a positive absolute return of 2.4% which matched the index. The top contributors were energy names supported by rising energy prices, whilst detractors were Credit Suisse, eBay and Owens Corning. Over the 12 month period Schroders have produced a positive absolute return of 8.2% which was behind the index which produced a return of 9.1%.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Schroders	2.4	8.2	6.7	n/a	6.3
MSCI ACWI (Net)	2.4	9.1	8.2	n/a	7.6
Relative Performance	0.00	(0.8)	(1.4)	n/a	(1.2)

*annualised since Inception April 16 2010

Turnover

Holdings at 31.03.14	Holdings at 30.06.14	Turnover in Quarter %	Turnover in Previous Quarter %
68	67	10.8	15.5

Purchases and Sales

During the quarter Schroder's biggest buys included Zimmer, one of the world's largest orthopaedic implant manufacturers. They also purchased Comcast, a media and television broadcasting service, and Bridgestone, a world leading tyre maker based in Japan. Bristol Myers was Schroders largest sell in the quarter, as its shares had moved substantially towards their estimate of fair value and profits were banked. Schroders exited their position in Sanofi due to ongoing margin pressure driven by weaker emerging market currencies.

Top 5 Contributions to Return

Schlumberger	0.3%
Canadian Pacific Rail	0.2%
Cimarax Energy	0.2%
Tripadvisor	0.2%
Interpublic Group	0.2%

Bottom 5 Contributions to Return

Credit Suisse	(0.3%)
Owens Coming	(0.2%)
Apple	(0.2%)
eBay	(0.2%)
Bristol-Myers Squibb	(0.2%)

Top 10 Holdings

1	Schlumberger	£2,442,723
2	Amgen	£2,191,352
3	Roche Holdings	£2,077,910
4	Google	£1,969,212
5	SMC	£1,940,360
6	Citigroup	£1,936,092
7	Nokia	£1,934,583
8	Interpublic Group	£1,862,915
9	Harley Davidson	£1,774,264
10	Walgreen	£1,743,193

Hymans Robertson View

In April, Schroder's announced that Alex Tedder was joining as Head of Global Equities as a replacement for Virginie Maisonneuve who left in late 2013. Schroders then announced in May that Peter Harrison would take on the newly created role of Head of Investments. Hymans have not yet seen any material impact from the changes at portfolio level, and at this point see no need to change their rating as a result of these announcements.

Risk Control

The portfolio can have a maximum 10% off-benchmark exposure; any increase in this would require the consent of the Pension Fund.

Lincolnshire Pension Fund
Global Equities – Threadneedle
Quarterly Report June 2014

Investment Process

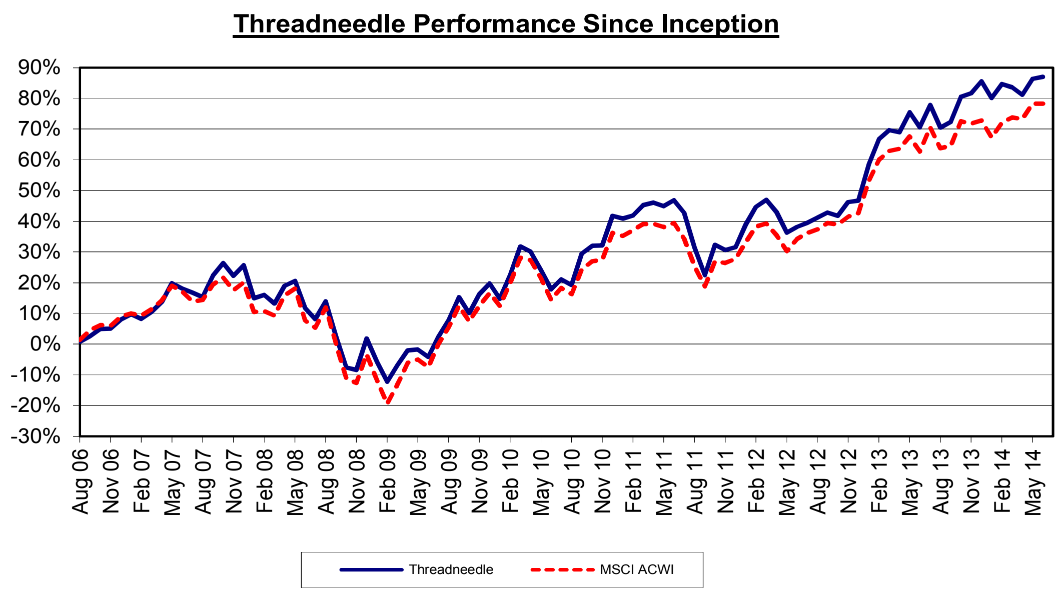
This portfolio is mandated to outperform the MSCI All Countries World Index by 2% per annum, gross of fees over rolling three year periods. This is achieved through investment managers who can draw on their own knowledge and that of other parts of the organisation to implement a thematic approach to stock selection.

Portfolio Valuation

Value at 31.03.14	Value at 30.06.14
£87,978,532	£89,614,986

Performance

During the quarter the portfolio produced a positive absolute return of 1.9% but underperformed the index by 0.7%. The underperformance was due to unfavourable regional positioning, as emerging markets and the UK, where the portfolio is underweight, both outperformed. At a sector level, favourable selections in consumer discretionary, consumer staples and energy were offset by pronounced weakness in financials and IT. Over the longer periods Threadneedle is closely matching the index but behind their target of 2% outperformance.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Threadneedle	1.9	9.6	8.4	14.3	8.2
MSCI ACWI	2.6	9.6	8.5	14.0	7.6
Relative Performance	(0.7)	0.0	(0.1)	0.3	0.6

* annualised, inception date 01/08/2006

Turnover

Holdings at 31.03.14	Holdings at 30.06.14	Turnover in Quarter %	Turnover in Previous Quarter %
100	94	19.8	11.6

Purchases and Sales

During the quarter Threadneedle bought a position in Total, which has a higher cashflow growth rate than its peers. Threadneedle also opened positions in Wolseley, which is set to benefit from improving conditions in the construction and property industries, and IT giant Hewlett Packard, which they feel has improving prospects. They also opened a holding in Bank of Ireland, which they feel has been oversold and now represents good value. These purchases were funded by exiting eBay, Tyco International and Las Vegas Sands.

Top 5 Contributions to Return

Suncor Energy	0.3%
Covidien	0.3%
Charter Comms	0.3%
Apple	0.3%
Gilead Sciences	0.2%

Bottom 5 Contributions to Return

UBS	(0.3%)
eBay	(0.2%)
Pfizer	(0.2%)
Bank of Ireland	(0.2%)
JPMorgan Chase	(0.2%)

Top 10 Holdings

1	Apple Inc	£2,154,100
2	Gilead Sciences Inc	£1,945,307
3	Suncor Energy Inc	£1,916,577
4	Pfizer Inc	£1,908,347
5	Anheuser-Busch	£1,860,258

6	JPMorgan Chase	£1,837,569
7	Wesco Intl Inc	£1,764,717
8	Total SA	£1,748,208
9	Nestle SA	£1,737,373
10	United Rentals Inc	£1,730,879

Hymans Robertson View

Threadneedle hired 3 new analysts over the quarter as part of the rebuilding of the US equity team. Although there has been high turnover in senior staff in recent months, Hymans believe that Threadneedle are now happy with their level of resource within the US equity team and that no further new hires are imminent. Hymans will monitor events closely going forward, and for now maintain their central rating at "retain".

Risk Control

The portfolio can have a maximum 10% off-benchmark exposure; any increase in this would require the consent of the Pension Fund.

Lincolnshire Pension Fund
Global Equities – Morgan Stanley Global Brands
Quarterly Report June 2014

Investment Process

The Global Brands Fund is an open-ended investment company incorporated in the United Kingdom. The aim of the Fund is to provide long term capital appreciation through investing in a concentrated high quality global portfolio of companies with strong "intangible assets". The Fund is benchmarked against the MSCI World Index. Managers aim to gain an absolute return to the Fund rather than a relative return against their benchmark index.

Portfolio Valuation

Value at 31.03.14	Value at 30.06.14
£74,714.992	£76,514,346

Performance

During the quarter the portfolio produced a positive absolute return of 2.4% and outperformed the benchmark which returned 2.2%. The outperformance was mainly due to stock selection in consumer staples. The portfolio's overweight in consumer staples and underweight in financials and stock selection in consumer discretionary also contributed to positive performance. Morgan Stanley's stock selection in information technology and the zero weight in energy were the main detractors from performance for the period.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley Global Brands	2.4	3.1	N/A	N/A	11.7
MSCI World Index	2.2	10.0	N/A	N/A	16.5
Relative Performance	0.2	(6.3)	N/A	N/A	(4.2)

*annualised, inception date 18/06/2012

Purchases and Sales

During the quarter Morgan Stanley initiated a position in Publicis, one of the world's leading global advertising services companies, and exited the last of their position in Admiral. They also added to the recently initiated position in Time Warner, partly funded by selling a small position in Time Inc., the magazine business spun off from the parent company.

Top 3 Contributions to Return

British American Tobacco	0.4%
Unilever	0.4%
Nestle	0.3%

Bottom 3 Contribution to Return

SAP	(0.3%)
Procter & Gamble	(0.2%)
Visa	(0.1%)

Top Ten Holdings

Company	Industry	% Weighting
British American Tobacco	Tobacco	9.7
Nestle	Food Products	9.1
Unilever	Food Products	8.0
Reckitt Benckiser	Household Products	7.0
Sanofi-Aventis	Pharmaceuticals	5.5
Diageo	Beverages	4.6
Accenture	IT Services	4.5
Philip Morris	Tobacco	4.5
Procter & Gamble	Household Products	4.5
Microsoft	Software	4.3

Hymans Robertson View

Hymans are happy to maintain a preferred manager status for the fund. They feel the Global Brands strategy has a long and impressive track record and a clear and well thought out investment approach.

Global Brands is closed to new business but Morgan Stanley has opened a "sister" strategy, Global Quality. The manager insists that the new strategy will not raise capacity issues for Global Brands; nonetheless, Hymans will be keeping a close eye on the issue.

Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report June 2014

Investment Process

Blackrock manage a passive bond mandate for the Pension Fund. Their portfolio is made up of three pooled funds; an index-linked bond fund, a corporate bond fund and an overseas bond fund. All three funds are designed to match the return of their relevant benchmarks. The manager uses two methods to manage index-tracking funds; full replication and stratified sampling.

Full replication involves holding each of an index's constituent bonds in exactly the same proportion as the index. This method is used where the number of constituents in an index is relatively low and liquidity is above a certain level.

Stratified sampling is the method used when full replication is not possible or appropriate. This approach subdivides the benchmark index according to various risk characteristics, such as currency/country, maturity, credit rating, sector of issuer etc. Each subset of bonds is then sampled to select bonds for inclusion within the pooled fund.

The table below shows the indexing method for each of the three pooled funds in which the Fund invests.

Pooled Fund	**Indexing Method**
Aquila Life Corporate Bond All Stocks Index Fund	Sampled
Aquila Life Over 5 Years UK Index-Linked Gilt Index Fund	Full Replication
Aquila Life Overseas Bond Index Fund	Sampled

Portfolio Valuation at 30th June 2014

Portfolio	**31.03.14 £**	**30.06.14 £**
Corporate Bond All Stocks Index Fund	49,376,160	50,369,749
Over 5 Years UK Index-Linked Gilt Index Fund	29,622,864	29,959,128
Overseas Bond Index Fund	18,977,279	18,902,402
Total	**97,976,303**	**99,231,279**

Performance

Over all periods the portfolio has matched or very slightly outperformed the benchmark.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	1.3	3.4	6.0	n/a	6.4
Composite Benchmark	1.3	3.4	6.0	n/a	6.4
Relative Performance	0.0	0.1	0.0	n/a	0.0

*annualised since inception 28/07/10

Hymans Robertson View

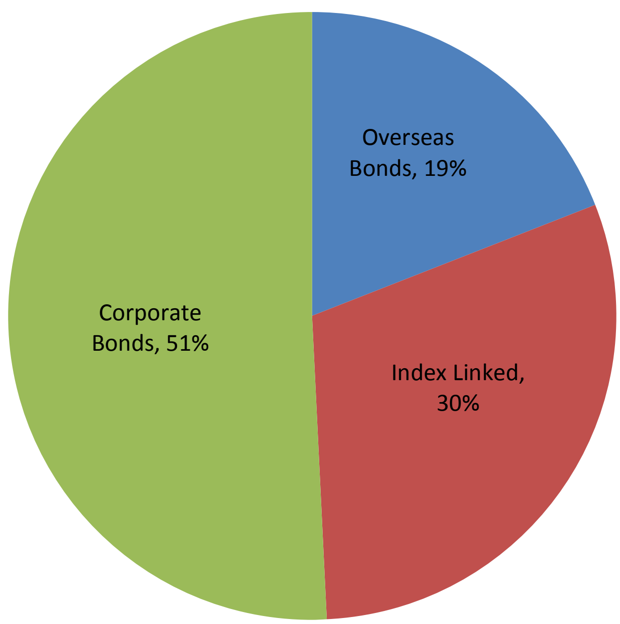
There were no significant developments within the Index Fixed Income team over the quarter; as such Hymans continue to rate Blackrock as one of their preferred passive fixed income managers.

Allocation

The target allocation between the three funds is:

Aquila Life Corporate Bond All Stocks Index Fund	50%
Aquila Life Over 5 Years UK Index-Linked Gilt Index Fund	30%
Aquila Life Overseas Bond Index Fund	20%

The pie chart below shows the allocation as at 30th June 2014



Lincolnshire Pension Fund
Absolute Return Bonds – F&C
Quarterly Report June 2014

Investment Process

F&C manage an absolute return bond mandate for the Fund. The Pension Fund is invested in their multi-manager target return fund, with an investment objective to achieve a low level of return in excess of anticipated money market returns, within a multi-manager structure. The managers are selected to exploit various investment opportunities, including the money market, interest rate, equity, commodity, currency and credit markets. The manager has a target to beat the return of 3 month LIBOR +3%.

Portfolio Valuation

Value at 31.03.14	Value at 30.06.14
£100,617,139	£102,127,622

Performance

During the quarter the portfolio produced a positive absolute return of 1.5% and outperformed the index by 0.6%. All three strategies generated a positive return over the quarter, but the day-to-day correlation between their returns remain low. The quarter was a strong period for risk assets. Government bond markets also rallied, despite many investors having taken a negative stance towards interest rate duration in the last year or so. As a result high yield and investment grade credit markets also generated positive returns, in both Europe and the US. Geopolitical risk has increased but markets have not yet reacted strongly. The pending default of Argentina at the end of July, the Ukrainian / Russian "conflict", and the terrorist group formally known as Isis all have the potential to cause volatility should investors decide they care. So far, the impact has been isolated and the markets have been more concerned about economic data and the potential for any form of QE from the ECB.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
F&C	1.5	5.2	3.2	n/a	3.0
3 Month LIBOR + 3%	0.9	3.6	3.8	n/a	3.8
Relative Performance	0.6	1.5	(0.5)	n/a	(0.8)

* annualised since inception date 19/07/2010

Allocation

The target return fund is currently split between three managers, listed below with their speciality investment areas:

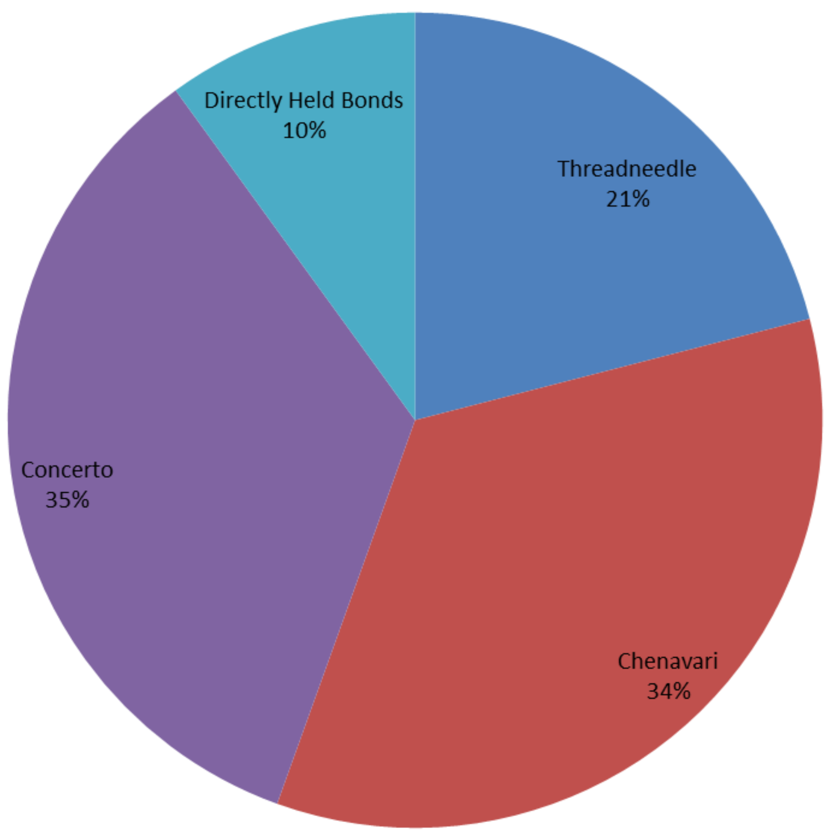
Threadneedle	Interest rates, currency
Chenavari	Credit
Concerto	Credit

Hymans Robertson View

F&C has recently announced the Bank of Montreal has completed the acquisition of its asset management business. Hymans do not expect much change at F&C and on a positive note think it will bring much needed stability to the ownership of the business.

The other large investor in the Absolute Return Fund has recently liquidated their holding but the manager has assured Hymans that they be promoting the fund going forward.

The pie chart below shows the allocation as at 30th June 2014



Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report June 2014

Investment Process

Morgan Stanley manages a bespoke absolute return alternative investment mandate for the Fund. The portfolio is invested in alternatives only, with no exposure to traditional equities or bonds. Investments are made to complement our existing portfolio and in future will include our Private Equity portfolio. The manager has a target to beat the return of 3 Month LIBOR + 4%.

Portfolio Valuation

Value at 31.03.14	Value at 30.06.14
£138,520,944	£143,833,989

Performance

During the quarter the portfolio gained 2.2% and outperformed the benchmark by 1%. Strategic allocation was the largest driver of returns, while manager selection modestly detracted. All asset classes, with the exception of global macro and the volatility position, contributed positively to returns. Within manager selections, frontier equity drove underperformance whereas hedge funds outperformed. Tactical contributions were muted for the quarter.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley	2.2	7.6	5.6	n/a	6.4
3 Month LIBOR + 4%	1.1	4.6	4.8	n/a	4.8
Relative Performance	1.0	2.9	0.8	n/a	1.5

* annualised since inception date 24/11/2010

Allocation

Morgan Stanley has split out investments into a bespoke portfolio of alternatives comprising five different asset allocations;

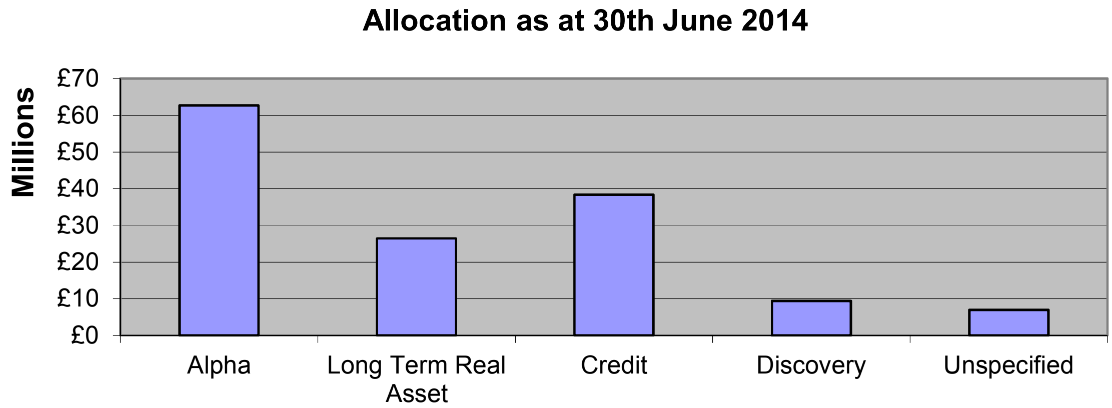
Alpha – These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.

Long Term Real Asset – These are long term investments that seek to access illiquidity premium. Investments include Private Equity, Infrastructure, Real Estate, Commodities and Inflation – linked strategies.

Credit – These are the purchase of the lower rated bonds where higher default is more likely. Manager selection is important to ensure the correct bonds are purchased that will appreciate following rating upgrades and merger and acquisition activity. Credit opportunities include Emerging Market Debt, High Yield Bonds, Senior Loans and Convertibles.

Discovery – These are new opportunities of investments and can include Frontier Markets, Distressed Opportunities and Volatility.

Unspecified – These are cash balances held with Morgan Stanley.



Portfolio Positioning
During the quarter, Morgan Stanley increased their overall allocation to hedge funds, and given their conviction on active management, they introduced a liquid alpha fund and restructured the macro allocation to include a more focused global tactical asset allocation strategy.

Morgan Stanley continued to decrease their overall allocation to expanded credit through reductions in senior loans, convertible bonds and high yield.

Hymans Robertson View

Morgan Stanley remain one of Hymans preferred managers for diversified alternatives mandates. They feel Morgan Stanley have a wealth of experience investing on alternative assets and the team responsible for this Fund have an impressive track record and a clear and well thought out investment approach.

Risk Control

Portfolio volatility since inception is 4.07% within the guidelines specified by the mandate.

Conclusion

The quarter saw all managers produce positive absolute returns ranging from 1.3% to 2.4%. Over twelve month managers have also produced positive absolute returns ranging from 3.1% to 12.8%.

Consultation

a) Policy Proofing Actions Required

n/a

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 Nick Rouse, who can be contacted on 01522 553641 or nick.rouse@lincolnshire.gov.uk.

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	**Pension Committee**
Date:	**09 October 2014**
Subject:	**Pensions Administration Report**

Summary:

This is the quartely report by the pension administrator Mouchel.

Graeme Hall, the Service Delivery Manager, will update the committee on current administration issues.

Recommendation(s):

That the committee note the report.

Background

1. Performance and Benchmarking

1.1 Local Performance Indicators (LPI's) are routinely reported to Lincolnshire County Council at monthly partnership meetings. The purpose is to provide greater clarity to the Pension Fund of the Mouchel Pension Units' overall performance compared against industry standards. The service delivery team use the task management module to organise their daily work flow with target dates and performance measures hard wired into the system. The performance measures ensure tasks are prioritised on a daily basis and although the work flow is in the main automated, the service delivery co-ordinator has the flexibility to re-schedule work should time pressure demand. The intention of the locally agreed indicators is to enhance the visibility of Mouchel's overall service standards and similarly assist the Committee in its role of monitoring the overall performance of the Mouchel Pension Unit. The locally agreed indicators compliment the rather narrow set of CIPFA national benchmarking measures already reported through established Service Level Agreements and the benchmarking club.

1.2 The 13 LPI groups have been selected as they represent work areas that generate the highest volumes of enquiries and queries. The minimum days (time taken) and performance targets (as a minimum target) are set purposely to ensure that the Mouchel Pension Unit can provide a quality service to all our customers.

1.3 The Task Management reports show the Units performance as measured against both the local indicators and the national CIPFA benchmarks. The results for the period June 2014 to August 2014 extracted from the Task Management module (Altair) are shown below.

Service	Days	Minimum Target	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target	Actual Performance
Processing new entrants	18	98.5	4.1	1042	0	1042	1042	100.0%
Transfers – in (Calculation)	30	98.5	4.4	39	0	39	39	100.0%
Transfers – in (Payment received)	30	98.5	5.3	44	0	44	44	100.0%
Transfers – Out (Calculation)	30	98.5	5.5	88	3	88	85	96.6%
Transfers – Out (Payment)	30	98.5	4.8	27	0	27	27	100.0%
Retirement Actual	5	98.75	4.3	148	1	148	147	99.3%
Deferred into payment	20	98.5	4.9	161	0	161	161	100.0%
Deferred Benefits	10	98.5	3.2	533	6	533	527	98.9%
Estimates	10	98.25	4.5	427	0	427	427	100.0%
Death in Service	5	98.5	4	4	0	4	4	100.0%
Death of a pensioner	5	98.5	4.1	67	0	67	67	100.0%
Refunds	5	98.75	4.4	58	0	58	58	100.0%
Pension Calculations	10	98.5	3.8	217	0	217	217	100.0%

Service	Days	Minimum Target	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target	Actual Performance
Transfer in quotes	10		4.4	39	0	39	39	100.0%
Transfer out quotes	10		5.5	88	3	88	85	96.6%
Actual retirements	5		4.3	148	1	148	147	99.3%
Deferred calculation	10		3.2	533	6	533	527	98.9%
Estimates	10		4.5	427	0	427	427	100.0%
Death -initial letter to next of kin	5		0.8	81	2	81	79	97.5%
Death - notification of spouses pension	5		4.5	39	5	39	34	87.2%
Refund payments	5		4.4	58	0	58	58	100.0%

1.4 Some cases have again exceeded the target days as expected and warned in the previous report to the committee, primarily as a result of the continued ripple effect of the new scheme regulations. It should be noted however that the average case times were within agreed targets across all areas and the overall actual achievement level is 98.80%.

1.5 At the last meeting particular attention was drawn to the rate of failures in the deaths process. This again shows a lower performance level than normal but it should be noted that the 5 cases over target in table 2 relate to 2 individuals only, all in the first period of the quarter (June). In all 5 cases, 6 days were taken to complete the work, against a target of 5 days. No failures have been recorded in July or August in this area and the next Committee Report should show an improvement in performance.

1.6 The current membership of the Lincolnshire Pension Fund is set out in the following table. Employer numbers continue to remain relatively static as the flow of LCC schools to Academy status continue to remain low when compared to the initial uptake in previous years. The ongoing creation of Free Schools however means that numbers do continue to rise.

Volumes as @ 31/08/2014 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	20,384	27,131	763	16,904	1,612
Cllrs	49	10	2	22	5
Totals nos	**20,433**	**27,141**	**765**	**16,926**	**1,617**

2. Praise and Complaints

2.1 As part of the continued monitoring of the sections overall performance the Service Delivery Manager maintains an issues log that records all instances of praise and complaints received in the Unit either through general correspondence (including e-mail) and routine telephone calls. During the period 1st June to 31st August 2014 there were no logged instances of praise or complaint to report.

3 Administration Update

3.1 Following the Unit's work on the Altair testing matrix, the latest version of the administration software has been loaded in to the Live environment. This will fix a number of known errors within the calculation modules of the system and will improve the efficiency of the administration team. Mouchel is one of the first sites in England to receive this update as a result of being part of the testing group.

3.2 Year end procedures have now been completed, meaning that all members will have fully up to date remuneration and contribution records. Consequently, Annual Benefit Statements are now being issued to all active and deferred members throughout October.

3.3 The last quarters report outlined changes to taxation of pension savings. The Pension Unit has now sent formal Pension Saving Statements to all members who are either in breach or at risk of breaching Annual Allowance (AA) or Lifetime Allowance (LTA) limits, in line with the overriding HMRC regulations.

3.4 In order to support the transition of pension administration services to West Yorkshire Pension Fund, Mouchel have agreed to release a team member

(Stuart Duncombe) for 1 day per week, to be seconded to the LCC transition team to help ensure a smooth transfer. There is scope within this agreement to increase the time allocation should circumstances require it.

3.5 The Pensions Technical Officer (Kaele Pilcher) has been providing training sessions to employers in order to support them to meet the obligations required of them by the Scheme. Formal evaluation feedback on these sessions has been very positive.

4 Current Issues

4.1 Following the introduction of the 2013 regulations, there remains outstanding further miscellaneous regulations (2014), required to clarify certain rules and policy intentions. This was expected early in the Autumn, however at the time of writing, they are yet to be released. Mouchel will update the committee once they have been released with any relevant changes to the scheme.

Conclusion

The Mouchel Pensions Administration team continues to work closely with Lincolnshire County Council to provide an efficient and effective service to all stakeholders within the Lincolnshire Pension Fund.

Consultation

a) Policy Proofing Actions Required

n/a

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 Stuart Duncombe, who can be contacted on 01522 836463 or stuart.duncombe@mouchel.com.

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**09 October 2014**
Subject:	**Manager Report - Invesco Asset Management - Global ex UK Enhanced Index Equity Portfolio**

Summary:

This paper introduces a presentation from Invesco Asset Managers, who manage the Global ex UK Enhanced Index Equity Portfolio. Representatives of the manager will report on how our investments have performed.

Recommendation(s):

That the Committee note the report.

Background

1 The Fund's external managers report quarterly in writing and at least once every twelve months in person to the Committee. Performance is formally reviewed every three years and a decision taken to retain the manager or re-tender the mandate. Contractually, management agreements can be terminated with one month's notice.

2 Invesco Asset Management Ltd commenced management of the global enhanced index equity portfolio on 1st July 2005. Management of the portfolio is undertaken by the Structured Products division of Invesco, who apply a financial model and optimisation process in the selection of stocks and the construction of the portfolio. The manager ran a US portfolio for the Fund from July 2000 until June 2005.

3 The global portfolio is the passive part of the Fund's global equity allocation and seeks, similar to the internally managed UK equity portfolio, to perform slightly better than the index whilst taking only a small degree of relative risk, i.e. likely deviation from the benchmark return measured by a forecast tracking error. The portfolio will hold a large number of stocks and deviate only marginally from the index in terms of countries and company sectors,

with out-performance expected to be generated from stock selection. The performance target for this portfolio is to outperform the MSCI World ex UK index by 1% per annum (before any fees are deducted) over a three year rolling period, whilst maintaining a forecast index tracking error of 1%. This would compare to an active manager looking to exceed an index by perhaps 3% per annum with a forecast index tracking error of 6%.

4 The manager's representatives presenting to the Committee are Michael Fraikin, Head of Client Portfolio Management, and Hugh Ferrand, Client Director.

MANAGER PERFORMANCE TO 31ST AUGUST 2014

5 The Manager will comment in detail on the market environment and performance over the last year. Performance in the period is set out in the table below. Over the year the portfolio returned 14.9% compared to a benchmark of 13.1%, an out performance of 1.6%.

	Manager Return %	Benchmark Return %	Relative Performance %
2013			
September	(0.04)	0.25	(0.29)
October	5.27	4.78	0.46
November	0.45	(0.10)	0.56
December	0.83	0.93	(0.10)
2014			
January	(2.61)	(2.89)	0.29
February	2.94	2.78	0.16
March	1.57	1.00	0.56
April	(0.75)	(0.58)	(0.16)
May	2.61	2.76	(0.14)
June	(0.27)	(0.04)	(0.23)
July	(0.18)	(0.37)	0.20
August	4.39	4.08	0.30
12 mths (cumulative)	14.86	13.05	1.60

6 Longer term performance is set out below.

	Portfolio %	Benchmark %	Relative %
3yrs Annualised	16.57	14.98	1.38
5yrs Annualised	13.41	12.06	1.20
Inception Annualised	9.33	8.00	1.24

7 The annualised performance since inception has been a return of 9.3% against a benchmark return of 8%, giving an out performance of 1.2%. This is above the targeted return of 1% per annum.

8 Annual performance has been well ahead of the benchmark in all of the longer term periods shown above. All aspects of the manager's reporting and administration have been very good.

Conclusion

9 Invesco have continued to manage the Global ex UK Enhanced Index Equity portfolio to meet the out performance target, whilst keeping within their risk constraints.

Consultation

a) Policy Proofing Actions Required

n/a

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.

Agenda Item 9

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**09 October 2014**
Subject:	**Pension Fund External Audit ISA 260 Report**

Summary:

This report brings to the Committee the ISA 260 report to those charged with governance of the Pension Fund, submitted by the external auditors for the Council, KPMG.

Recommendation(s):

That the Committee note the ISA 260 Report.

Background

1. The Pension Fund Annual Report and Accounts for the year ended 31st March 2014 have been completed and were approved by this Committee in July. These have now been independently audited by the Council's external auditors, KPMG. A report to those charged with governance (ISA 260) for the Pension Fund has been prepared by KPMG, and was taken to the Audit Committee on 22nd September for approval. It has been brought before the Pensions Committee for information.

2. The ISA 260 report is shown as Appendix A. The key points to note:

- Section Two (page 3) –

  - The External Auditor is pleased to report that their audit of the Fund's statements did not identify any material misstatements and there are no uncorrected misstatements.

  - The External Auditor states that the Authority has maintained the high standard in the quality of the accounts and supporting working papers.

- Officers dealt efficiently with audit queries and the audit process was completed within planned timescales.

- The Fund's organisational control environment is effective overall and no significant weaknesses were identified in the controls over key financial systems.

- Section Three (page 4) – The External Auditor noted an error in the valuation of the private equity investments, which resulted in a misstatement of the net returns on investments of £2.5m. This was corrected in the final accounts.

- Section Three (page 5) – The prior year recommendation was to obtain final membership numbers for the draft accounts before the 30th June deadline for draft statements. Given the dependence on the Pensions Administration provider, this is not possible. The membership numbers are updated ahead of the final publication of the report and accounts and before the governance report is presented to the Audit Committee.

- Appendix 1 (page 7) – The External Auditor has made one recommendation following the identification of an incorrect exchange rate being used in the private equity valuations. This is to review all foreign exchange rates applied for consistency and accuracy. The External Auditor has classed this as a priority two, which if corrected would have an important effect on internal controls, but does not need immediate action. A solution was agreed between officers and KPMG and implemented with immediate effect.

3. The accounts have been approved and signed off by external audit. The draft annual report will be finalised once the external auditor has issued his formal opinion and this has been incorporated into the report.

4. When finalised, a copy of the annual report will be put on both the Pension Fund and the County Council websites, and all Fund employers will be notified. In addition, the link will be emailed to all County Councillors, trade unions who represent contributing members of the Fund and on request to any other individuals or organisations. A summary of the annual report will be sent to all scheme participants in due course.

Conclusion

5. The Pension Fund Accounts for the year ended 31st March 2014 has received an unqualified audit opinion from the Council's external auditors, KPMG. Once the formal opinion has been received, a copy of the Pension Fund Annual Report and Accounts will be distributed to interested parties.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund ISA 260 Report

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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KPMG

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Report to those charged with governance (ISA 260) 2013/14

Lincolnshire Pension Fund

September 2014

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

Section one

Introduction

This document summarises the key issues identified during our audit of Lincolnshire Pension Fund's (the Fund's) financial statements for the year ended 31 March 2014.

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Scope of this report

The Audit Commission's Code of Audit Practice requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and report to those charged with governance. We are also required to comply with International Standard on Auditing ('ISA') 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of the Fund's financial statements for the year ended 31 March 2014.

Financial statements

As with the main audit of Lincolnshire County Council (the Authority), our audit of the Fund follows a four stage audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures.

Our on site work for these took place during February 2014 (interim audit) and June/July 2014 (year end audit).

Some of our responsibilities under ISA 260 relate to the Authority as administering authority as a whole and are discharged through our separate ISA 260 Report and Annual Audit Letter for the Authority. This specifically includes our work in the completion stage:

- Declaring our independence and objectivity;
- Obtaining management representations; and
- Reporting matters of governance interest, including our audit fees.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the findings from our audit work on the Fund's financial statements in more detail.

We have raised one recommendation this year. Further detail is enclosed at Appendix 1.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages.

Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report, by 30 September 2014. At the date of this report our audit of the Fund's financial statements is substantially complete. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund.
Audit adjustments	We did not identify any material misstatements and there are no uncorrected misstatements that we need to report to you.
Accounts production and audit process	The Authority has maintained the high standard in the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.
Control environment	The Fund's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.

Proposed opinion and audit differences

We have identified no issues in the course of the audit that are considered to be material.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 22 September 2014.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements and there are no uncorrected misstatements that we need to report to you. The table below illustrates the impact of the corrected misstatements on the Fund. We understand managers are to provide the Audit Committee with further details on the corrections made during the audit to the draft statements.

Movements on the Pension Fund Account Fund 2013/14

£m	Pre-audit	Post-audit
Net additions from dealing with fund members	4.4	4.4
Net returns on investments	94.5	92.0
Increase in Fund	**98.9**	**96.4**
Investments	1583.0	1,580.5
Net current assets/liabilities	10.9	10.9
Net assets of the Fund	**1,593.9**	**1,591.4**

Completion

At the date of this report, our audit of the Fund's financial statements is substantially complete.

Before we can issue our opinion we require a signed management representation letter. The representations in relation to the Fund will be included in the Authority's representation letter.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements. A full declaration of our independence is set out in the main *ISA 260 Report* for the Authority.

Annual Report

We have reviewed the Pension Fund Annual Report and confirmed that:

- it complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; this is not part of our statutory responsibilities but may have been completed as added value work; and
- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2014. The Pension Fund Annual Report was approved by the Pensions Committee in July 2014.

Accounts production and audit process

The Authority has maintained the high standard of its draft accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has sought to address the recommendation made in our 2012/13 ISA 260 Report.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the accounting practices and financial reporting relating to the Fund. We also assessed the Authority's process for preparing the Fund's financial statements and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has good financial reporting arrangements over the Fund's financial statements. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 27 June 2014.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 23 March 2014 and discussed with Senior Pensions Accountant, set out our working paper requirements for the audit. The quality of working papers provided was met the standards specified in our *Accounts Audit Protocol*. We have included one recommendation at Appendix 1 regarding an improvement opportunity for next year.
Critical accounting matters (key audit risks)	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.
Response to audit queries	Officers resolved audit queries in a reasonable time.

Prior year recommendations

In our 2012/13 ISA 260 Report we noted that the disclosure in the draft financial statements regarding membership numbers needed to be updated after the statements were produced. We recommended the Authority look to obtain the updated information before the draft statements were produced. The Authority has sought to address this recommendation but it is dependant on its pensions administration partner for this information. It was not possible for it's partner to provide the information before the 30 June 2014 deadline for the Authority's draft statements so the Authority has continued with its existing practice.

Control environment

The controls over the Fund's key financial systems are sound.

During February 2014 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

We found that your organisational control environment is effective overall.

ISAE 3402 reports

The Fund used a total of 7 different fund managers during 2013/14. Fund managers provide assurance reports under International Standard on Assurance Engagements (ISAE) 3402 or equivalents. These reports provide assurance over the controls at a service organisation where these controls are likely to be relevant to user entities' internal control over financial reporting.

Assurance reports were available for all fund managers.

Work on behalf of admitted body auditors

The auditors of admitted bodies requested us to complete specific work on controls operated by the Fund over certain data provided to the Actuary for their estimation of the pensions liabilities and related disclosures for the admitted bodies' 31 March 2013 triennial valuation.

Our work did not identify any specific issues.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Fund should closely monitor progress in addressing specific risks and implementing our recommendations.

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Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Review of foreign exchange rates** We identified during our audit an incorrect foreign exchange rate applied to the valuation of an investment in US Dollars (on this one occasion the Euro rate was used in error). This resulted an overstatement of £2.5m in the valuation of the investment. **Recommendation** Management should review all foreign exchange rates applied to the valuation of an investment for accuracy and consistency.	Agreed and implemented with immediate effect. **Responsible Officer:** Jo Ray (Group Manager) **Due Date:** Immediately

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Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**09 October 2014**
Subject:	**Performance Measurement Annual Report**

Summary:

This report sets out the Pension Fund's longer term investment performance, for the periods ending 31st March 2014.

Recommendation(s):

That the Committee note the report.

Background

1 INTRODUCTION

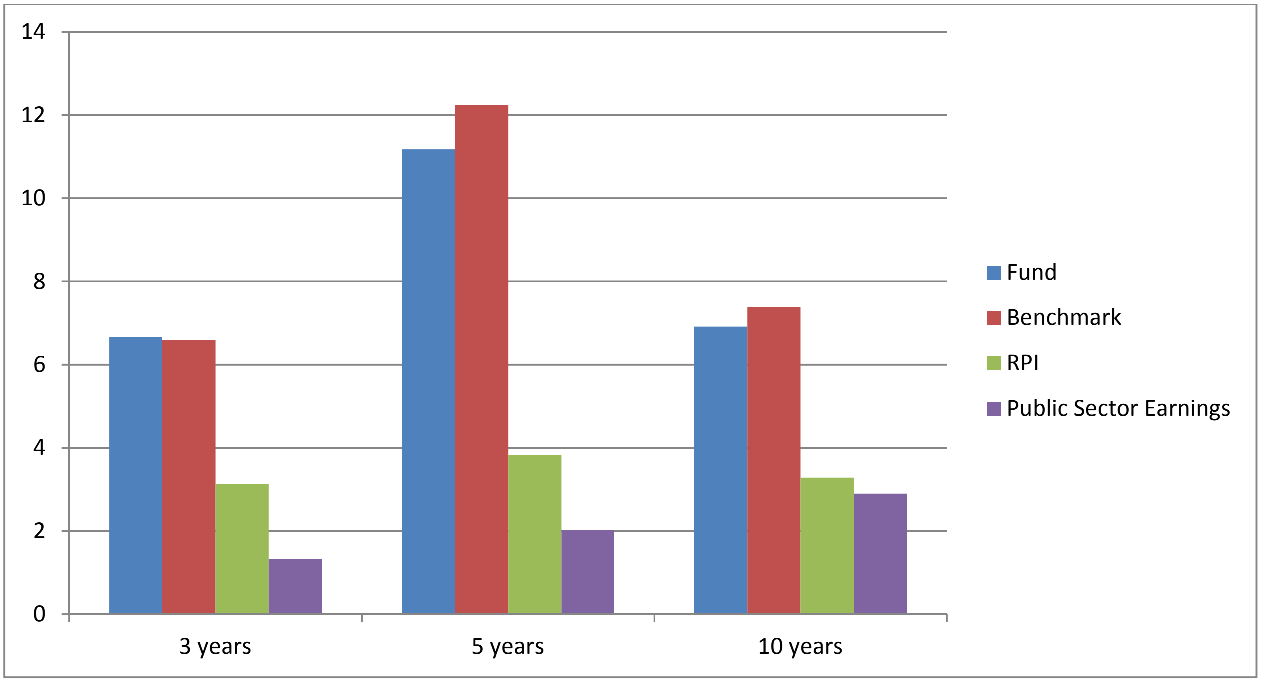
1.1 The Pension Fund uses two suppliers for the measurement of the Fund's performance. JPMorgan, the Fund's custodian, calculates the Fund's investment performance and compares it with the returns of the strategic asset allocation benchmark (i.e. the return achieved by the mix of assets as recommended by the Actuary). The WM Company compare the Fund's performance against the average Local Authority Pension Fund. The Fund's long term aim is to outperform the strategic benchmark by 1% per annum.

2 LONGER TERM PERFORMANCE FOR YEARS ENDED 31 MARCH 2014

2.1 The short term performance of the Fund and its managers is reported in the quarterly Investment Management report. This report will focus on the longer term performance of the Fund overall, compared to its strategic benchmark and the pay and price increases that impact the liabilities of the Fund. At the latest valuation, as at March 2013, the Actuary has calculated the employers contribution strategy based on an assumed annual return of 4.6% over the long term.

2.2 The graph and table below show longer term Fund and Benchmark performance, along with the increases in consumer prices and public sector earnings.

INFLATION INCREASES AND INVESTMENT RETURNS FOR UP TO 10 YEARS ENDED 31/3/2014



	3 years annualised %	5 years annualised %	10 years annualised %
Retail Prices Index increases	3.1	3.8	3.3
Public sector average Earnings increases	1.3	2.0	2.9
LCC Fund performance	**6.7**	**11.2**	**6.9**
LCC Benchmark Performance	**6.6**	**12.3**	**7.4**
Relative Performance	**0.1**	**(0.9)**	**(0.4)**

2.3 10 Year Returns

The Fund's performance over ten years, at 6.9%, is slightly behind the Fund's Benchmark return of 7.4%. This return is ahead of both inflation and average earnings over the last ten years, to which the scheme's liabilities are linked, which were 3.3% and 2.9% p.a. The Fund's performance reflects poor stock selection by the Fund's active asset managers over a number of years, as can be seen in the table at paragraph 3.4.

2.4 5 Year Returns

Five year returns of 11.2% per annum are ahead of both price and pay inflation. The Fund's actual performance is behind the strategic Benchmark return of 12.3%. This reflects the underperforming active managers, and the shift away from the strategic benchmark position in 2009 and 2010, ahead of the transitions to the new benchmark in 2010.

2.5 3 Year Returns

Three year returns, at 6.7%, are ahead of both inflation and average earnings, and marginally ahead of the strategic benchmark return of 6.6%.

3 ATTRIBUTION ANALYSIS

3.1 The attribution of the return over any period can be split between asset allocation and stock selection.

3.2 The asset allocation contribution reflects the extent to which decisions to deviate from the strategic benchmark, e.g. to be overweight cash and underweight equities, added to or detracted from performance, compared to the benchmark.

3.3 The stock selection contribution reflects the extent to which managers have or have not exceeded their benchmark index.

3.4 The Fund's annual performance over the last ten years compared to the Benchmark is set out in the tables below. Generally, stock selection has detracted from overall performance. This supports research that shows that active management generally detracts from performance over time, and the difficulty in selecting active managers that perform well over the long term. This may also be due to the timing of the appointment and termination of fund managers, when they are generally appointed after a period of good performance, and terminated after a period of poor performance.

Long Term Performance Analysis

Year ended March	Fund %	Benchmark %	Relative Performance %	Attributed to Asset allocation %	Attributed to Stock Selection %
2005	11.0	11.9	**(0.8)**	0.2	(1.0)
2006	24.4	24.1	**0.3**	0.7	(0.4)
2007	6.9	6.5	**0.3**	0.4	(0.1)
2008	(4.4)	(3.3)	**(1.1)**	0.1	(1.2)
2009	(18.6)	(20.0)	**1.7**	2.1	(0.4)
2010	29.7	36.7	**(5.1)**	(3.1)	(2.1)
2011	7.9	7.8	**0.1**	0.1	0.0
2012	1.5	2.4	**(0.8)**	(0.2)	(0.6)
2013	12.6	11.3	**1.2**	0.12	1.04
2014	6.3	6.2	**0.1**	0.15	(0.08)

4 WM LOCAL AUTHORITY UNIVERSE

4.1 The WM Company (a wholly owned subsidiary of State Street) measures the performance of the Fund against the Local Authority Universe. The WM Local Authority (LA) Universe is an aggregation of 84 funds within the LGPS sector that are used for peer group comparisons.

4.2 The weighted average return for Local Authority Pension Funds in the WM Local Authority Universe over the year 2013/14 was 6.4%, slightly ahead of the Lincolnshire Fund return of 6.3%. The actual performance of the Fund ranked in the middle of the Local Authority funds, at the 54th percentile. Over the longer term, the Fund is in the 70th to 80th percentile.

4.3 The table below shows how the asset allocation for the Lincolnshire Fund compares with the average Local Authority Pension Fund in 2014 and 2013.

Asset Class	**Lincolnshire**	**LA Average**	
		2014	**2013**
Equities	60.0	63	63
Bonds	13.5	16	18
Property	11.5	8	7
Alternatives	15.0	10	9
Cash	0.0	3	3

4.4 Since the 1990's Funds have been using strategic benchmarks linked to their individual liability profiles, rather than a standard asset allocation. The asset allocation of the Fund was considered at the July meeting of this committee, and the high level growth/low risk asset allocations agreed.

Paper 11 of this committee brings further discussion on the asset allocation beneath these areas.

4.5 Within the LA Universe, there has been a reduction in bonds and an increase in alternatives and property. Within equities, the move from UK to global equities has continued, although the overall allocation has remained static.

4.6 Additional research on active management from WM, to the year ended December 2013, has shown that UK equity managers have generally outperformed their benchmarks in the last four years. Global equity managers have not fared so well, with performance being more mixed and generally less positive. There has also been a move away from segregated mandates to pooled funds, possibly as a result of the onerous and costly OJUE requirements in selecting a segregated manager.

Conclusion

5.1 The Pension Fund's investment performance of 6.9% over the 10 year period ended 31st March 2014 was slightly behind the strategic benchmark of 7.4%. The Fund is seeking to outperform the Benchmark by 1% per annum over rolling three year periods. Annualised returns over three, five and ten year periods are ahead of inflation in pay and prices. At an absolute level, the ten year performance is comfortably ahead of the current actuarial assumption for return of around 5% per annum.

5.2 Looking at the individual years, there was a positive contribution from asset allocation and a negative contribution from stock selection in the year ended March 2014. In eight of the last ten years, stock selection has detracted from performance.

Consultation

a) Policy Proofing Actions Required

n/a

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.

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**09 October 2014**
Subject:	**Asset Allocation**

Summary:

This report updates the Committee following the first meeting of the working group to discuss asset allocation, following the asset liability study undertaken by Hymans Robertson.

Recommendation(s):

That the Committee consider and agree the proposals put forward by the asset allocation working group.

Background

1. Following the 2013 Triennial Valuation, the Funds investment consultant, Hymans Robertson, was asked to undertake an asset liability study to ascertain whether the current strategic benchmark was still fit for purpose to allow the Lincolnshire Pension Fund to meet its objective, namely to ensure that funds are available to pay pension liabilities over the long term. The initial report was taken to the July meeting of this Committee, and the Committee agreed the high level allocation between growth assets and low risk assets.

2. It was agreed that a working group should be set up to discuss the allocation within those two areas, and to report back to the October meeting of this Committee with proposals. The first meeting was held on Monday 22nd September and the group consisted of Councillor Jackson, the pensions and treasury manager, the investment manager, the independent advisor and the Fund's investment consultant.

3. The objective of an Asset Allocation exercise is to identify a portfolio that has a high enough return to meet the scheme's actuarial liabilities in the long term, whilst damping down the volatility of the market value of the

portfolio in the near term. Asset allocation is more "art than science", so there will be a range of such possible portfolios. The desirable outcome is one that maximises return for a given volatility, or alternatively minimises volatility for a given return. Peter Jones will be happy to give a visual explanation of this to the committee at its meeting, should it so wish.

4. It is worth noting that the outcome of the DCLG's consultation on the use of Collective Investment Vehicles (CIV's) and passive management is still outstanding. This was considered in the discussion within the working group.

5. The asset allocation is split between the two areas of growth assets and low risk assets. The growth assets are 86.5% of the Fund and include the equity, property and alternative investments. The low risk assets are 13.5% of the Fund and are the bond investments. In addition, the Fund has a currency overlay program on an element of the equity allocation. The paragraphs below capture the discussion and proposals across each asset area.

6. **Equities**

Current allocation: 20% UK passive, 20% Global ex UK enhanced passive and 20% Global active.

- UK and overseas split – currently one third/two thirds. 20% in UK should be the maximum, could potentially bring this down to 15%.
- Global ex UK mandate – 20% is the maximum with one manager. Performance excellent over all time periods. No change required.
- Global active – review these to understand whether they are doing what we require. Is there another way of getting the same or greater return whilst reducing the volatility and in a more cost effective way? Potential to increase allocation to passive but through the use of alternative indices?

Proposal:

- For the working group to review the requirements of the active equity allocation and consider alternative options.

7. **Property**

Current allocation: 11.5%, including approximately 2% committed to/invested in infrastructure.

- Should infrastructure sit within property or stand alone?
- Separate out core property investments and "other" property investments, and report separately.

- Agree property strategy.

- Review all investments and how managed.

Proposals:

- For the working group to review the current property investments and strategy.

- To consider a higher dedicated allocation to infrastructure to be achieved in the longer term and maintaining a 10% allocation to property.

8. **Alternative Investments**

Current allocation: 15%

- Current allocation to stand – no changes required.

9. **Bonds**

Current allocation: 13.5% of which 6.75% is passive and 6.75% is absolute return.

- Current overall allocation to stand.

- Absolute return allocation to remain.

- Review passive allocation.

Proposals:

- For the working group to review the current split of passive funds, which is 50% corporates, 30% index linked and 20% overseas governments, with a view to moving the overseas allocation to UK Government bonds.

10. **Currency Overlay**

Current allocation: overlay the 20% Global ex UK equity mandate.

- Review requirement for currency overlay.

Proposals:

- For the working group to review the use of a currency overlay strategy.

Conclusion

11. Following discussion, the working group requests that the Committee consider the following proposals across the asset classes:

- Equities - For the working group to review the requirements of the active equity allocation and consider alternative options.
- Property - For the working group to review the current property investments and strategy.
- Property - To consider a higher dedicated allocation to infrastructure to be achieved in the longer term and maintaining a 10% allocation to property.
- Bonds - For the working group to review the current split of 50% corporates, 30% index linked and 20% overseas governments, with a view to moving the overseas allocation to index linked.
- Currency - For the working group to review the use of a currency overlay strategy.

Consultation

a) Policy Proofing Actions Required

n/a

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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