County Offices
Newland
Lincoln
LN1 1YL

30 March 2015

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 9 April 2015** 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 APRIL 2015

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
8 JANUARY 2015

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

Co-Opted Members: Mr A N Antcliff (Employee Representative), M G Leaning (District Councils Representative) and Mr J Grant (Non-District Council Employers Representative)

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

40 APOLOGIES/REPLACEMENT MEMBERS

Apologies were received from Councillor C E D Mair.

41 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 be made in the minutes that he was currently a contributing member of the Pension Fund as an employee of Lincolnshire County Council.

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

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.

42 MINUTES OF THE PREVIOUS MEETING OF THE PENSIONS COMMITTEE HELD ON 11 DECEMBER 2014

Owing to the omission of the Added Members of the Committee in the minutes which accompanied the agenda pack, a revised set was circulated at the meeting

RESOLVED

That the minutes be approved and signed by Chairman as a correct record.

43 INDEPENDENT ADVISORS REPORT

Consideration was given to a report by the Committee's Independent Advisor on the current state of global investment markets.

It was reported that the price of oil had fallen by 50% in 6 months which could be seen as a positive step for the global economy.

Compared to long term economic growth rates, 2015 was predicted to be a slow year for the UK economy and 2016 was forecast to be slower still.

RESOLVED

That the report be noted.

44 PENSION FUND UPDATE REPORT

Consideration was given to a report which updated the Committee on the current issues and Fund matters over the quarter ending 30 September 2014. Jo Ray summarised the report to Members.

The LAPFF Annual Conference had been held in Bournemouth and attendees had been updated on current engagements, investment in infrastructure, international activism and changes in pension governance.

Discussion took place regarding joining together with another fund. Officers confirmed that managing funds and liabilities together was an option, but amalgamating would require new legislation. It was felt that joining together voluntarily would be a better situation to be in than being forced to merge.

The Committee would receive an update on the collaborative working currently underway in the LGPS at the next meeting.

Another meeting of the Asset Allocation Working Group had taken place and it was reported the Group had questioned whether the Fund needed a more passive approach to asset management. The Group will await the outcome of the Government's consultation on passive investment and CIV's before preparing a recommendation paper to bring before the Committee.

It was reported that the final regulations for the Pensions Board had not yet been received by Officers. Information on the requirements of the draft legislation had already been presented to the Value for Money Scrutiny Committee and would be presented to full Council at its February meeting. The Committee's training session in early February would cover the new Pensions Board.

RESOLVED

That the report be noted.

45 INVESTMENT MANAGEMENT REPORT

Consideration was given to a report which covered the management of the Lincolnshire Pension Fund assets over the period from 1 July to 30 September 2014.

Officers reported that there would be a fund rebalancing in January/February 2015. The process would take approximately 3 weeks and money would be re-allocated across managers in line with the strategic benchmark.

Nick Rouse summarised the report which outlined the performance of the Fund's managers during the period covered.

Some members of the Committee agreed that Hymans Robertson needed to be more proactive in scrutinising the Fund's managers rather than waiting to be asked for feedback. This had been raised with them previously. It was agreed that Hymans Robertson be invited to the April meeting of the Committee to allow them to comment on their performance.

The performance summary to 30 September 2014 showed that whilst the absolute performance was good, the fund had underperformed against its benchmark since inception. David Forbes reflected that this had not been due to the Fund's asset allocation, but was due to the selection of active managers. It was noted that the passive elements of the Fund had performed well against their benchmarks.

RESOLVED

1. That the report be noted;

2. That Hymans Robertson be invited to attend the meeting of the Pensions Committee on 9 April 2015.

46 PENSION ADMINISTRATION REPORT

The Committee considered a quarterly report by the Pensions Administrator, Mouchel and Stuart Duncombe, the Communications Coordinator presented it to the Committee.

The Local Performance Indicators illustrated better performance of the administration of pensions this quarter, compared to the previous quarter. Backlogs of work were generally due to the time-lag between the changes in the Scheme from 1 April 2014 and the updating of the Pensions Administration system, Heywood's Altair. All authorities using this software would have been in the same position.

All members of the pension fund would have received information about the shared service with West Yorkshire Pension Fund in their annual statements which were distributed in October and November 2014. As the statements for Councillors were sent out before the contract for the scheme had been signed, they had not received official notification of the shared service as yet. All Scheme members would be written to in February/March 2015 to inform them of the change in administration services.

RESOLVED

That the report be noted.

47 PENSIONS ADMINISTRATION TRANSITION UPDATE

Consideration was given to a report which updated the Committee on progress with the transition of the pensions' administration service from Mouchel to West Yorkshire Pension Fund (WYPF).

The contract with Mouchel to provide Pensions Administration services to the Fund was due to end on 31 March 2015. Committee members had been notified in May 2014 that WYPF was the preferred provider for pensions administration services from 1 April 2015.

The project team, put in place to deal with the transfer, had a number of discussions around current practice. WYPF adhered to the Quality management System (ISO 9001:2008) and therefore their procedures and processes were well documented and applied consistently.

The Committee were requested to consider four recommendations to amend the Council's policy to that of WYPF as follows:

1. Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment) – Lincolnshire currently apply this on a case by case basis, WYPF will only accept a request to pay an APC/SCAPC over a period of time where the regular monthly contribution is at least £10. Recommendation – to amend our policy to WYPF's;

2. Whether to require a satisfactory medical before agreeing to an application to pay an APC/SCAPC and whether to turn down an application to pay an APC/SCAPC if not satisfied that the member is in reasonably good health – Lincolnshire require any scheme member to complete a medical questionnaire and that they are in reasonably good health, WYPF require completion of a GP declaration unless it is to cover lost pension due to absence of up to 36 months or they have already reached their state retirement age.
   Recommendation – to amend our policy to WYPF's;

3. Charges in relation to the supply of information – currently Lincolnshire only charge members in two instances; for requests for cash equivalent values in divorce cases or where a second transfer value request is received within a twelve month period. WYPF have a set of charges for third party information requests. These cover calculation requests, printing

and supply of information, FOI requests, and also recharge any 3rd party costs incurred. Recommendation – to amend our policy to WYPF's;

4. 100th birthday flowers – WYPF send a bouquet of flowers to pensioners reaching 100 years of age. This is not something that Lincolnshire currently does. The Committee's decision on whether to adopt this practice is required.

Following discussion, all four recommendations were agreed.

RESOLVED:

1. That the report be noted;

2. That the recommendations to amend the Lincolnshire policies to WYPF's as stated above, be agreed.

The meeting closed at 11.45 am

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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 April 2015**
Subject:	**Independent Advisors 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

April 2015

2015 starts with surprises

In economic terms, 2015 started off with surprisingly good news out of the eurozone and patchy reports from the USA. The Q4 2014 economic growth rates in a number of European member states exceeded expectations (not least in Germany) and led to more optimistic forecasts for output in 2015 and 2016 in the eurozone. In part, this is a response to the sharp fall in the price of oil (of which most European states are wholly dependent on imports). Another significant factor is the sharp fall in the euro relative to other currencies, especially the US dollar and £ sterling, since early January. This will stimulate demand for exports from the eurozone. News from Asia and other emerging economies has generally disappointed.

The outcome in markets has been a strong showing in European equities (rises of close to 20% this year) and a more modest showing in most other markets such as the US and UK, though the latter two have recently tested or just exceeded all-time highs, without a decisive break upwards.

European Central Bank initiates QE (quantitative easing)

The markets have also adapted to the reality of the European Central Bank's ("ECB") long awaited program of bond buying as its policy response to the perceived need of the euro–economy for some form of monetary stimulation. This should have started four or five years ago (in parallel to initiatives in the USA and UK and in many other places around the globe) but was stymied by German intransigence. The purchases of some Euros 60 billion per month until late 2016 kicked off in mid-March. Markets of course have anticipated ECB actions, though initially they doubted that political resistance to its implementation could be overcome.

Whilst the ECB council was planning its QE programme, the Greeks elected a new government with a brief to scrap the austerity measures imposed on Greece by its creditors, in the main the International Monetary Fund and the EU. The negotiations of the Greeks with the EU and the German Government in particular have been tortuous and still await a meaningful resolution. Markets seem to accept that the possibility of Greece leaving (or being ejected from) the European currency union might not be quite so catastrophic for the future of the EU as it might have been two or three years ago.

The next move of interest rates – up or down?

The conundrum for markets is forecasting the direction of long term interest rates. A year ago, markets were convinced that the next move had to be upwards. That has proved spectacularly wrong, by and large. Rates on short term government securities in many European markets and in Japan have fallen and are now negative, in nominal terms. That seems bizarre! Why lend money knowing that you are going to get back less than your purchase price? Many institutions such as banks and insurance companies, have little choice but to invest in "matching" assets. And many investors are fearful of deflation in the longer term, i.e. prices actually falling, thus enhancing the value of fixed interest stocks in real terms.

The direction of interest rates is usually related to the direction of the economy. Rates rise as an economy expands and vice versa. The US and UK economies are certainly growing and interest rates have been edging up in 2015. There has seemingly been a recent change in trend economic growth in the eurozone. Before long therefore, European interest rates should start to rise, but thus far there is no sign.

Once interest rates start to rise, equity markets tend to be close to their peak. Not necessarily at their peak, but at a level from which significant further gains are unlikely. They could just "plateau".

The future of Quantitative Easing ("QE")

Overlaying the debate about the trends in global interest rates will be investors' perceptions of the withdrawal of QE. That is, central banks withdrawing – gradually to avoid panicking markets – the huge amounts of liquidity that they injected into their economies following the financial crash of 2008/9. This must happen sometime. When will it start, how quickly and over what time period? We can surmise that it will be sooner in the US and the UK and probably much later in the eurozone and Japan. We cannot know precisely and central bankers will respond only to evolving economic developments. Meanwhile all markets, equities, fixed interest and property are buoyed up by this abundance of money.

So, markets look "frothy". The temptation is therefore to deduce that they will fall in the near term. That has proven to be a false premise many times in the past. Like most other fund managers and advisors, I see no alternative but for the Lincolnshire fund to remain fully invested.

Peter Jones
23rd March 2015.

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

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**09 April 2015**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Committee on Fund matters over the quarter ending 31st December 2014 and any current issues.

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 £22.8m (1.4%) to £1,669.8m on 31st December 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 31st December. 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 1.9%

UK Equities underweight by 1.1%

Global Equities overweight by 3.1%

Underweight Alternatives by 0.8%

Underweight Property by 0.1%

Underweight Bonds by 1.1%

Overweight Cash by 0.2%

Movements in weight are due to the relative performance of the different asset classes. A rebalancing exercise took place in January/February to bring the asset weights into line with their benchmark weights.

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 31st December 2014.

1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 31st December, accounting for 9.3% of the Fund, which compares with 9.5% 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	23.0	1.4
2	HSBC	20.3	1.2
3	BRITISH AMERICAN TOBACCO	18.9	1.1
4	NESTLE	15.1	0.9
5	APPLE	14.4	0.9
6	UNILEVER	13.1	0.8
7	DIAGEO	13.1	0.8
8	RECKITT BENCKISER	12.8	0.8
9	BP	12.7	0.7
10	VODAFONE	12.2	0.7
	TOTAL	**155.6**	**9.3**

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 89 company meetings and cast votes in respect of 766 resolutions. Of these resolutions, the Fund voted 'For' 616, 'Against' 139 and abstained on 11 and withheld votes on 0.

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. Highlights during the quarter included:

- Met with Shell to discuss the company's approach to carbon management, including the proposed shareholder resolution calling on Shell to disclose a longer-term carbon strategy. This resolution has now been filed for the 2015 AGM next year. LAPFF representatives also attended a shareholder roundtable with the company.

- Met with the BP chairman, also to discuss the company's carbon management strategy and proposed shareholder resolution. Worked with the company to file a shareholder resolution regarding carbon management that has now reached the necessary threshold of co-filers to go to a vote.

- Following up on member concern about companies involved in the production and sale of cluster munitions, LAPFF held conference calls with Singapore Technologies (Singapore), Textron (US) and Lockheed Martin (US) that clarified the position of these companies in relation to cluster munitions.

- Met with construction firms Kier and Carillion to discuss labour relations in light of assertions that these companies engaged in blacklisting of trade union employees.

- Met with the National Express Chairman and CEO to continue dialogue around concerns that the company's US unit, Durham School Services, engages in poor labour practices at some of its US sites. LAPFF has engaged extensively with National Express in the past, and the fact that the company continues to meet with LAPFF is encouraging.

- Met with Trinity Mirror, another company with which LAPFF has engaged extensively. Discussions are continuing in relation to the company's role in the hacking scandal, but there are signs that Trinity Mirror is responding to engagement.

- Issued a draft voting alert to BG Group over the company's proposed executive remuneration package for incoming CEO. Along with other investor groups, LAPFF voiced concern to the company about the excessiveness of the package and its potential to undermine the new binding remuneration vote. The company eventually capitulated and re-worked the package to fit within the company's remuneration policy.

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 £10.2m. The invested cash has outperformed the benchmark from 1st April 2014 by 0.25%, annualised, as shown in the table below, and earned interest of £51.6k.

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 end December 2014				
Pension Fund Average Balance £'000	**Interest Earned £'000**	**Cumulative Average Yield Annualised %**	**Cumulative Weighted Benchmark Annualised %**	**Performance %**
10,187.5	51.6	0.65	0.40	0.25

4 Pensions Administration

4.1 The contract with Mouchel to provide Pensions Administration services to the Fund ended on 31st March 2015. Committee members were notified in May that West Yorkshire Pension Fund (WYPF) was the preferred provider for pensions administration services from 1st April 2015. WYPF will be presenting their first Pensions Administration paper at item 7 on this agenda.

4.2 At the time of writing this report, the final stages of the transition were going according to plan and there were no concerns.

4.3 As part of the reconciliation and data cleansing work that has been done ahead of the transition, a small number of over and under payments to pensioners have been identified. Underpayments have been corrected and legal advice has been taken on how best to approach the over payments, and to ensure that they are being handled in a sympathetic manner.

5 Risk Register Update

5.1 There has been one new risk added to the risk register over the quarter. With the introduction of new pension freedom rules coming into effect from 6th April, this has identified a new risk to the Fund. Should a high number of members choose to release their pension pots from age 55 and transfer them out of the Fund, the impact could cause cashflow problems and potentially reduce the Funding position. The Fund can only agree to the transfers out if independent financial advice has been taken by the member. Officers will work with WYPF to agree procedures to manage the process and keep the Committee updated should any concerns arise. A paper informing the Committee of the changes is at agenda item 10.

5.2 A separate risk register is being kept as part of the pensions administration transition to WYPF.

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

6 Asset Allocation

6.1 It was agreed at the January meeting of this Committee that a further meeting of the working group would be held following the response to the DCLG's 'Call for Evidence' consultation, and a paper would be brought to the April Committee detailing the research that Hymans have completed and providing any recommendations on changes within the Fund's active global equity allocation.

6.2 As yet we are still awaiting the Government's response, and it is now unlikely that anything will be released ahead of the general election. It was agreed with the Chairman and Vice Chairman that Officers would not prepare anything ahead of the Government's response, but will continue to update the Committee with any further information that becomes available.

7 Local Pension Board

7.1 The consultation on the Local Pension Board, which Committee members were informed of at the training meeting held in February, closed on 16th March 2015. At the time of writing this report, the terms of reference and appointment process had yet to be agreed and approved by the Executive Director of Finance and Public Protection. This had to be completed by the 1st April 2015, to enable the Pension Board to be established by the statutory deadline.

7.2 Results of the consultation, the terms of reference and other papers detailing the appointment process for Board members will be published on the Pensions website in early April.

8 LGPS Collaboration

8.1 It was requested at the January Pensions Committee that Officers update the Committee on the various collaboration projects that are happening across the LGPS. Below is a summary of the current initiatives underway.

8.2 **London Collective Investment Vehicles (CIV's)**

Over the last two years, the 32 London Boroughs and the City of London have been collaborating through London Councils to establish a route through to reduced costs and overall improved investment returns for the LGPS funds across the Capital.

Work is underway to establish a Collective Investment Vehicle (specifically an FCA regulated, Authorised Contractual Scheme) through which the Boroughs will be able to invest, achieving economies of scale, providing a platform for potentially significant cost savings, and opening up opportunities to invest in alternative asset classes (e.g. direct investment in infrastructure) that may not be easily achievable for individual funds. With over £24 billion of assets under management with 87 fund managers, across 253 mandates, and £72.8 million paid in fees in 2012/13, collaboration through the CIV is expected to deliver substantial savings on manager fees.

8.3 **Pensions Administration Collaboration**

In addition to the shared service that Lincolnshire is undertaking with WYPF, the following funds are sharing their pensions administration services:

- Cumbria and Lancashire
- Surrey and West Sussex
- Northamptonshire and Cambridgeshire - LGSS
- Devon and Somerset – Peninsula Pensions
- Kensington & Chelsea RBC, Hammersmith & Fulham LBC and Westminster City Council - Tri-Borough arrangement

8.4 **Shared Investments**

London Pension Fund Authority (LPFA) is currently working with two funds in separate investment partnerships.

- £500m infrastructure partnership with Greater Manchester Pension Fund
- Asset liability management partnership with Lancashire

8.5 **National LGPS Frameworks**

Lincolnshire is one of the founder members of the National LGPS Frameworks group. Procurement frameworks are now in place for:

- Custody
- Actuarial and Benefit Consultants
- Investment Consultants
- Legal Services

Conclusion

9.1 This reporting period saw the value of the Fund grow, increasing by £22.8m to close at £1,669.8m. 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.

9.2 The transition of the pensions administration service to WYPF continues to progress. It is being managed as part of the Council's Future Delivery of Support Services programme (FDSSP).

9.3 The asset allocation working group have put their work on hold until the outcome of the DCLG's 'Call for Evidence' consultation is known.

9.4 There has been one new risk added to the risk register over the quarter. The introduction of new pension freedom rules coming into effect from 1st April has identified a new risk to the Fund if a high number of members choose to release their pension pots from age 55 and transfer them out of the Fund.

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.

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APPENDIX A

DISTRIBUTION OF INVESTMENTS

INVESTMENT	31 December 2014			30 September 2014			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
UK Index Tracker	314,780,654	30.4	18.9	318,884,035	31.6	19.4	20.0	+/- 1.5%
TOTAL UK EQUITIES	**314,780,654**		**18.9**	**318,884,035**		**19.4**	**20.0**	
GLOBAL EQUITIES								
Invesco	355,830,048	34.4	21.3	347,438,525	34.4	21.1	20.0	+/- 1.5%
Threadneedle	97,217,115	9.4	5.8	92,629,923	9.2	5.6	5.0	+/- 1%
Schroder	93,108,106	9.0	5.6	88,121,764	8.7	5.4	5.0	+/- 1%
Neptune	89,349,824	8.6	5.4	83,608,504	8.3	5.1	5.0	+/- 1%
Morgan Stanley	83,622,490	8.1	5.0	78,896,781	7.8	4.8	5.0	+/- 1%
TOTAL GLOBAL EQUITIES	**719,127,584**		**43.1**	**690,695,497**		**41.9**	**40.0**	
TOTAL EQUITIES	**1,033,908,238**	**100**	**61.9**	**1,009,579,532**	**100**	**61.3**	**60.0**	**+/- 5%**
ALTERNATIVES	**236,320,236**		**14.2**	**234,972,126**		**14.3**	**15.0**	**+/- 1.5%**
PROPERTY	**190,241,702**		**11.4**	**185,711,870**		**11.3**	**11.5**	**+/- 1%**
FIXED INTEREST								
Goodhart F & C	97,880,872	47.4	5.9	99,549,520	49.2	6.0	6.75	+/- 1%
Blackrock	108,591,691	52.6	6.5	102,825,416	50.8	6.2	6.75	+/- 1%
TOTAL FIXED INTEREST	**206,472,563**	**100**	**12.4**	**202,374,936**	**100**	**12.3**	**13.5**	**+/- 1.5%**
TOTAL UNALLOCATED CASH	**2,825,087**		**0.2**	**14,308,497**		**0.9**	**0.0**	**+ 0.5%**
TOTAL FUND	**1,669,767,826**		**100**	**1,646,946,962**		**100**	**100**	

APPENDIX B

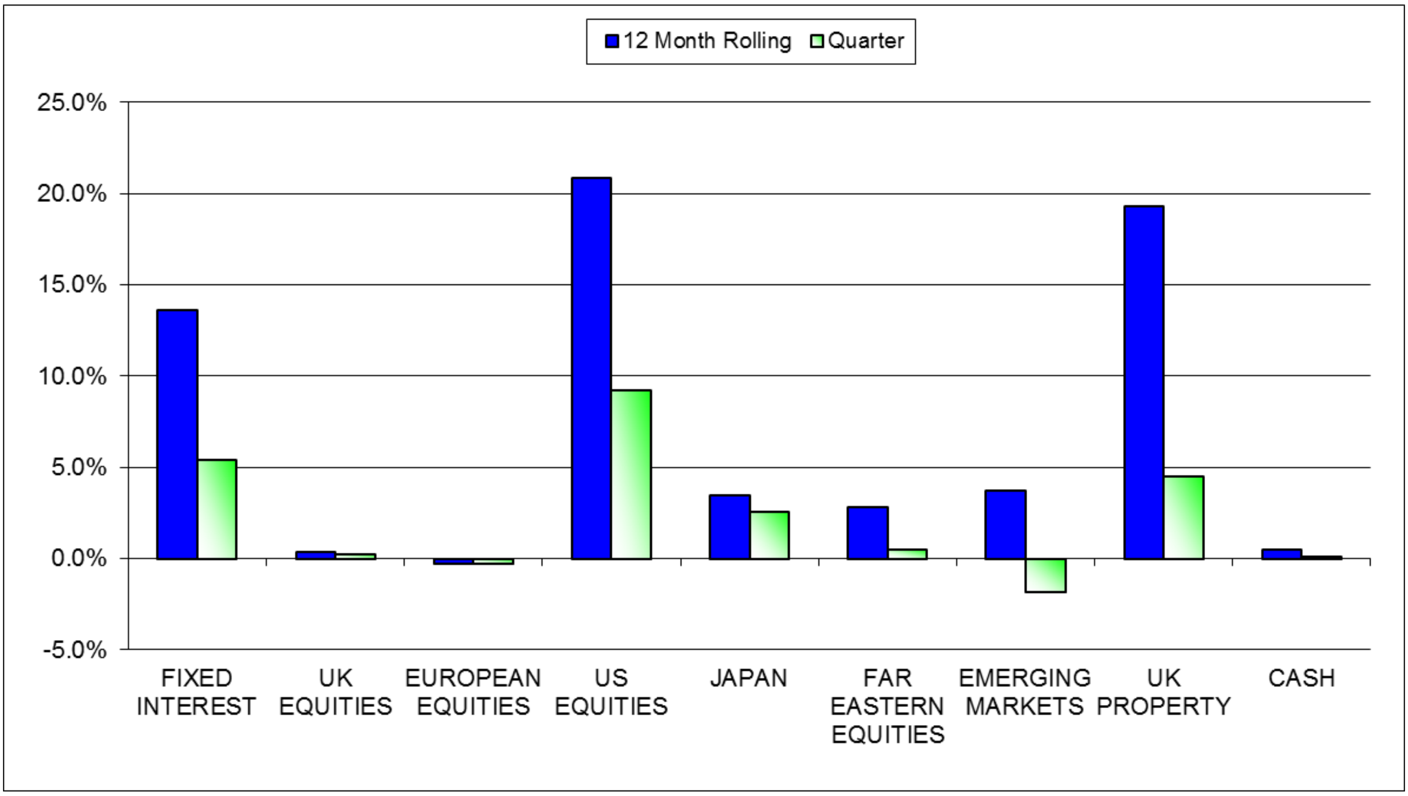
PURCHASES AND SALES OF INVESTMENTS – QTR ENDED 31st DECEMBER 2014

Investment	Purchases £000's	Sales £000's	Net Investment £000's
UK Equities			
In House	0	1,266	(1,266)
Global Equities			
Invesco	27,985	35,367	(7,382)
Threadneedle	9,428	9,565	(137)
Schroders	9,542	9,057	485
Neptune	12,443	9,058	3,385
Morgan Stanley Global Brands	0	0	0
Total Equities	**59,398**	**64,313**	**(4,915)**
Alternatives			
Morgan Stanley	0	0	0
Total Alternatives	**0**	**0**	**0**
Property	**0**	**3,793**	**(3,793)**
Fixed Interest			
BlackRock	0	0	0
Goodhart F & C	0	0	0
Total FI	**0**	**0**	**0**
TOTAL FUND	**59,398**	**68,106**	**(8,708)**

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 31st DECEMBER 2014



INDEX RETURNS	12 Months to Dec '14	Oct-Dec '14
	%	%
FIXED INTEREST	13.6	5.40
UK EQUITIES	0.4	0.3
EUROPEAN EQUITIES	(0.3)	(0.3)
US EQUITIES	20.8	9.2
JAPANESE EQUITIES	3.5	2.5
FAR EASTERN EQUITIES	2.8	0.5
EMERGING MARKETS	13.2	7.2
UK PROPERTY	19.3	4.5
CASH	0.5	0.1

Appendix D

Votes Summarised by Votes Cast

Report Period: 01 Oct 2014 to 31 Dec 2014

Management Group Name	Resolutions			
Voting Guideline Code	**For**	**Abstain**	**Against**	**Total**
Adjourn Meeting	2	0	0	2
All Employee Share Schemes	4	0	3	7
Annual Incentive Plan Metrics	2	0	0	2
Any Other Business	0	0	1	1
Appoint Independent Proxy	2	0	0	2
Appoint Rem Committee Member	7	0	0	7
Auditor - Appointment	29	0	6	35
Auditor - Remuneration	14	0	5	19
Auth Board to Issue Shares	20	0	4	24
Auth Board to Issue Shares w/o Pre-emption	21	0	14	35
Authorise Option Grants/Dilution	2	0	0	2
Authorise Political Donations & Expenditure	5	0	1	6
Authorised Capital	0	0	0	0
Authorised Capital [DE/CH/AT]	1	0	0	1
Board Alternate	2	0	0	2
Board Size for Year	1	0	0	1
Cancel Treasury Shares	2	0	1	3
Capital Raising	0	0	2	2
Change of Name	3	0	0	3
Conditional Capital [DE/CH/AT]	1	0	0	1
Debt - Borrowing Powers	0	0	0	0
Delegate Powers	5	0	0	5
Director - Discharge from Liability	2	0	0	2
Director Election - All Directors [Single]	297	6	56	359
Director Election - Chairman	16	1	19	36
Director Election - Chairs Audit Committee	37	1	3	41
Director Election - Chairs Nomination Com	17	0	16	33
Director Election - Chairs Remuneration Com	24	0	6	30
Director Election - Executives	64	0	6	70
Director Election - Lead Ind. Director/DepCH	16	0	7	23
Director Election - Non-executive/Sup Board	227	6	45	278
Director Election - Sits on Audit Committee	95	2	10	107
Director Election - Sits on Nomination Com	104	0	12	116
Director Election - Sts on Remuneration Com	102	0	16	118
Directors' Indemnification	0	0	0	0
Distribute/Appropriate Profits/Reserves	3	0	0	3
Dividends - Ordinary	19	0	0	19
EGM Notice Periods	13	0	0	13
Financial Statements	15	0	4	19
Financial Statements - Environmental Issues	14	0	4	18
Hold GM Outside State	1	0	0	1
Individual Share Award	12	0	0	12
Individual Share Option Grant	1	0	0	1
Insert New Holding Company	0	0	0	0
Internal Reorganisation	0	0	0	0

Long-term Deferral Systems	1	0	0	1
Long-term Incentive Plans	1	0	14	15
LTI: Performance Share Plan	0	0	3	3
Meeting Formalities	4	0	0	4
NED Remuneration - Fee Rate/Ceiling	3	0	0	3
NED Remuneration - Fees proposed for year	1	0	0	1
Other Changes to Governance Arrangements	8	0	0	8
Permit Holding of Treasury Shares	1	0	0	1
Ratification of a Prior Act	0	0	0	0
Reduce or Reclassify Capital or Reserves	2	0	0	2
Reissue (Use) Treasury Shares	2	0	0	2
Related Party Transaction - Specific Transaction	0	0	2	2
Remuneration Policy	16	0	3	19
Remuneration Report	29	0	15	44
Resolution Issues	2	0	0	2
Return of Capital	0	0	0	0
Scheme of Arrangement	0	0	0	0
SH: Approve Majority Vote Standard for Directors	3	0	0	3
SH: Director Election - All Directors [Single]	0	0	0	0
SH: Establish Other Board Committee	1	0	0	1
SH: Improve CSR Disclosure	0	0	0	0
SH: Other Board-related Proposals	0	0	0	0
SH: Performance Conditions - Introduce	1	0	0	1
SH: Performance Conditions - Strengthen	1	0	0	1
SH: Political Spending - Improve Disclosure	1	0	2	3
SH: Remove Director - Non-executive	0	0	0	0
SH: Request CSR/Sustainability Report	1	0	0	1
SH: Right to Nominate Directors - 'Proxy Access'	3	0	0	3
SH: Setting GHG reduction goals	0	0	0	0
SH: Shareholder Resolution - Other	0	0	0	0
SH: Voting Procedures	1	0	0	1
Share Buy-back Authority (inc Tender Offer)	14	0	4	18
Share Consolidation	1	0	0	1
Share Split	3	0	0	3
Significant Transactions	0	0	13	13
Sits on Corporate Responsibility Committee	0	0	1	1
Termination Payments (Actual payoffs)	1	0	0	1
Termination Provisions (Contract clauses)	2	0	0	2
Treasury Shares - Set Re-issue Price Range	1	0	0	1
Unclassified	0	0	0	0
Waive Mandatory Takeover Requirement	1	0	3	4
	1307	**16**	**301**	**1624**

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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 April 2015**
Subject:	**Investment Management Report**

Summary:

This report covers the management of the Lincolnshire Pension Fund assets, over the period from 1st October to 31st December 2014.

Recommendation(s):

That the committee note this report.

Background

This report is split into four areas:

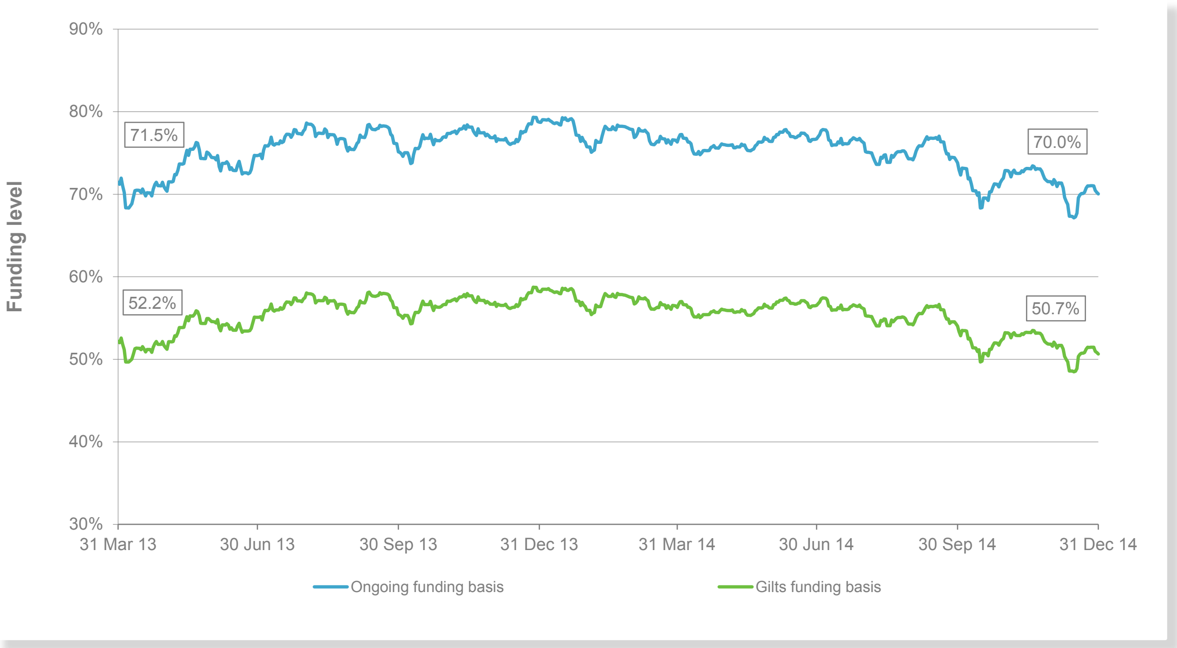
- Funding Level Update
- Fund Performance & Asset Allocation
- Hymans Robertson Manager Ratings
- Individual Manager Update

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 31st December 2014, for the Fund.

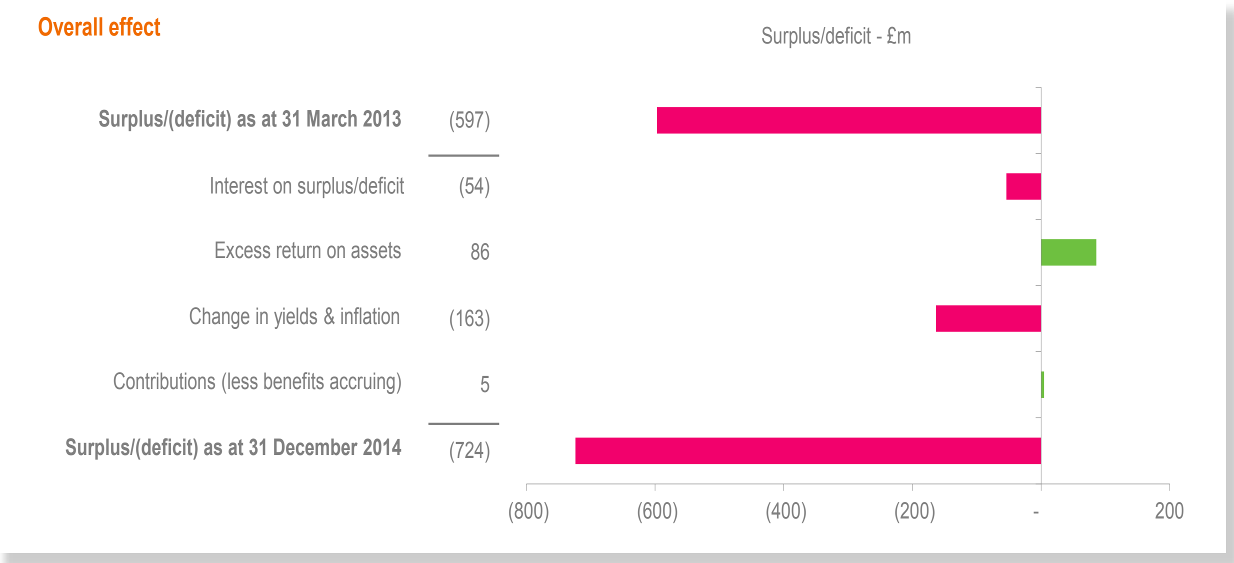
1.2 As the graph below shows, the funding level at the latest formal valuation was 71.5%. As at 31st December 2014 the funding level has decreased to 70%.

Change in funding level since last valuation



1.3 As shown below, the deficit in real money has increased from £597m to £724m between the period 31st March 2013 and 31st December 2014. This has been a result of the change in bond yields and interest on the deficit, however this has been slightly offset by the excess return on assets achieved by the Fund.

What's happened since last valuation?



1.4 In the period since 30th September 2014, the funding level has fallen from 73.8% to 70% as a result of the recent fall in government bond yields and the deficit was £582m.

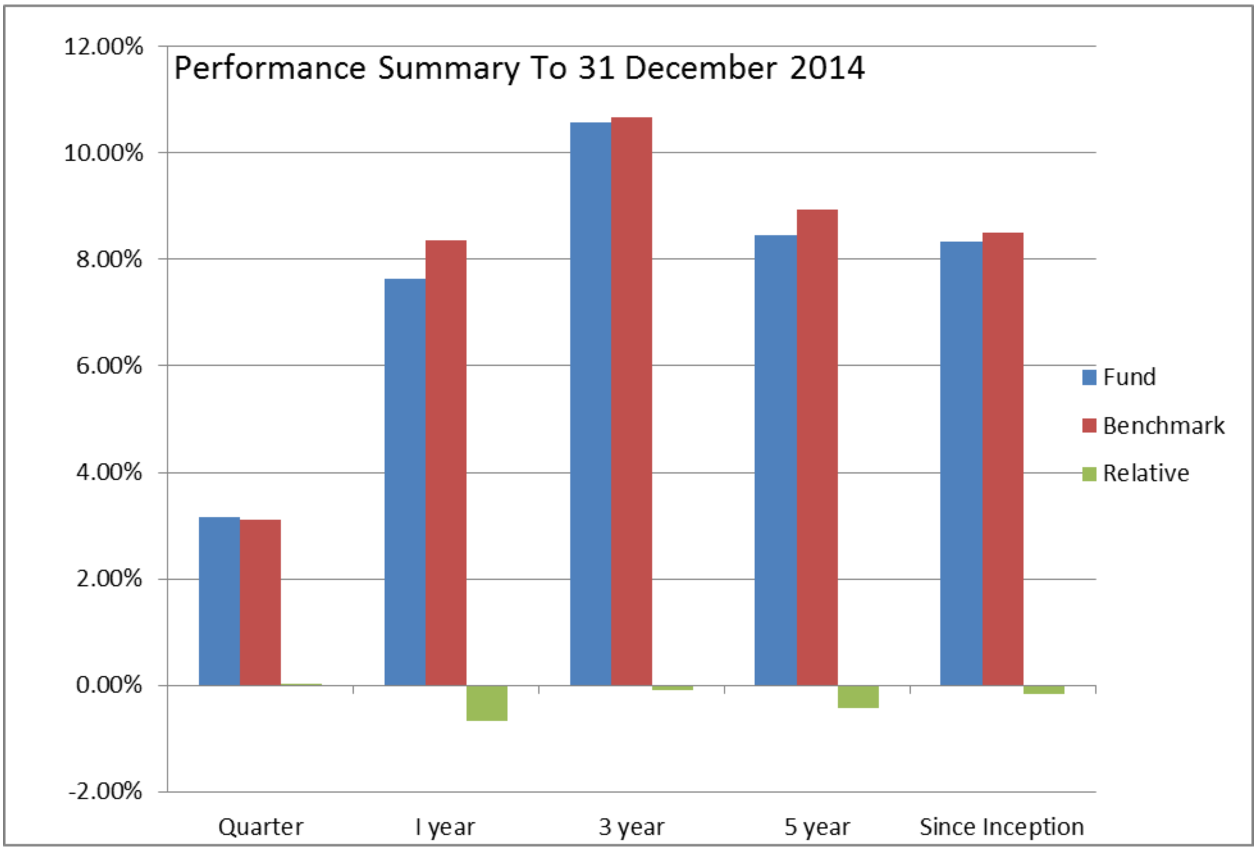
2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £22.8m during the quarter from £1,647m to £1,669.8m, as the chart below shows. The Fund was overweight to cash and global equities and underweight UK equities, fixed interest, alternatives and property.

Asset Class	Q4 2014 £	Q3 2014 £	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	314.8	318.9	18.9	20.0	(1.1)
Global Equities	719.1	690.7	43.0	40.0	3.0
Alternatives	236.3	235.0	14.2	15.0	(0.8)
Property	190.2	185.7	11.4	11.5	(0.1)
Fixed Interest	206.5	202.4	12.3	13.5	(1.2)
Cash	2.8	14.3	0.2	0.0	0.2
Total	**1,669.8**	**1,647.0**	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 3.16% outperforming the benchmark which returned 3.12%. The Fund is behind the benchmark over all other periods.



* 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 one change to the ratings during the quarter. Hymans Robertson met with Neptune to gain a better understanding of their investment process, following this meeting Hymans have changed their rating from "strongly on watch" to "on watch". Sixteen managers remained rated as retain and four managers, Rreef Property Ventures Fund 3, Aviva Pooled Property Fund, Neptune and Schroders, as "on watch". Officers will monitor these managers closely and arrange meetings to discuss any potential issues

3.3

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 mixed quarter for the Fund with seven of the nine managers producing a positive absolute return. Over the quarter, five managers outperformed their benchmark, whilst Invesco and the in house team slightly underperformed by 0.2% and F&C and Morgan Stanley disappointed underperforming by 2.5% and 2.2%. Over the 12 month period only F&C have failed to produce a positive absolute return. Against their target, the in house team, Invesco, Morgan Stanley Global Brands and Blackrock have beaten the required return.

	3 months ended 31/12/14			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	Target p.a. %
Passive UK Equity In house	0.0	0.3	(0.2)	0.5	0.4	0.1	+/- 0.5
Invesco (Global Equities (ex UK))	5.3	5.5	(0.2)	13.3	12.5	0.7	+1.0
Threadneedle (Global Equities)	4.9	4.5	0.4	9.3	11.2	(1.7)	+2.0
Neptune (Global Equities)	6.7	4.5	2.1	6.8	11.3	(4.0)	+4.0
Schroder's (Global Equities)	5.7	4.4	1.2	10.0	10.7	(0.6)	+3.0
Morgan Stanley Global Brands	6.0	5.0	0.9	11.9	11.5	0.4	n/a
Blackrock (Fixed Interest)	5.6	5.4	0.2	13.8	13.6	0.2	Match Index
F&C (Fixed Interest)	(1.7)	0.9	(2.5)	(1.3)	3.6	(4.8)	3M LIBOR + 3%
Morgan Stanley (Alternative Investments)	(1.1)	1.2	(2.2)	1.9	4.7	(2.6)	3M LIBOR + 4%

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

Investment Process

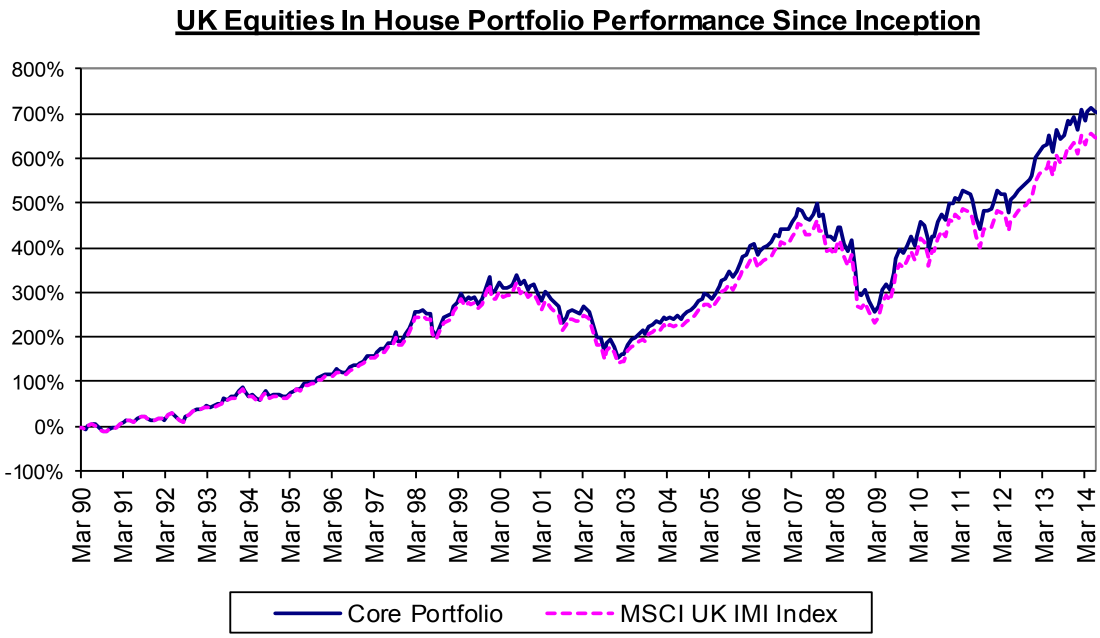
This portfolio is managed internally and mandated to track the MSCI UK IMI index +/- 0.5% around the index, with a tracking error of 0.5%. Approximately 250-300 stocks are held.

Portfolio Valuation

Value at 30.09.14	Value at 31.12.14
£318,884,035	£314,780,654

Performance

During the quarter the portfolio underperformed the index by 0.2%. This was due to underweight positioning in the consumer discretionary and financial sectors which both produced positive returns in the quarter. The portfolio was also overweight energy which produced a negative return during the quarter. Over all other periods the portfolio has slightly outperformed the index and is within the target of +/- 0.5%.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
UK Equities – In House	0.0	0.5	10.7	8.7	8.6
MSCI UK IMI	0.3	0.4	10.7	8.6	8.3
Relative Performance	(0.2)	0.1	0.0	0.1	0.3

* annualised, inception date 01/10/1989

Turnover

Holdings at 30.09.14	Holdings at 31.12.14	Turnover in Quarter %	Turnover in Previous Quarter %
249	248	0.01	0.1

Purchases and Sales

During the quarter the manager increased positions in Lloyds, RBS, Barclays and Jupiter which reduced the underweight position in financials. The manager also took new positions in Merlin Entertainment and Intu Properties and increased the holding in Tui following the merger with Tui Germany.

Largest Overweights

Babcock Intl	0.12%
Royal Dutch Shell	0.10%
British American Tobacco	0.09%
BG Group	0.07%
Standard Chartered	0.10%

Largest Underweights

Londonmetric	(0.05%)
Kier Group	(0.05%)
SVG Capital	(0.05%)
Crest Nicholson	(0.05%)
Workspace Group	(0.05%)

* Measured against MSCI UK IMI

Top 10 Holdings

1	Royal Dutch Shell	£22,965,266
2	HSBC Holdings	£18,984,169
3	BP	£12,738,060
4	GlaxoSmithkline	£11,457,051
5	British American Tobacco	£11,148,935
6	Vodafone Group	£10,329,125
7	Astrazeneca	£9,120,111
8	Diageo	£7,728,652
9	Rio Tinto	£6,564,841
10	Lloyds Banking Group	£6,536,338

Risk Control

The portfolio has a tracking error limit of 0.5%. At the end of December 2014 the tracking error was 0.24%.

Lincolnshire Pension Fund
Global Equities – Invesco (Global Ex UK Enhanced)
Quarterly Report December 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.

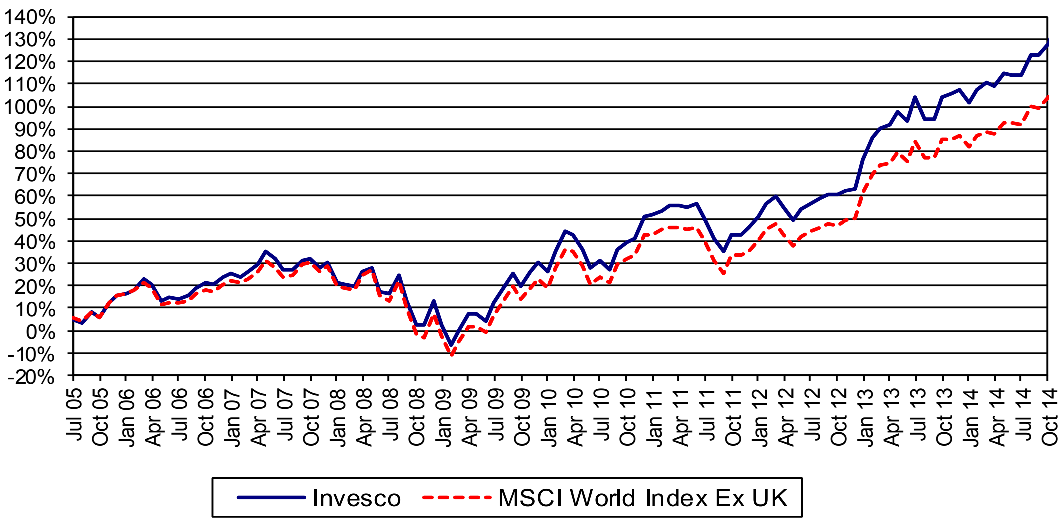
Portfolio Valuation

Value at 30.09.14	Value at 31.12.14
£347,438,525	£355,830,048

Performance

During the quarter Invesco's strategy underperformed its benchmark. Stock Selection had a negative impact on relative performance. Intended overweights in stocks with a high earnings expectations score and strong market sentiment added to performance, while stocks with a high value score detracted from performance. An underweight position in Healthcare helped performance, whilst being underweight Materials detracted from performance. Contributions from Countries and Currencies were negative. Overweights in Danish stocks and underweights in US stocks hurt performance.

Invesco Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Invesco	5.3	13.3	17.2	12.5	9.4
MSCI World ex UK	5.5	12.5	15.9	11.3	8.2
Relative Performance	(0.2)	0.7	1.1	1.1	1.2

* annualised, inception date 1st July 2005

Turnover

Holdings at 30.09.14	Holdings at 31.12.14	Turnover in Quarter %	Turnover in Previous Quarter %
417	429	8.0	7.5

Purchases and Sales

During the quarter Invesco added Canadian Tire, Morgan Stanley and Heineken and increased positions in Hess and Western Union. These were funded by selling Liberty Ventures and Tyson Foods and decreasing positions in Anheuser-Busch, Macy's and Mckesson.

Largest Overweights

Northrop Grumman	1.01%
Archer Daniels	0.93%
Pfizer	0.88%
Nippon Tel & Tel	0.77%
Edison	0.72%

Largest Underweights

Verizon Comms	(0.64%)
Procter & Gamble	(0.53%)
Walt Disney	(0.51%)
Google	(0.50%)
Visa	(0.43%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple Inc	£8,317,877
2	Microsoft Corp	£6,223,123
3	Pfizer Inc	£5,359,978
4	JPMorgan Chase	£5,210,314
5	Exxon Mobil Corp	£4,291,763

6	Oracle Corp	£4,259,785
7	Johnson & Johnson	£3,963,500
8	Northrop Grumman	£3,892,895
9	Citigroup Inc	£3,845,757
10	General Electric Co	£3,746,705

Hymans Robertson View

There was no significant business news from Invesco over the period.

Risk Control

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

Lincolnshire Pension Fund
Global Equities – Neptune
Quarterly Report December 2014

Investment Process

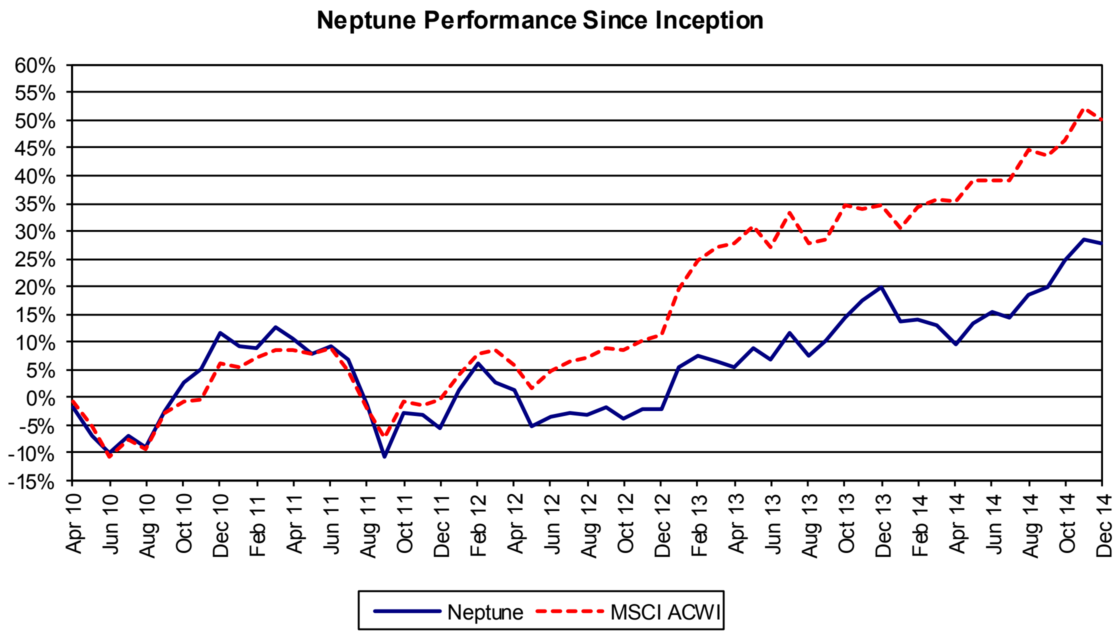
This portfolio is mandated to outperform the MSCI All Countries World Index by 2% to 4% over rolling three year periods, net of fees. This is achieved through generating capital growth from a concentrated portfolio of global securities, selected from across world equity markets. The investment process 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 30.09.14	Value at 31.12.14
£83,608,504	£89,349,824

Performance

During the quarter produced a positive return of 6.7% against the benchmark of 4.5%. The macro environment benefitted the Fund, which had its largest absolute weighting the US. Neptune's technology exposure continued to benefit the Fund, particularly Apple and LinkedIn, whilst Neptune's US financials holdings all contributed positively to relative performance. Neptune also continued to profit from their high conviction overweight in Japan, whilst the Fund's yen hedge boosted performance in a quarter which saw further yen depreciation.



	Quarter %	1 Year %	3 Year %	5 Year %	Inception* %
Neptune	6.7	6.8	10.7	n/a	5.3
MSCI ACWI**	4.5	11.3	14.6	n/a	8.9
Relative Performance	2.1	(4.0)	(3.4)	n/a	(3.3)

* annualised, inception date 16/04/2010

Turnover

Holdings at 30.09.14	Holdings at 31.12.14	Turnover in Quarter %	Turnover in Previous Quarter %
47	46	10.4	25.2

Purchases and Sales

Portfolio activity was limited during the quarter, with Neptune increasing its exposure to Japan through the addition of Isetan Mitsukoshi and Sumitomo Realty and Development. This was funded through the sale of a Chinese consumer stock and a slight reduction in their financials exposure.

Top 5 Contributions to Return

ICICI Bank	0.7%
CME Group	0.7%
Apple Computer Inc	0.5%
Linkedin Corp	0.4%
Honeywell Intl	0.3%

Bottom 5 Contributions to Return

Google Inc	(0.2%)
Isetan Mitsukoshi	(0.2%)
Kajima Corp	(0.2%)
Mitsubishi Heavy Ind	(0.2%)
Mitsui Fudosan	(0.2%)

Top 10 Holdings

1	CME Group Inc	£3,778,900
2	Apple Inc	£3,610,313
3	ICICI Bank	£3,333,333
4	Taisei Corp	£3,197,122
5	Fanuc Corp	£2,879,865

6	Komatsu Ltd	£2,799,628
7	Mitsui Fudosan	£2,784,543
8	Sumitomo Realty	£2,761,823
9	Mitsubishi Estate	£2,732,336
10	Linkedin Corp	£2,724,368

Hymans Robertson View

Hymans have raised their rating on Neptune Global Equity from "2 – Sell, review options‟ to '3 - On Watch' following a recent meeting. They are encouraged by a number of recent intitiatives taken by the manager including: a substantial rationalisation of the product range; a stabilisation in fund outflows; a programme to make some more senior investment hires and a tightening of the investment process to include model portfolios for all global sectors. Nonetheless, Hymans still have meaningful reservations: assets at £4.8bn are quite low given the scale of Neptune's team; despite the longer tenure of a few, key individuals, overall staff retention needs to improve and key man risk with Geffen remains extremely high. During the period Neptune announced the closure of its sub-scale China and Russia Special Situations Funds and closed its Global Long/Short Sector fund following the departure of Ted Alexander who co-managed the Fund with Neptune founder Robin Geffen. Since the period end Neptune has announced that senior UK portfolio manager Scott Maclennan is leaving the firm and will be replaced by an internal promotion, Mark Martin, who has built up a good reputation managing Neptune's mid-cap strategy.

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 December 2014

Investment Process

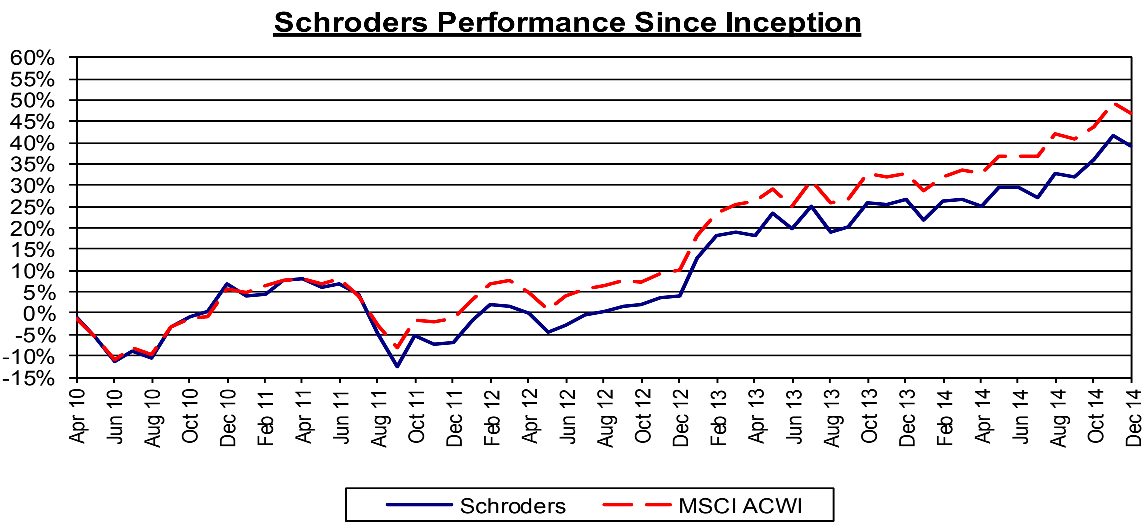
This portfolio is mandated to outperform the MSCI All Countries World Daily Net Index by 2% to 4% over rolling three year periods, gross of fees. This is achieved through an investment approach that is designed to add value relative to the benchmark through both stock selection and asset allocation decisions. 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 30.09.14	Value at 31.12.14
£88,121,764	£93,108,106

Performance

Schroders outperformed the benchmark over the period as their stock selection within the consumer, healthcare and industrials sectors adding the most value. Schroder's stocks in the energy sector proved to be the largest detractor. By region, North America contributed the most, whilst stocks in the UK and emerging markets were also supportive. This was more than enough to offset stock selection in Europe, which was detrimental to performance.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Schroders	5.7	10.0	14.5	n/a	7.2
MSCI ACWI (Net)	4.4	10.7	14.1	n/a	8.5
Relative Performance	1.2	(0.6)	0.3	n/a	(1.1)

*annualised since Inception April 16 2010

Turnover

Holdings at 30.09.14	Holdings at 31.12.14	Turnover in Quarter %	Turnover in Previous Quarter %
67	67	8.6	13.4

Purchases and Sales

During the quarter Schroders increased their exposure to the consumer sector, in order to take advantage of tailwinds that should support the growth in consumption. New purchases included Wal-Mart and Hershey, both of which should be direct beneficiaries of this trend. These new positions were funded by selling or reducing holdings in Sealed Air, Eaton Corp and BG Group due to the growth gap closing or fundamental risk increasing.

Top 5 Contributions to Return

Walgreen	0.4%
Amgen	0.3%
United Health Group	0.3%
Sensata Technologies	0.3%
Harley-Davidson	0.3%

Bottom 5 Contributions to Return

Statoil	(0.5%)
Marathon Oil	(0.4%)
BG Group	(0.4%)
Schlumberger	(0.3%)
Cemex	(0.3%)

Top 10 Holdings

1	Amgen	£2,780,569
2	Citigroup	£2,440,042
3	Roche Holding	£2,153,387
4	United Health Grp	£2,078,723
5	Harley-Davidson	£2,069,875

6	Danaher Corp	£2,063,162
7	SMC Corp	£2,016,676
8	Google Inc	£1,959,704
9	Taiwan Semiconductor	£1,956,006
10	Wal-Mart Stores Inc	£1,938,277

Hymans Robertson View

Hymans rate Schroders Global Equity at "3 – On Watch". Given the departure of Virginie Maisonneuve to PIMCO and her replacement by Alex Tedder (ex-American Century) along with a number of initiatives from the latter to re-focus the team, Hymans feel a "3" rating is appropriate until a more settled picture emerges. Nonetheless, they are encouraged by the direction Tedder is pursuing. In light of the change in global equity team leadership in 2014, it is perhaps not surprising that the final quarter saw the departure of two of the team's eight Global Sector Specialists. Both Giles Money and Lucretia Tam have left to join Maisonneuve at PIMCO. Whilst this is a reduction in team resource and further departures would certainly be unwelcome, Hymans view this as part of the re-focusing exercise under Tedder's leadership. Hymans would expect the team to be looking to increase resource at some point.

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 December 2014

Investment Process

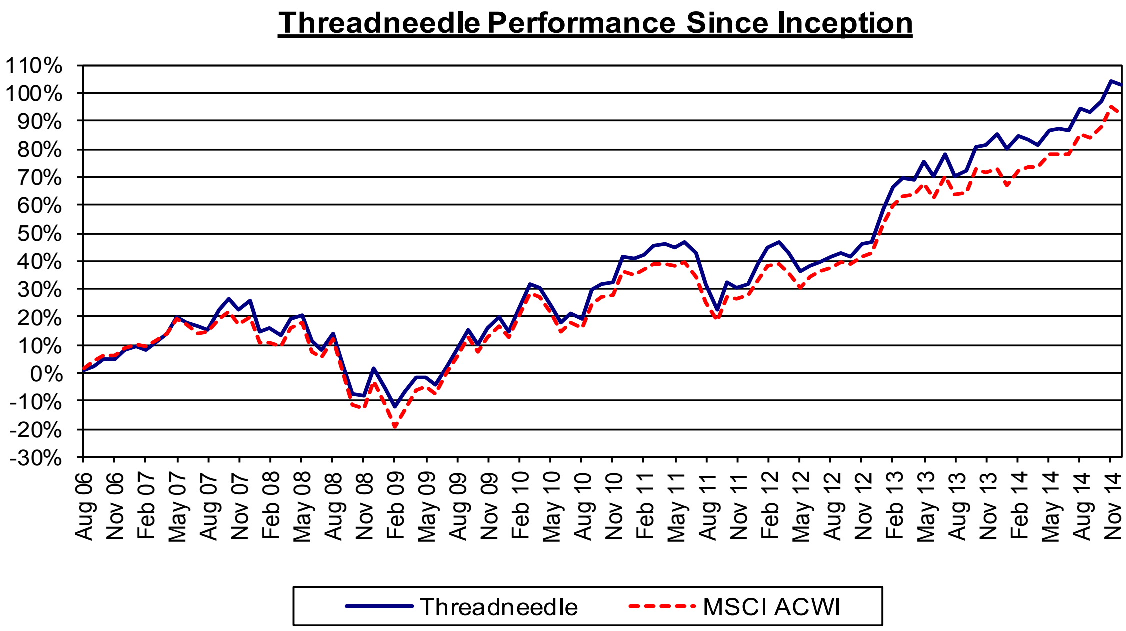
This portfolio is mandated to outperform the MSCI All Countries World Index by 2% per annum, gross of fees over rolling three year periods. This is achieved through investment managers who can draw on their own knowledge and that of other parts of the organisation to implement a thematic approach to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

Portfolio Valuation

Value at 30.09.14	Value at 31.12.14
£92,629,923	£97,217,115

Performance

Threadneedle outperformed its benchmark in the quarter. Allocation was positive at the regional level, as emerging markets and Europe, where they are underweight, underperformed. Allocation was also positive at the sector level, selection detracted, with energy and materials weighing on returns.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Threadneedle	4.9	9.3	15.5	11.1	8.8
MSCI ACWI	4.5	11.2	14.6	10.5	8.1
Relative Performance	0.4	(1.7)	0.8	0.5	0.6

* annualised, inception date 01/08/2006

Turnover

Holdings at 30.09.14	Holdings at 31.12.14	Turnover in Quarter %	Turnover in Previous Quarter %
93	87	8.5	10.2

Purchases and Sales

Threadneedle exited United Rentals, Aegon, Blackstone and Suncor during the quarter and added to their holding in Express Scripts. Threadneedle also increased their exposure to financials by purchasing China's Ping An Insurance.

Top 5 Contributions to Return

Ping An Insurance	0.4%
Express Scripts	0.4%
Apple	0.4%
Visa Inc	0.3%
Union Pacific Corp	0.3%

Bottom 5 Contributions to Return

Methanex Corp	(0.6%)
Halliburton Co	(0.6%)
BG Group	(0.3%)
Total SA	(0.3%)
Taiheiyo Cement Co	(0.2%)

Top 10 Holdings

1	Apple Inc	£2,508,389
2	Nestle SA	£2,217,703
3	Express Scripts	£2,112,089
4	Disney (Walt) Com	£2,017,999
5	Union Pacific Corp	£2,003,971

6	Gilead Sciences	£1,977,663
7	Sekisui Chemical	£1,930,180
8	Amphenol Corp	£1,898,243
9	Wolseley plc	£1,847,018
10	Anheuser Busch	£1,846,631

Hymans Robertson View

In January 2015 Threadneedle announced that it is to rebrand as “Columbia Threadneedle Investments”. Threadneedle and Columbia are both owned by US quoted Ameriprise Financial. Columbia manages assets of $358bn, largely US based investments for US based clients. Threadneedle manages more internationally based investments of $147bn albeit largely for UK clients. Combined assets will be $505bn (£316bn). This is not a full merger. Both firms will retain separate legal and regulatory identities, there will be no change to existing funds and no redundancies. It is hoped that Columbia Threadneedle will benefit from greater sharing of information and ideas and broader distribution channels. Hymans have not changed any Threadneedle ratings as a result of the rebranding announcement.

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 December 2014

Investment Process

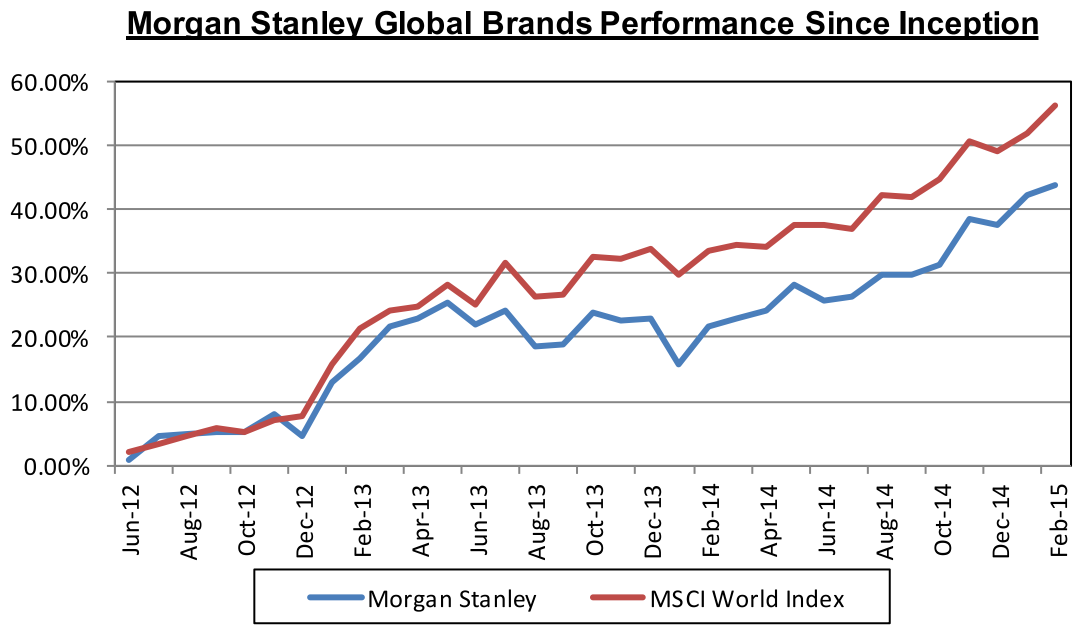
The Global Brands Fund is an open-ended investment company incorporated in the United Kingdom. The aim of the Fund is to provide long term capital appreciation through investing in a concentrated high quality global portfolio of companies with strong "intangible assets". The Fund is benchmarked against 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 30.09.14	Value at 31.12.14
£78,896,781	£83,622,490

Performance

During the quarter Morgan Stanley Global Brands returned 6% outperforming its benchmark by 0.9%. The outperformance for the quarter was primarily due to the zero allocation to Energy. In the quarter stock selection in Information Technology, Consumer Discretionary and Industrials also contributed positively to performance.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley Global Brands	6.0	11.9	N/A	N/A	13.1
MSCI World Index	5.0	11.5	N/A	N/A	16.7
Relative Performance	0.9	0.4	N/A	N/A	(3.1)

*annualised, inception date 18/06/2012

Purchases and Sales

During the quarter Morgan Stanley bought three names, all in the consumer discretionary sector; Walt Disney, 21st Century Fox and Reed Elsevier. They sold out of Swedish Match which was suffering from a more competitive environment and Kraft for valuation reasons, particularly given slow growth prospects in packaged food.

Top 3 Contributions to Return

Visa	1.0%
Time Warner	0.7%
Accenture	0.7%

Bottom 3 Contribution to Return

Sanofi	(1.0%)
Japan Tobacco	(0.1%)
Davide Campari	(0.1%)

Top Ten Holdings

Company	Industry	% Weighting
Nestle	Food Products	9.8
British American Tobacco	Tobacco	9.3
Unilever	Food Products	6.8
Reckitt Benckiser	Household Products	6.6
Microsoft	Software	5.0
Accenture	IT Services	4.8
Procter & Gamble	Household Products	4.8
Time Warner	Media	4.7
Diageo	Beverages	4.6
Philip Morris	Tobacco	4.3

Hymans Robertson View

There was no significant business news from Morgan Stanley over the period. The newly launched sister strategy, Global Quality, has fared slightly better over its first 12 months but it is far too early to draw any conclusions from that. Global Quality has grown steadily to assets of £1.3bn over that period. Global Brands has assets of c.£9.5bn and remains closed to segregated accounts though new clients for the pooled fund are considered on a case by case basis. At this stage Hymans do not see capacity across the two strategies as a problem and retain their rating on Global Brands at 5 – Preferred strategy.

Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report December 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 31st December 2014

Portfolio	30.09.14 £	31.12.14 £
Corporate Bond All Stocks Index Fund	51,833,986	54,038,112
Over 5 Years UK Index-Linked Gilt Index Fund	31,735,392	33,150,635
Overseas Bond Index Fund	19,256,038	21,402,944
Total	**102,825,416**	**108,591,691**

Performance

Over all periods the portfolio has slightly outperformed the benchmark.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	5.6	13.8	6.2	n/a	7.8
Composite Benchmark	5.4	13.6	6.1	n/a	7.7
Relative Performance	0.2	0.2	0.1	n/a	0.1

*annualised since inception 28/07/10

Hymans Robertson View

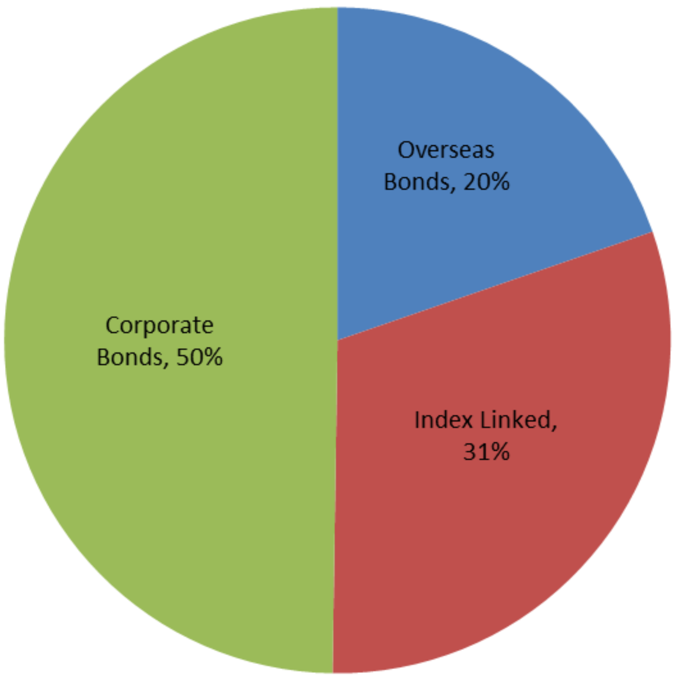
There were no significant developments within the Index Fixed Income team over the quarter; as such Hymans continue to rate Blackrock as one of their preferred passive fixed income managers.

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 31st December 2014



Lincolnshire Pension Fund
Absolute Return Bonds – F&C
Quarterly Report December 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 30.09.14	Value at 31.12.14
£99,549,520	£97,880,872

Performance

F&C produced a negative return of 1.7% during the quarter which was 2.5% behind target. The underperformance came largely from F&C's US high yield portfolio run by Concerto, with more moderate returns from the other two portfolios cancelling each other out. Concerto suffered the overspill of plummeting oil prices into the broader high yield market. As well as having direct exposure to the energy sector, performance was further affected by contagion into other sectors, especially within cash markets. While the underperformance was disappointing, F&C expect it to revert somewhat because the credit quality of their portfolio has not deteriorated as much as price movement would suggest.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
F&C	(1.7)	(1.3)	2.2	n/a	1.7
3 Month LIBOR + 3%	0.9	3.6	3.5	n/a	3.6
Relative Performance	(2.5)	(4.8)	(1.3)	n/a	(1.9)

* 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:

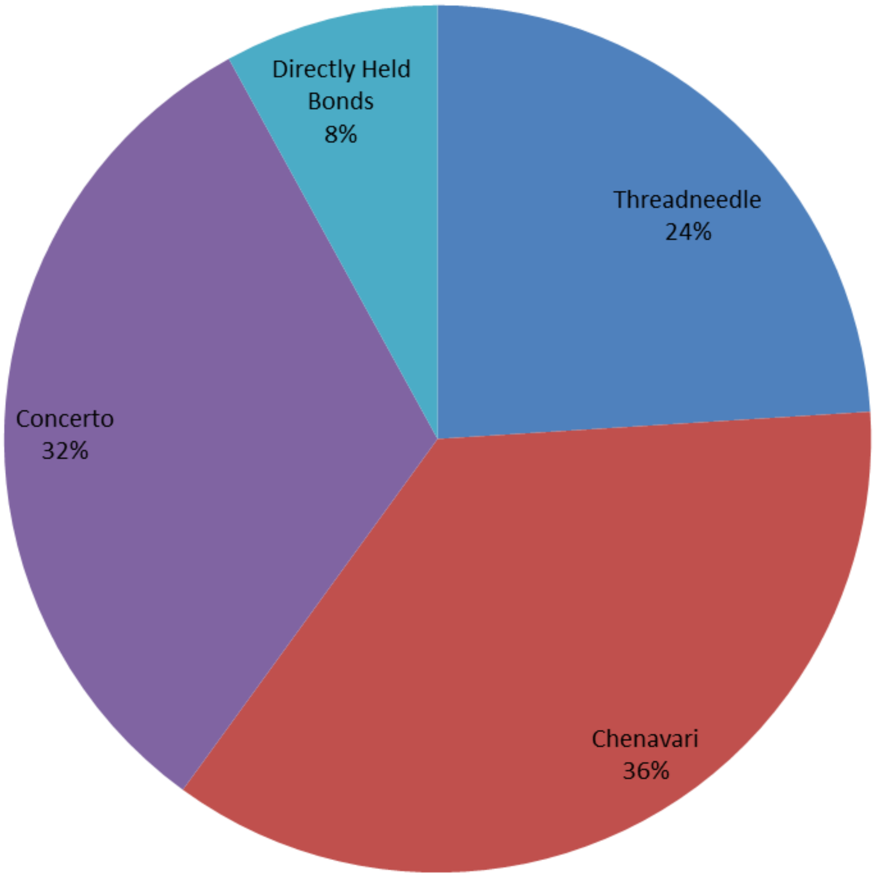
Threadneedle	Interest rates, currency
Chenavari	Credit
Concerto	Credit

Hymans Robertson View

Ben Fox continues to manage the Fund, and is supported by a significant team of macro, quant and multi strategy specialists. The Fund will be re-branded as “F&C

Absolute Return Bonds" at the end of February, when the return target on the Fund will also be increased to LIBOR+3% (from the current LIBOR+2.5% target) . The full transfer process and regulatory approval may take up to 20 weeks, however the fund can be marketed as F&C earlier than this with the caveat "awaiting regulatory approval". The Fund size currently stands at c.£115m, and the re-branding exercise allows F&C to actively market the Fund to potential new investors. Fox believes that there are sufficient attractive investment opportunities to merit the increased target.

The pie chart below shows the allocation as at 31st December 2014



Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report December 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 30.09.14	Value at 31.12.14
£154,652,811	£155,911,580

Performance

Morgan Stanley produced a negative return of 1.13% during the quarter and underperformed their target by 2.2%. Commodities, frontier equity and expanded credit strategies detracted given the sharp decline in oil prices, the continued strength of the USD and widening of spreads. However, positive manager selection within all of these asset classes partially mitigated their negative returns. Furthermore, manager selection was the largest driver of returns, while strategic allocation detracted. Tactical decisions were muted for the quarter. Within manger selections, infrastructure, frontier equity and hedge funds drove outperformance, whereas global macro and inflation linked assets underperformed.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley	(1.1)	1.9	6.1	n/a	5.2
3 Month LIBOR + 4%	1.2	4.7	4.7	n/a	4.8
Relative Performance	(2.2)	(2.6)	1.3	n/a	0.3

* 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;

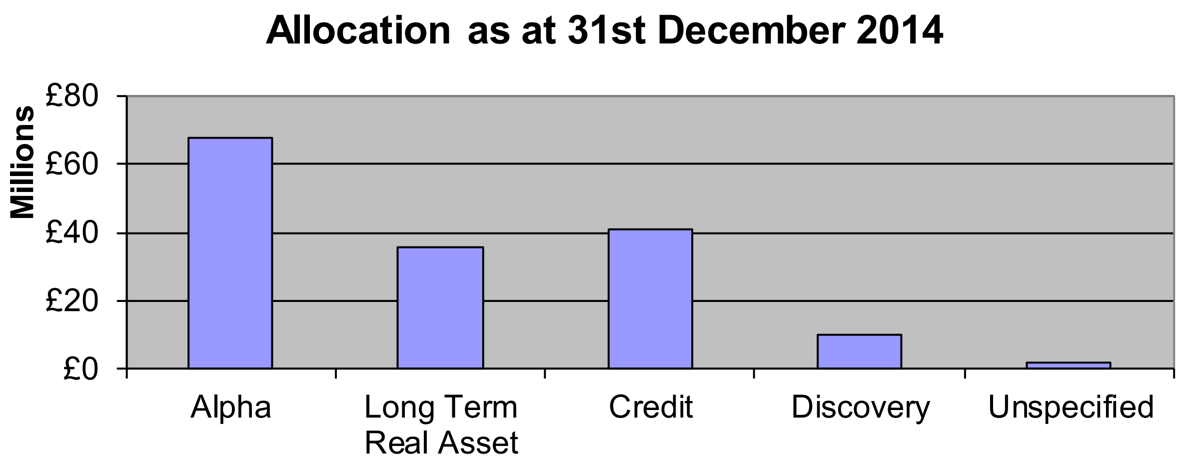
Alpha – These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.

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 maintained a relatively low weight to commodities given oversupply dynamics, but modestly increased their exposure as the recent sell-off provides an attractive entry point. They maintain a relatively low weight to real estate securities given the potential for rising interest rates in the US to negatively affect the relative attractiveness of property yields. They made an allocation mid-year to listed infrastructure and recently increased their REIT's exposure, where they believe their dividend paying characteristic will be valued by investors seeking safety and as a potential buffer to equity market pullbacks.

Hymans Robertson View

Hymans continue to rate Morgan Stanley a "5-preferred manager" for Diversified Alternatives. The team responsible for this portfolio remains highly stable and the three portfolio managers, Joe McDonnell in London, Ryan Meredith and Rui de Figueiredo in New York remain dedicated to managing this mandate. There have been no joiners or leavers from the team over the fourth quarter. Hedge Funds have always been a core strategic allocation within the portfolio due to what Morgan Stanley believes to be their attractive characteristics. However, the group has recently launched a liquid alternatives strategy which seeks to replicate some of the returns of hedge fund strategies but in a more liquid and transparent approach, and also with lower fees. Going forward Morgan Stanley may re-balance some of the hedge fund investments into this strategy. The Alternative Investment partners business continues to grow with assets under management of £24bn, of which just over £3bn is in diversified alternatives mandates. There have been no other significant developments over the quarter to end 31st December 2014.

Risk Control

Portfolio volatility since inception is 3.99% within the guidelines specified by the mandate.

Conclusion

Over the quarter the Fund has produced a positive return of 3.16% which is slightly ahead of the benchmark. Managers have had mixed returns with seven of the nine managers producing a positive return.

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 April 2015**
Subject:	**Pension Administration Report**

Summary:

The new Pension Administration shared service arrangement with West Yorkshire Pension Fund officially started on 1st April 2015.

Ian Greenwood and Yunus Gajra will update the Committee on how the partnership will work its objectives.

Recommendation(s):

That the committee note the report.

Background

1 As the Committee are aware, the contract with Mouchel to provide Pension Administration services finished on 31st March 2015. West Yorkshire Pension Fund (WYPF) was selected to replace them in a shared service arrangement with the Lincolnshire Fund. Following much hard work on all sides, the service was successfully transitioned for 1st April 2015.

2 Instead of the usual quarterly report, WYPF will present to the Committee to introduce the shared service and outline the objectives and plans for the future of the partnership.

3 The Committee welcomes Ian Greenwood and Yunus Gajra to the meeting.

Conclusion

3 The Pension Administration shared service with West Yorkshire Pension Fund is now in place and aims 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 Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Executive Director of Resources and Community Safety

Report to:	**Pensions Committee**
Date:	**09 April 2015**
Subject:	**Annual Pensions Committee Training Plan and Policy**

Summary:

This paper sets out the training policy and the annual training plan for Pension Committee members for the meetings from May 2015 to April 2016.

Recommendation(s):

That the Committee agree the training policy and plan.

Background

1. There is a high level of risk involved in managing and making decisions relating to Local Government Pension Scheme's (LGPS). It is therefore essential that those involved with these tasks have the appropriate knowledge and skills to do so. The need for appropriate knowledge and skills in the management of pension schemes has been a key topic in recent years in both the public and private sector.

2. Members and Officers are required to undertake training to satisfy the obligations placed upon them by the following:

   - Lord Hutton, in his review of Public Sector Pensions, included a key recommendation referring to the need for all Pension Committees and Boards to be properly trained.

   - The Public Service Pensions Act 2013 included a requirement for members of Pensions Boards in the public sector to have an appropriate level of knowledge, and included a provision that required the Pensions Regulator to issue a Code of Practice relating to this for both Pension Board members and Scheme Managers (the Administering Authority).

- The Chartered Institute of Public Finance and Accountancy (CIPFA) who, in January 2010, launched technical guidance for Representatives on Pensions Committees and non-executives (i.e. officers) in the public sector within a Knowledge and Skills Framework (KSF). The framework sets the skill set for those responsible for pension scheme financial management and decision making. CIPFA followed this up last year with a Code of Practice which LGPS funds are expected to adhere to, reporting on how their Pension Committee members and officers are meeting the requirements of their Framework in the Annual Report and Accounts. The Pension Committee members' KSF is attached at appendix B.

- Myners Principles – Scheme Administering Authorities have been required for some time to report on a 'comply or explain' basis their adoption of, and compliance with, the principles. This is set out in the Governance Compliance Statement and the Statement of Investment Principles.

3. The Pensions Committee has adopted the key recommendations and principles of the CIPFA Code of Practice, detailed below:

   - Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision making and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.

   - Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme financial knowledge and skills for those in the organisation responsible for financial administration and decision-making.

   - The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Knowledge and Skills Frameworks.

   - The organisation has designated a named individual to be responsible for ensuring that policies are implemented.

4. For the Lincolnshire Pension Fund, the County Finance Officer (and delegated Section 151 Officer) David Forbes is the designated officer in this regard.

5. To ensure that the Fund complies with the requirements above, a training policy and annual training plan is produced (attached at appendix A) and agreed by the Committee. Evaluation of knowledge and skills is periodically undertaken to ensure any emerging knowledge gaps, (due to either regulatory/market change or change in members or key officers) are addressed.

6. The CIPFA KSF (attached at appendix B for reference) covers six areas:

i. Pensions Legislative and Governance Context

ii. Pensions Auditing and Accounting Standards

iii. Financial Services Procurement and Relationship Management

iv. Investment Performance and Risk Management

v. Financial Markets and Products Knowledge

vi. Actuarial Methods, Standards and Practices

7. It is acknowledged that these areas are very wide; however, the framework requires an awareness or understanding in most areas, rather than detailed knowledge. There are also a number of different ways in which this information can be gained by members, such as during normal Committee meetings, training sessions or attendance at conferences or seminars. It is not expected for members of the Committee to have detailed knowledge in all areas of the framework but a collective understanding by the Committee as a whole.

8. The training policy was last agreed at the April 2014 meeting of this Committee. It sets out the policy concerning the training and development of:

- the members of the Pensions Committee and

- officers of Lincolnshire County Council responsible for the management of the LGPS.

The training policy is established to aid members of the Pensions Committee in performing and developing their individual roles in achievement of the collective responsibility of the Committee. The requirement of the Committee is to ensure that members be able to demonstrate that collectively they have the required knowledge and skills to make appropriate decisions and offer challenge, and that officers are adequately trained and experienced to undertake the day to day operation and management of the Scheme.

9. The Committee training plan presents the topics that will be covered in the normal Committee meeting and also the additional training sessions for the coming year. This will be updated for additional areas that are covered in Committee throughout the year, and will be used to assist in disclosure requirements for training in the 2014/15 Annual Report. The statement of compliance also requires Officers to keep a record of attendance at training courses and conferences by Members. Members are requested to inform Officers should they attend any meetings that are relevant to the Knowledge and Skills Framework.

10. Committee members are asked to agree topics for training for the sessions in September and February.

11. Committee members that attend external training events, including conferences, will be asked to provide a brief update to the next meeting of the Pensions Committee, covering the following points.

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to all Committee Members.

12. The Pensions Regulator has an online education portal for public sector pension schemes, which can be accessed through the following link: https://education.thepensionregulator.gov.uk/login/index.php.

Conclusion

13. The training policy has been developed to respond to the various requirements laid down in regulations and guidance to ensure that both Committee members and officers are suitably knowledgeable to perform their duties within the Pension Fund. The Committee training plan sets out the areas of training covered for the coming year, and a new plan will be brought each year to the April Committee.

14. Committee members are asked to suggest topics for training sessions to add to the plan.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Pensions Committee Training Plan and Policy May 2015 to April 2016
Appendix B	CIPFA Knowledge and Skills Framework for Elected

	Representatives

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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APPENDIX A

PENSIONS COMMITTEE TRAINING POLICY AND COMMITTEE TRAINING PLAN MAY 2015 TO APRIL 2016

Policy Objectives

The Fund's objectives relating to knowledge and skills are:

- The Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise, and that the knowledge and expertise is maintained in a changing environment.
- Those persons responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage conflicts of interest.
- The Pension Fund and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Scheme.

To assist in achieving these objectives, the Fund will aim for compliance with the CIPFA Knowledge and Skills Framework and Code of Practice, and take on board the guidance within the Pension Regulator's Code of Practice for public sector pension schemes.

Application of the Policy

The training policy will apply to all members of the Pensions Committee and Council officers that have involvement in managing the Pension Fund, at any level.

Review and maintenance

This training policy is expected to be appropriate for the long-term but to ensure good governance it will be formally reviewed at least annually by the Committee, to ensure it remains accurate and relevant.

The Fund's Training Plan will be updated each year, taking account of the result from any training needs evaluations and any emerging issues. The Committee will be updated with events and training opportunities as and when they become available, or relevant to on-going business.

CIPFA Knowledge and Skills Framework and Code of Practice

In January 2010, CIPFA launched technical guidance for Representatives on Pension Committees and non-executives in the public sector within a knowledge and skills framework. The framework sets the skill set for those responsible for pension scheme financial management and decision making.

The Framework covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context
- Pension Accounting and auditing standards
- Financial services procurement and relationship development
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

CIPFA's Code of Practice recommends (amongst other things) that LGPS administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework (or an alternative training programme);
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme); and
- publicly report how these arrangements have been put into practice each year.

The Lincolnshire Pension Committee fully supports the CIPFA Code of Practice and adopts its principles.

Measurement, Assessment and Training Provision

In order to identify and meet training needs and assess whether we are meeting the CIPFA Framework requirements we will:

Members:

- Undertake, as a Committee, regular training as set out in the annual training plan.
- Highlight to officers any areas where further training would be desirable or required, following subjects covered in Committee meetings or following attendance at any external training events or conferences.
- Obtain a satisfactory collective level of knowledge and skills in relation to all modules of the CIPFA Framework. Support from officers and the Fund's Advisors will be available as and when required, but always in advance of any decision being taken.

- Report as appropriate in external documentation our compliance with knowledge and skills requirements e.g. progress in the Fund's Annual Report and Accounts, and Governance Statement compliance with the CIPFA Knowledge and Skills Framework and the Myners Principles.

Officers:

All Lincolnshire LGPS officers with responsibility for managing the LGPS will be expected to have a detailed understanding of the CIPFA Knowledge and Skills Framework requirements for LGPS Practitioners, taking account of the requirements of their roles. Any specific targets will be determined and updated as necessary from time to time in joint agreement by the Pensions & Treasury Manager and the County Finance Officer, in liaison with the Chairman of the Pensions Committee.

The Council's appraisal process will also identify any knowledge gaps and address training requirements.

Delivery of Training

Consideration will be given to various training resources available in delivering training to members of the Pensions Committee and officers.

Evaluation will be given to the mode and content of training in order to ensure it is both targeted to needs and on-going requirements and emerging events. It is to be delivered in a manner that balances both demands on members' time and costs. These may include but are not restricted to:

Pension Committee Members	Officers
In-house delivered training Using an Online Knowledge Library or other e-training facilities Attending courses, seminars and external events Internally developed training days and Committee meetings Shared training with other Schemes or Frameworks Regular updates from officers and/or advisers	Desktop / work base training Using an Online Knowledge Library or other e-training facilities Attending courses, seminars and external events Training for qualifications from recognised professional bodies (e.g. CIPFA, IMC) Internally developed sessions Shared training with other Schemes or Frameworks

External Events

All relevant external events will be emailed to members as and when they become available. Officers will maintain a log of all events attended for compliance with reporting and monitoring requirements.

After attendance at an external event, Committee Members will be asked to provide verbal feedback at the next Committee covering the following points:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to all Committee Members.

Officers attending external events will also be expected to report to their direct line manager with feedback and to make recommendations of any subject matters at the event in relation to which training would be beneficial to other officers or the Committee.

Officers attending events will also be expected to provide knowledge sharing with the wider Pensions team.

PENSIONS COMMITTEE TRAINING PLAN MAY 2015 TO APRIL 2016

The six areas covered within the CIPFA Knowledge and Skills Framework (KSF) are:

1. **Pensions Legislative and Governance Context**

2. **Pensions Auditing and Accounting Standards**

3. **Financial Services Procurement and Relationship Management**

4. **Investment Performance and Risk Management**

5. **Financial Markets and Products Knowledge**

6. **Actuarial Methods, Standards and Practices**

It is acknowledged that these areas are very wide; however, the framework requires an awareness or understanding in most areas, rather than detailed knowledge. There are also a number of different ways in which this information can be gained, such as during normal Committee meetings, training sessions or attendance at conferences or seminars. It is not expected for members of the Committee to have detailed knowledge in all areas of the framework but a collective understanding by the Committee as a whole.

The table below details the training plan for the year, with the areas of the KSF that will be covered in each report or training session referenced in the final column.

Date	**Topic**	**KSF area(s)**
28 May 2015 Committee topics	External Manager Presentations	4,5
16 Jul 2015 Committee papers	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report Annual Report and Accounts Internal Manager Presentation Annual Property Report Policies Review Report Risk Register Annual Review	4,5 1,3,4 4,5 1 2 4 4,5 1 1,4

Sep 2015 Training	Actuarial changes – asset calculation and unitisation Governance Topic - tba	6 1
8 Oct 2015 Committee papers	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report External Manager Presentation Annual Fund Performance Report	4,5 1,3,4 4,5 1 4 4
10 Dec 2015 Committee papers	External Manager Presentations	4,5
Jan 2016 Committee papers	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report	4,5 1,3,4 4,5 1
Feb 2016 Training	Investment Topics – tba	4,5
Apr 2016 Committee papers	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report Annual Training Paper	4,5 1,3,4 4,5 1 1

Committee papers and training may be subject to change.

APPENDIX B

ANNEX A

Pensions Knowledge and Skills Framework for Elected Representatives and Non-executives

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
General pensions framework A general awareness of the pensions legislative framework in the UK. **Scheme-specific legislation** An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment. An awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and Local Government Pension Scheme (Administration) Regulations 2008 and their main features. An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.	Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report. Awareness of the role of both internal and external audit in the governance and assurance process.	**Understanding public procurement** Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations. A general understanding of the main public procurement requirements of UK and EU legislation. **Supplier risk management** Awareness of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.	**Total fund** Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks. **Performance of advisors** Awareness of the Myners principles of performance management and the approach adopted by the committee. **Performance of the committee** Awareness of the Myners principles and the need to set targets for the committee and to report against them. **Performance of support services** Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	**Investment strategy** Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property). Understanding of the role of these asset classes in long-term pension fund investing. **Financial markets** Understanding of the primary importance of the investment strategy decision. A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks. An awareness of the limits placed by regulation on the investment activities of local government pension funds.	**Valuations** Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring. Awareness of the importance of monitoring early and ill health retirement strain costs. A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers. **Outsourcing** A general awareness of the relevant considerations in relation to outsourcings and bulk transfers.

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
A regularly updated appreciation of the latest changes to the scheme rules. Knowledge of the role of the administering authority in relation to the LGPS. **Pensions regulators and advisors** An understanding of how the roles and powers of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme. **General constitutional framework** Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers. Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.					

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
Pension scheme governance An awareness of the LGPS main features. Knowledge of the Myners principles and associated CIPFA and SOLACE guidance. A detailed knowledge of the duties and responsibilities of committee members. Knowledge of the stakeholders of the pension fund and the nature of their interests. Knowledge of consultation, communication and involvement options relevant to the stakeholders.					

Lincolnshire COUNTY COUNCIL
Working for a better future

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Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**09 April 2015**
Subject:	**Pensions Regulator**

Summary:

As part of the regulatory changes introduced in the Public Services Pensions Act 2013, from 1st April 2015 the LGPS comes under the authority of the Pensions Regulator. This report informs the Committee of the Code of Practice published by the Pensions Regulator for public sector schemes.

Recommendation(s):

That the Committee note this report.

Background

1 The Public Services Pensions Act 2013 expanded the remit of the Pensions Regulator (tPR) to include public sector pension schemes from 1st April 2015. TPR is responsible for regulating the governance and administration of public service pension schemes, which includes publishing a code of practice for these schemes. The code is currently in draft format, and will come into effect on 1st April. It can be found on the tPR website at this link: http://www.thepensionsregulator.gov.uk/docs/draft-code-14-governance-administration-public-service-pension-schemes.pdf.

2 The code of practice sets out the legal requirements for public service pension schemes in respect of specific matters relating to those schemes. It contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements. The practical guidance sections in the code are not intended to prescribe the process for every scenario. They do, however, provide principles, examples and benchmarks against which scheme managers (the administering authority) and members of pension boards can consider whether or not they have understood their duties and obligations and are reasonably complying with them.

3 Though following the code is not a statutory requirement, should tPR identify a situation where legal requirements are being breached, the tPR will use the code as a core reference document when deciding appropriate action.

4 The code covers the areas of:

- Governing your scheme
    - Knowledge and understanding required by pension board members
    - Conflicts of interest and representation
    - Publishing information about schemes

- Managing risks
    - Internal controls

- Administration
    - Scheme record-keeping
    - Maintaining contributions
    - Providing information to members

- Resolving issues
    - Internal dispute resolution
    - Reporting breaches of the law

5 The Pensions Regulator has a Public Service toolkit to learn about managing public service pension schemes and to increase Committee and Pension Board members' knowledge and understanding. To access this, log in or sign up at https://education.thepensionsregulator.gov.uk/login/index.php.

6 It is not intended to go into the detail behind the code in this paper, however officers will be reviewing Fund practices to identify any areas where further work needs to be undertaken, and will report back to the Committee.

Conclusion

7 The Public Services Pensions Act 2013 expanded the remit of the Pensions Regulator (tPR) to include public sector pension schemes from 1st April 2015. TPR is responsible for regulating the governance and administration of public service pension schemes, which includes publishing a code of practice for these schemes.

8 Officers will be reviewing Fund practices to identify any areas where further work needs to be undertaken to meet the new code, and will report back to the Committee.

9 Members are encouraged to visit the tPR Public Service toolkit to further enhance their knowledge and understanding.

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.

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Lincolnshire COUNTY COUNCIL
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Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**09 April 2015**
Subject:	**Pensions Freedom and Choice**

Summary:

This report updates the Committee on changes in Pensions Regulations that allow individuals to transfer their LGPS benefits to defined contribution arrangements from April 2015.

Recommendation(s):

That the Committee note this report.

Background

1 The new pension flexibilities announced in the budget last year will allow individuals aged 55 and over greater choice around how they access their pension savings. The Pensions Scheme Act 2015 received Royal Assent on 3rd March 2015 to introduce these flexibilities from 6th April 2015. The initial statement from the Chancellor in June 2014 announcing greater freedom for defined benefit pension scheme members appeared to be aimed at the private sector schemes only, as it stated that unfunded public sector schemes would be exempt from this. However, it has been confirmed that funded public sectors scheme, principally the LGPS, would be included in the changes.

2 The flexibilities allow for an individual over 55 to have full access to their pension pot in a defined contribution (DC) arrangement and the freedom as to how and when they access it, and in what form, e.g. as cash. Previously, this DC pot would have been used to purchase an annuity at retirement to secure a guaranteed monthly income for life and/or drawdown a 25% lump sum from their pension fund.

3 This flexibility is only for members in DC schemes. However, members of defined benefit schemes (other than the unfunded Public Sector schemes) are

able to transfer out to a DC scheme and then have the access as described above. Therefore, from 6th April 2015, LGPS non-pensioner members will have the flexibility to take their benefits as up-front cash via a transfer to a DC arrangement. However, this flexibility comes at the expense of the remaining life-long pension and so it is not always obvious whether this will be in a member's best interest. Furthermore, it is acknowledged that this may have a material impact on the fund's financial position, with the impact either positive or negative.

4 There have been two key safeguards built in to the process:

- **Financial advice**

  A fund would need to check that a member had received appropriate independent advice before being allowed to transfer to a DC arrangement. However, members with 'pension wealth' below £30,000 will be exempt from having to take advice. LGPS members will have to pay for their own advice.

- **Cash Equivalent Transfer Value (CETV) reductions**

  DCLG will have the right to arrange for reductions in CETV's from funded public service pension schemes, in the event that there is the need to protect the taxpayer (and the scheme).

Both of these safeguards have potential problems, which are listed below.

5 Financial advice concerns:

- The £30,000 limit is based on the cash equivalent transfer value and therefore the Fund will not have to consider the value of any benefits the member has in other registered pension schemes, however, it is not clear whether the LGPS is treated as one scheme. If it does then account would have to be taken of service in other LGPS funds that has not been consolidated in the LGPS fund handling the transfer request.

- If each LGPS fund is considered independently, then the member may have several transfers that would not require financial advice, but the value of which in total could be well above the limit.

- LGPS funds will not be required to review whether or not the financial advice is "correct", just that a member has received independent advice and that the advice is from a reputable source e.g. an adviser authorised by the Financial Conduct Authority (FCA). The rules around this check will be set out in secondary legislation. Inappropriate financial advice could leave members with much poorer retirement incomes.

- Pension transfer advice is complicated, requiring specific permission from the FCA. It could be seen as expensive, especially as the cost is to be borne by the member and must be paid even if the transfer does not proceed.

- Funds will need to be sure that their processes are robust enough to ensure that transferring members have received advice from a properly qualified financial adviser that complies with all the requirements of the legislation. If this is not properly evidenced and recorded, funds will be open to challenge in future.

- Information about the increased options now available at retirement will need to be clearly communicated to employers and members before any financial advice is sought to avoid any unnecessary expense being incurred. Equally, funds will also need to avoid the situation where members retire unaware of the new flexibility after which it would be too late to do anything. Again, funds could be exposed.

6 CETV reduction concerns:

- There is a question mark over whether CETV's should be reduced at all. LGPS benefits are guaranteed and paid under statute and therefore members have every reason to expect full payment of those benefits. The introduction of reduced CETVs could be inconsistent with this.

- Requiring funds to reduce CETV payments “in the event that there is a cost risk to taxpayers” misses the point: payment of a full CETV may still be a lower cost to the fund, and paying a CETV will actually reduce pension risk as the fund no longer has to meet that liability.

- Any approach adopted to reduce CETVs could result in very different reduced transfer payments for (say) two members with identical benefits in two separate funds. Also, the impact could vary between different employers within the same fund, potentially giving much added cost and administration.

- Any sort of reduction obviously reduces the amount of cash available to members, and reduces the likelihood that the member will be advised that a transfer is in his or her best interests.

7 The Government’s initial estimate was a take-up rate of around 10% of those approaching retirement. Take up by members will depend upon a number of things, including:

- whether transfers are actively promoted by employers/funds

- what is available in the DC market

- the quality of financial advice

- any cash taken above HMRC tax-free pension limits is subject to the individual's marginal income tax rate

8 These changes may impact the Fund in two areas –funding level and deficits, and cash flow. The potential impacts are explained below.

9 **Funding Level and Deficits**

The value of the funded pension liability is usually higher than the actual CETV paid out. However, if the fund is in deficit, the reduction in assets following the transfer may reduce the deficit in monetary terms but also reduce the funding level.

For example:

Before transfer:

Liabilities (L)	Assets (A)	Deficit (A-L)	Funding Level (A/L)	CETV
£200	£140	(£60)	70%	£160

One member decides to transfer out her benefits. The fund loses £100 of liabilities and the CETV paid is £80. This gives the revised funding position below.

After transfer:

Liabilities (L)	Assets (A)	Deficit (A-L)	Funding Level (A/L)	CETV
£100	£60	(£40)	60%	£80

10 **Cash flow**

Transfers out of the Fund mean one-off lump sum payments rather than smaller pension payments being paid over a number of years into the future. This will impact both cash flow and potentially the investment strategy. The Fund may need to invest in more liquid, income generating assets, to avoid disinvestment costs if assets have to be sold at inopportune times. The impact of up-front settlement mentioned above will also accelerate negative cash-flow positions. Funds may need more readily available income from existing assets.

11 One positive aspect of transfers out is that they remove some key risks, such as investment, inflation and longevity, in respect of the liabilities transferred.

12 We will be working with WYPF to look at communication to members and employers and ensuring that we have processes in place to meet the new requirements. Officers will be monitoring the situation and report back to the Committee should the take-up be more than expected and start to impact either the cash flow or the funding position. The Fund's actuary, Hymans

Robertson, is able to provide high level impact analysis at either a Fund or employer level if required. They would also be willing to present to the Committee to explain this analysis and answer any questions. The Committee should consider whether they require any further analysis on the potential impact of the new flexibilities offered to members under the Pension Scheme Act 2015.

Conclusion

13 The new flexibilities brought in under the Pensions Scheme Act 2015 bring additional complexity to managing transfers out of the Fund and potentially increase the liquidity requirements of the investment strategy.

14 The Committee should consider whether they require any further analysis on the potential impact of the new flexibilities offered to members under the Pension Scheme Act 2015.

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.