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County Offices
Newland
Lincoln
LN1 1YL

8 July 2015

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 16 July 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, R A H McAuley, Mrs S Rawlins and A H Turner MBE JP

Co-Opted Members

Mr A N Antcliff, Employee Representative
Mr J Grant, Non-District Council Employers Representative
J Summers, District Councils Representative

PENSIONS COMMITTEE AGENDA
THURSDAY, 16 JULY 2015

Item	Title	Report Reference
1	**Apologies for Absence/Replacement Members**	
2	**Declarations of Members' Interests**	
3	**Minutes of previous meetings of the Pensions Committee held on 9 April and 15 May 2015**	(Pages 5 - 12)
4	**Independent Advisor's Report** *(A report by Peter Jones, the Committee's Independent Advisor, on the current state of global investment markets)*	(Pages 13 - 16)
5	**Pension Fund Update Report** *(A report by Jo Ray, Pensions and Treasury Manager, which provides an update on Fund matters over the quarter ending 31st March 2015 and any current issues)*	(Pages 17 - 30)
6	**Investment Management Report** *(A report by Nick Rouse, Investment Manager, on the management of the Lincolnshire Pension Fund assets, over the period from 1st January to 31st March 2015)*	(Pages 31 - 56)
7	**Pension Administration Report** *(The quarterly report by Yunus Gajra, Pension Administrator, West Yorkshire Pension Fund)*	(Pages 57 - 62)
8	**UK Equity Portfolio Annual Report** *(A report by Nick Rouse, Investment Manager, on the annual report for the year ended 31st March 2015 covering the performance of the UK Equity index-tracking portfolio managed internally)*	(Pages 63 - 68)
9	**Annual Report on the Fund's Property Investment** *(A report by Nick Rouse, Investment Manager, which outlines the performance of the Fund's property and related investments for the year ended 31st March 2015)*	(Pages 69 - 82)
10	**Pension Fund Draft Annual Report and Accounts** *(A report by Jo Ray, Pensions and Treasury Manager, on the draft Annual Report and Accounts for the Pension Fund)*	(Pages 83 - 144)
11	**Pension Fund Policies Review** *(A report by Jo Ray, Pensions and Treasury Manager, which considers the main policies of the Pension Fund for review)*	(Pages 145 - 180)
12	**Pension Fund Risk Register** *(A report by Jo Ray, Investments and Treasury Manager, which presents the Pension Fund Risk Register for annual review)*	(Pages 181 - 200)

Democratic Services Officer Contact Details	
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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

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Lincolnshire
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PENSIONS COMMITTEE
9 APRIL 2015

PRESENT: COUNCILLOR M G ALLAN (CHAIRMAN)

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

Co-Opted Members: Mr A N Antcliff (Employee Representative) and M G Leaning (District Councils Representative)

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

Also in attendance:- Peter Jones (Independent Financial Adviser)

48 APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS

Apologies were received from Councillor Mrs S Rawlins and C E D Mair.

49 DECLARATION 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.

As this was Councillor M Leaning's last meeting before stepping down as a District Councillor, the Chairman extended his and the Committee's thanks for his long and dedicated service to the Pensions Committee.

50 MINUTES OF THE PREVIOUS MEETING OF THE PENSIONS COMMITTEE ON 8 JANUARY 2015

The minutes from the previous meeting on 8 January 2015 were considered and it was noted that inviting Hymans Robertson to attend this meeting of the Committee to discuss the asset allocation proposals had been delayed until after the Government had responded to the Call for Evidence consultation, sometime after the General Election in May 2015 (Minute 45 refers).

RESOLVED

That the minutes of the Pensions Committee held on 8 January 2015 be approved and signed by the Chairman as a correct record.

51 INDEPENDENT ADVISORS REPORT

Consideration was given to a report by Peter Jones, Independent Advisor which provided an update on the current state of global investment markets.

There was good news in the figures from the fourth quarter of 2014 with economic growth rates exceeding expectations in a number of Northern European member states.

The impact of lower oil prices was discussed, after the price of oil had fallen to nearly $40 per barrel.

RESOLVED

That the Independent Advisors Report be noted.

52 PENSION FUND UPDATE REPORT

Consideration was given to a report which provided an update on Fund matters over the quarter ending 31st December 2014 and Jo Ray, Pensions and Treasury Manager summarised the report for the Committee

The Committee received feedback on the most recent Local Authority Pension Fund Forum from Councillor N I Jackson.

In relation to pensions administration, it was noted that the transfer to West Yorkshire Pension Fund had gone ahead as planned on 1 April 2015. There had been a couple of issues on transfer, however these had been resolved. Reconciliation work had highlighted a small number of over and under payments which were in the process of being corrected and the Committee would receive an update on this in due course.

The format for the membership of the newly formed Pensions Board had been finalised and the board had been established on 1 April 2015 as per the statutory requirement. The Board would consist of one independent chair, two employer representatives and two scheme member representatives.

RESOLVED

That the report be noted.

53 INVESTMENT MANAGEMENT REPORT

Consideration was given to a report which covered the management of the Lincolnshire Pension Fund assets over the period from 1 October to 31 December 2014.

Nick Rouse, the Investment Manager took the Committee through the report and the following points were noted:

- Hymans Robertson had met with Neptune and been encouraged by their performance to amend their rating from "sell" to "on watch";
- The Committee's representative from Hymans Robertson, Paul Potter, had been more proactive over the last year than previous consultants had been and a good relationship was developing;
- Schroders had still not seen a settled period since Virginie Maisonneuve, Head of Global Investments had left the company in 2014. A new team were performing satisfactorily, but still had some ground to cover;
- The Fund's strategic benchmark of 1% would be reviewed ahead of the Committee's October 2015 meeting.

RESOLVED

That the report be noted.

54 PENSION ADMINISTRATION REPORT

Consideration was given to a report which updated the Committee on the shared service arrangement with West Yorkshire Pension Fund which commenced on 1 April 2015.

Ian Greenwood, a Pensions Committee member and Yunus Gajra, Pension Fund Business Development Manager both from West Yorkshire Pension Fund, were present to provide an update on the partnership objectives.

In terms of the transfer of the administration service, Yunus Gajra updated the Committee as follows:

- The data transfer from Lincolnshire Pension Fund to West Yorkshire Pension Fund was complete. This had been the biggest part of the project;
- The transfer had uncovered some work that should have been done by Mouchel, but had not been completed;
- Staff training had been completed, including an induction for Bradford Council;

- Some staff working in Lincoln were now employees of City of Bradford Metropolitan District Council and had had their IT and telephone systems linked to those at the Bradford offices;
- The transfer should have little impact on members of the scheme and the main priority was ensuring pensions were paid;
- The monthly payment date at West Yorkshire was different from Lincolnshire's, however the usual Lincolnshire date was being maintained to avoid disruption for members;
- New tax codes were issued by HMRC in April 2015 and Mouchel had not passed them on to West Yorkshire and this had caused some problems. However, the previous codes could still be used for April and the new ones implemented as of May 2015. Officers would be seeking reasons for this failure from Mouchel.

Members were pleased with the success of the transfer and commended all of the staff involved in the transfer for their hard work.

RESOLVED

That the report be noted.

55 ANNUAL PENSIONS COMMITTEE TRAINING PLAN AND POLICY

The Committee considered a report which set out the training policy and the annual training plan for Members for the meetings from May 2015 to April 2016.

Members considered the plan, and it was noted that, at the first training session in September 2015, the governance topic would be from the Actuary and cover unitisation and the allocation of assets to employers.

Discussion took place regarding possible future training topics and the following were suggested;

- The single state pension;
- An update on new legislation;
- Visit to a fund manager;
- Visit to West Yorkshire Pensions offices;
- Visit to Council pensions staff offices.

Members were requested to provide a brief report to Committee on any external training events they may have attended.

The training plan would be updated and emailed to the Committee members.

RESOLVED

That the training and policy plan be agreed.

56 PENSIONS REGULATOR

Consideration was given to a report which informed the Committee of the Code of Practice published by the Pensions Regulator for public sector schemes.

It was noted that the code was not statutory but was used as a reference for good behaviour. The areas covered by the code were detailed in the report.

Also provided in the report were details of a Public Service Toolkit and Members were recommended to undertake the assessments and send a copy of the completed reports to the Pensions and Treasury Manager.

RESOLVED

That the report be noted.

57 PENSIONS FREEDOM AND CHOICE

The Committee considered a report which provided updates on changes in Pensions Regulations that allowed individuals to transfer their LGPS benefits to defined contribution arrangements from April 2015.

The changes provided individuals aged 55 or over greater choice around how they accessed their pension savings. There were two key safeguards built into the process, however both safeguards had potential problems which were detailed in the report.

Any individual seeking advice on withdrawing their savings of over £30,000, would need to consult a financial adviser who was registered with the Financial Conduct Authority.

The Government was estimating only a 10% take-up on the opportunity and the Committee agreed that Officers should wait three months to get an indication of the number of applications before taking additional analysis offered from Hymans Robertson.

RESOLVED

That the report be noted.

The meeting closed at 12.20 pm

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Lincolnshire
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PENSIONS COMMITTEE
28 MAY 2015

PRESENT: COUNCILLOR M G ALLAN (CHAIRMAN)

Councillors N I Jackson, B W Keimach and C E D Mair

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

In attendance: Peter Jones (Independent Financial Adviser), Paul Potter (Hymans Robertson);

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

1 APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS

Apologies were received from Councillors R J Phillips, Mrs S Rawlins, and A H Turner MBE JP.

2 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.

3 CONSIDERATION OF EXEMPT INFORMATION

RESOLVED

That under Section 100 (A) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item, on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A of the Act, as amended.

4 PRESENTATIONS BY MANAGERS

4a Manager Presentation - F&C - Absolute Return Bonds

Consideration was given to a report which introduced a presentation from F&C, who managed the Fund's allocation to absolute return bonds.

RESOLVED

1. That the report be noted;

2. That Officers update the Committee to evidence that the Committee's concerns have been addressed by F&C.

4b Manager Presentation - Morgan Stanley Alternative Investment Partners

The Committee considered a report which introduced a presentation by Morgan Stanley Alternative Investment Partners, who managed the Fund's allocation to alternative investments.

RESOLVED: That the report be noted.

4c Manager Presentation - Morgan Stanley Global Brands Fund

Consideration was given to a report which introduced a presentation from Morgan Stanley, who managed the Global Brands Fund which formed part of the Fund's allocation to global equities.

RESOLVED:

That the report be noted.

The meeting closed at 12.45 pm

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**16 July 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

July 2015

Are interest rates finally on the increase?

Interest rates, believe it or not, have been falling for over 30 years now, from peaks in the 1980's. This has pretty much been a global phenomenon, with Japan perhaps a few years ahead of the western world. By interest rates I mean both short term rates and long term ones (bonds with maturities of 20 years or longer). Members will be only too well aware of how low short term bank deposit rates now are. They have reached levels so close to zero as to be unimaginable only a few years ago. In terms of pension funds though, it is the long term government bond rate that underpins valuations of virtually all investible assets, be they equities, commercial property, alternatives etc. The future trajectory of the major government bond markets of the world (US treasury bonds, UK gilt edged, German "bunds") will thus remain a key driver of pension fund valuations.

Recent news on the economy

So far, 2015 is not turning out as the forecasters expected. Perhaps that is not so surprising – economic events often confound us. Consensus views at the start of 2015 were that the US and UK economies would continue to expand at a healthy pace, perhaps as high as 3% per annum, whilst the European economy would remain moribund. China, and indeed the rest of the emerging market bloc (Brazil, Russia etc), would struggle to maintain momentum. The oil price was expected to stay low and inflation almost everywhere around the globe virtually non-existent.

Reality however is that the European economy has shown an encouraging upturn in 2015, which seems sustainable. At the same time the US and the UK have faltered, the former adversely influenced by another hard winter on the Eastern seaboard of the USA. Europe might well grow by more than 1% in 2015, with Spain especially and also Italy showing some welcome growth. The US and UK will still achieve something over 2% growth. Also confounding the pundits, the oil price has started to rise and was recently as high as $70 a barrel, compared to a low point of around $45 late last year. This will have important implications for global inflation. In recent months, fears have arisen of deflation (ie falling prices) taking hold, especially in Europe. Such fears now look mis-placed. Notwithstanding the changing market perception as to trends in global inflation, there are few signs that Central Bankers are about to raise short term interest rates and to start to withdraw the excess liquidity with which they have flooded global financial markets. But, with the improving global economic background, such moves will inevitably come, maybe starting in late 2015 or early 2016.

Pervasive influence of Central Banks' "Quantitative Easing"

The central banks of the USA and the UK (the Fed and the Bank of England) started their Quantitative Easing programmes some five years ago and have finished actively buying government and other high grade debt of their respective countries. The European Central Bank and the Bank of Japan came much later to their respective programmes, which look set to continue well into 2016. All of these programmes, combined, have undoubtedly been the main underlying cause of the amazing fall in global interest rates, both long and short. Logically, the ending of such programmes should lead to a rise in yields. And indeed that is what markets are expecting. As ever, markets anticipate the actual event. And that is what has happened in the last few months. A seemingly seminal moment was when German bonds reached a virtually zero yield in (late April) and abruptly reversed, with prices falling sharply: ie yields rising.

An often overlooked factor in the sharp fall in interest rates has been the competition to buy secure long term investments. Supply (ie new issues) by governments has continued at a high level. But, of course, central banks have been avid buyers of those bonds. So also have a range of financial institutions (banks, insurance companies and some pension schemes) that are obliged, either by regulation or by prudential risk strategies to buy those self same bonds. The result has been a "squeeze", driving yields very low.

Conclusion

Should we expect a rapid unwinding of these processes in the months and years ahead? My own view is probably not. Those financial institutions will remain keen buyers of bonds. A combination of yet tighter financial regulation and the ageing of the populations of the developed world make that unlikely. I suspect it might intensify the buying as yields increase. That is not to say that there will not be market “sell offs”: inevitably there will be. But I suspect these to be relatively short lived in terms of duration and rises in yields (ie falls in prices).

If fixed interest yields rise, what are the implications for other financial assets – especially equities and commercial property (where the great bulk of the Lincolnshire pension fund assets are invested)? Their prices will fall. But again, I feel the fall will be constrained. Will funds be tempted to switch from equities into bonds as yields rise? Maybe, but I doubt it will be either widespread or sustained.

The key metric for your scheme is the size of the actuarial deficit on the fund. As interest rates have fallen in the past few years, scheme assets have risen in value. But, the liabilities have risen even faster. So the deficit, the difference between the two, has worsened. When interest rates start to rise, hopefully, this process will unwind. Your deficit should fall and the scheme become better funded.

Peter Jones
30th June 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.

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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:	**16 July 2015**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Committee on Fund matters over the quarter ending 31st March 2015 and any current issues.

Recommendation(s):

That the Committee note this report and agree the revised strategic benchmark.

Background

1 Fund Summary

1.1 Over the period covered by this report, the value of the Fund rose in value by £81.9m (4.9%) to £1,751.7m on 31st March 2015. 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 March. 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 1.3%

UK Equities underweight by 1.1%

Global Equities overweight by 1.4%

Underweight Alternatives by 0.8%

Underweight Property by 0.5%

Underweight Bonds by 0.5%

Overweight Cash by 0.4%

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

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

1.4 Appendix C shows the market returns over the three and twelve months to 31st March 2015.

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 9.4% of the Fund, which compares with 9.3% 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	22.7	1.3
2	HSBC	20.3	1.2
3	BRITISH AMERICAN TOBACCO	19.9	1.1
5	APPLE	17.4	1.0
8	RECKITT BENCKISER	14.7	0.8
6	UNILEVER	14.3	0.8
9	BP	14.0	0.8
4	NESTLE	13.8	0.8
7	DIAGEO	13.5	0.8
10	GLAXOSMITHKLINE	13.2	0.8
	TOTAL	**163.8**	**9.4**

1.6 Appendix D presents summarised information in respect of votes cast by the Manifest Voting Agency, in relation to the Fund's equity holdings. Over the three months covered by this report, the Fund voted at 106 company meetings and cast votes in respect of 1289 resolutions. Of these resolutions, the Fund voted 'For' 981, 'Against' 290 and abstained on 15 and withheld votes on 3.

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:

- The boards of Shell and BP recommended shareholders support the resolutions filed by a number of LAPFF member funds in conjunction with the 'Aiming for A' coalition of which LAPFF is part. The resolutions addressed 'strategic resilience to 2035 and beyond' focussing on carbon management, strategy and disclosure. For a company to recommend voting in favour of a shareholder resolution is unprecedented in the UK and reflects the positive nature of engagement undertaken by the coalition. Both AGM's have now been held and the resolutions received 98.28% support at BP and 99.8% support at Shell.

- Société Générale announced in 2014 the separation of the roles of chairman and chief executive. LAPFF has met regularly with the company to discuss this concern since 2010. This issue was also raised at a meeting with Total, in the context of succession planning. Discussion further explored how carbon management considerations influence business strategy, particularly on capital expenditure plans for marginal oil reserves.

- Subsequent to collaborative engagement in 2014, in early 2015 Wilmar revealed that it has fully mapped its supply chain, making public all its suppliers in Indonesia and Malaysia. This improved transparency should allow investors to understand better how well the company is implementing supply chain sustainability practices.

- LAPFF's participation in the Sustainable Palm Oil Manifesto was one prompt for Malaysian palm oil trader Kuala Lumpur Kepong's announcement in January 2015 that it will begin to use the industry-standard definition of high carbon stock (HCS) forests developed by The Forest Trust, Golden Agri-Resources and Greenpeace. Another Manifesto member, IOI, has publicly committed to applying its sustainable palm oil policy to its subsidiaries and trading partners, as well as its direct operations.

- A meeting with the Forum's third largest European holding, Novartis, explored board independence and executive remuneration in the context of new Swiss governance regulation.

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 £8.8m. 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 £58k.

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 – Year to end March 2015				
Pension Fund Average Balance £'000	**Interest Earned £'000**	**Cumulative Average Yield Annualised %**	**Cumulative Weighted Benchmark Annualised %**	**Performance %**
8,846.5	58.0	0.66	0.41	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 the Pensions Administration paper at item 7 on this agenda.

4.2 Internal Audit has completed their audit of the transition to WYPF and have returned an opinion of "Effective". The executive summary in the report states:

> The transfer of Pensions Administration to West Yorkshire Pension Fund was effectively monitored and managed by the collaboration and project boards. There were regular meetings to review the associated risks and progress actions and issues throughout the project. We also noted periodic updates to the Council's Pensions Committee.
>
> We can confirm from the reconciliation of control totals that the expected number of records extracted from Altair balanced correctly to those uploaded to the new Civica system. We also verified that the scanned and imaged documents were correctly transferred to the relevant pension records and that pensioner payroll standing data is complete.
>
> Our testing of data transferred from the Altair system to records held on Civica identified some information on Altair that was not present in the new Civica system – we have received assurance from the new provider that this issue is not significant and will not have any detrimental effect when calculating member benefits. The Pensions and Treasury Manager agrees the explanations provided by WYPF on this issue are valid.
>
> The results of WYPF's own testing together with our sample tests, provides reasonable assurance over the data transfer and confidence in the continued accuracy of the Council's pension records.

4.3 As previously brought to the attention of the Committee, a small number of over and under payments to pensioners have been identified as part of the reconciliation and data cleansing work carried out. Underpayments were corrected in March and resolutions on the recovery of most of the overpayments have been agreed. We are working with Legal Services to resolve the small number of cases that are still outstanding.

5 Risk Register Update

5.1 The annual review of the risk register is at agenda item 12 of this meeting, therefore there is no quarterly update.

6 Asset Allocation

6.1 It was previously agreed 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 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 will continue to update the Committee with any further information that becomes available.

7 Local Pension Board

7.1 The Lincolnshire Pension Board was established by the statutory deadline of 1st April 2015. Following a request for nominations from both scheme member and employer representatives, the members of the Board have now been appointed. A paper was taken to the Group Leaders meeting in June to finalise the appointments.

7.2 The makeup of the LGPS Pension Board is:

Independent Chair

Roger Buttery - Roger has vast experience of pension scheme trusteeship, governance, benefits administration, investments and pension scheme accounting in both the public and private sectors, and currently serves on a number of private sector Pension Boards. He has also served on a number of audit committees that have reviewed governance issues.

Employer Representatives

Councillor Marc Jones – as the LCC representative.

Kirsty McGauley (Grantham College) – Kirsty works as the Payroll and HR Administrator at the College, and is active at the Fund's employer meetings. More than half of the Fund's employers are from the Education sector.

Scheme Member Representatives

Ian Crowther – union representative. The unions have requested that Faye Houltby be his deputy should he be unavailable.

Dave Vickers – Dave was the Pensions Administration Manager for the Lincolnshire Fund for 20 years, retiring last May, therefore has a wide experience of pensions administration, benefits and governance. He has been a Trustee for 16 years for 5 company pension schemes.

7.3 A training day for the new Board has been organised on 20th July, and the first Board meeting will be held on 30th July, in County Offices.

8 Strategic Benchmark

8.1 A question was raised at the April Committee requesting a review of the Fund's objective to meet the strategic benchmark by 1% per annum, over the long term. This was particularly relevant given the change in asset allocation over the last few years.

8.2 The Fund's consultant, Hymans Robertson, and officers have given consideration to the objective and propose reducing the target to 0.75% outperformance.

8.3 The reasoning behind this reduction is that over 25% of the Fund is invested in mandates with absolute return target – used as a benchmark by JP Morgan for performance measurement purposes - and therefore no separate 'outperformance' expected. One example of this is the Libor +4% target that Morgan Stanley has on the Alternatives mandate.

8.4 The outperformance of the remaining managers should meet the 0.75%, if they all met their mandated targets.

8.5 The Committee is asked to approve the amendment to the objective of the Fund to outperform the strategic benchmark by 0.75%, over the long term.

Conclusion

9.1 This reporting period saw the value of the Fund grow, increasing by £81.9m to close at £1,751.7m. At the end of the period the asset allocation, compared to the strategic allocation, was;

- overweight equities and cash;

- underweight alternatives, fixed interest and property.

9.2 The pensions administration service transferred to WYPF from 1st April 2015, and a successful audit report was received covering the transition.

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 The Lincolnshire Pension Board has been fully appointed and will hold its first meeting at the end of July.

9.5. The recommendation is made to amend the outperformance objective of the Fund from 1% to 0.75% above the strategic benchmark.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

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

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

APPENDIX A

DISTRIBUTION OF INVESTMENTS

INVESTMENT	31 March 2015			31 December 2014			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
UK Index Tracker	348,079,334	32.4	18.9	314,780,654	30.4	18.9	20.0	+/- 1.5%
TOTAL UK EQUITIES	**348,079,334**		**18.9**	**314,780,654**		**18.9**	**20.0**	
GLOBAL EQUITIES								
Invesco	363,555,873	33.9	20.8	355,830,048	34.4	21.3	20.0	+/- 1.5%
Threadneedle	91,378,618	8.5	5.2	97,217,115	9.4	5.8	5.0	+/- 1%
Schroder	90,450,362	8.4	5.2	93,108,106	9.0	5.6	5.0	+/- 1%
Neptune	91,900,199	8.6	5.2	89,349,824	8.6	5.4	5.0	+/- 1%
Morgan Stanley	88,445,435	8.2	5.0	83,622,490	8.1	5.0	5.0	+/- 1%
TOTAL GLOBAL EQUITIES	**725,730,487**		**41.4**	**719,127,584**		**43.1**	**40.0**	
TOTAL EQUITIES	**1,073,809,821**	**100**	**61.3**	**1,033,908,238**	**100**	**61.9**	**60.0**	**+/- 5%**
ALTERNATIVES	**248,174,024**		**14.2**	**236,320,236**		**14.2**	**15.0**	**+/- 1.5%**
PROPERTY	**193,527,831**		**11.0**	**190,241,702**		**11.4**	**11.5**	**+/- 1%**
FIXED INTEREST								
Goodhart F & C	112,371,266	49.2	6.4	97,880,872	47.4	5.9	6.75	+/- 1%
Blackrock	116,177,245	50.8	6.6	108,591,691	52.6	6.5	6.75	+/- 1%
TOTAL FIXED INTEREST	**228,548,511**	**100**	**13.0**	**206,472,563**	**100**	**12.4**	**13.5**	**+/- 1.5%**
TOTAL UNALLOCATED CASH	**7,642,357**		**0.4**	**2,825,087**		**0.2**	**0.0**	**+ 0.5%**
TOTAL FUND	**1,751,702,544**		**100**	**1,669,767,826**		**100**	**100**	

APPENDIX B

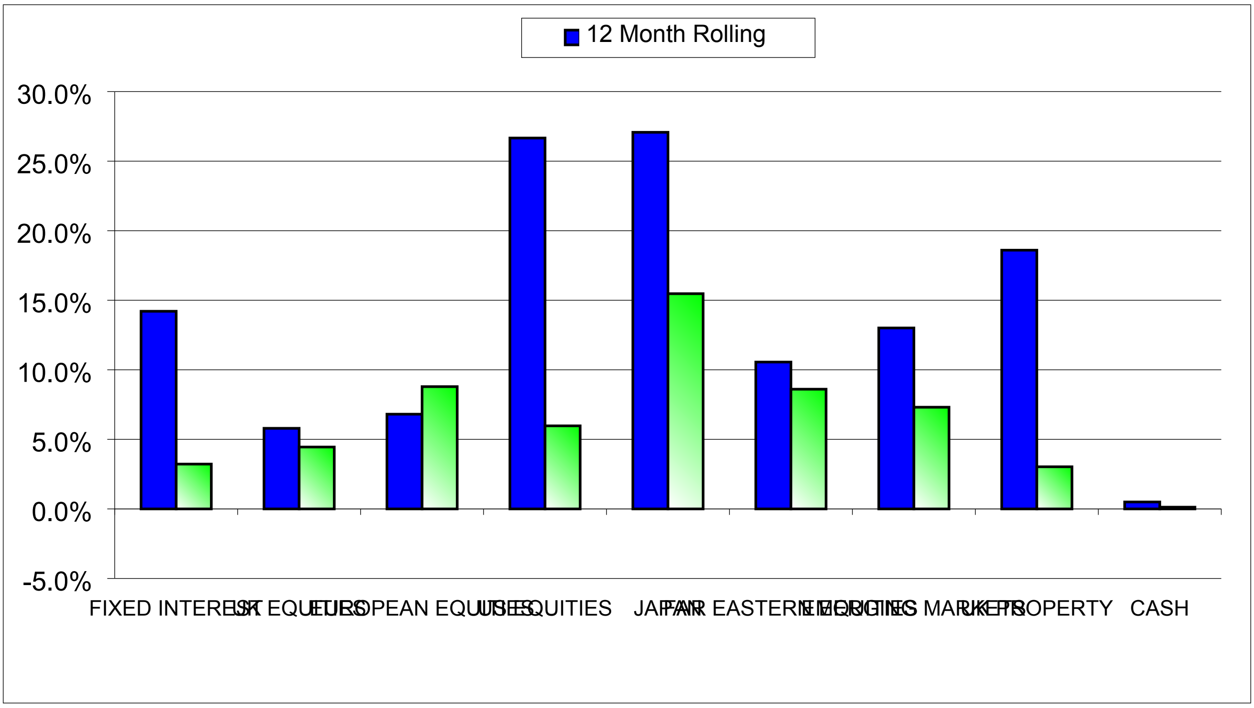
PURCHASES AND SALES OF INVESTMENTS – QTR ENDED 31st March 2015

Investment	Purchases £000's	Sales £000's	Net Investment £000's
UK Equities			
In House	24,305	634	23,671
Global Equities			
Invesco	39,136	56,716	(17,580)
Threadneedle	9,565	21,046	(11,480)
Schroders	14,837	24,612	(9,776)
Neptune	15,274	20,384	(5,110)
Morgan Stanley Global Brands	0	0	0
Total Equities	**103,117**	**123,392**	**(20,275)**
Alternatives			
Morgan Stanley	0	10,000	(10,000)
Total Alternatives	**0**	**10,000**	**(10,000)**
Property	**195**	**2,564**	**(2,369)**
Fixed Interest			
BlackRock	4,000	0	4,000
Goodhart F & C	14,000	0	14,000
Total FI	**18,000**	**0**	**18,000**
TOTAL FUND	**121,312**	**135,956**	**(14,644)**

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 March 2015



INDEX RETURNS	12 Months to Mar '15	Jan-Mar '15
	%	%
FIXED INTEREST	14.2	3.2
UK EQUITIES	5.8	4.4
EUROPEAN EQUITIES	6.8	8.8
US EQUITIES	26.7	6.0
JAPANESE EQUITIES	27.1	15.5
FAR EASTERN EQUITIES	10.6	8.6
EMERGING MARKETS	13.0	7.3
UK PROPERTY	18.6	3.0
CASH	0.5	0.1

Votes Summarised by Votes Cast

Report Period: 01 Jan 2015 to 31 Mar 2015

Management Group Name	Resolutions			
Voting Guideline Code	**For**	**Abstain**	**Against**	**Total**
Adjourn Meeting	7	0	0	7
AGM Date	1	0	0	1
All Employee Share Schemes	9	0	8	17
Annual Incentive Plan Metrics	2	0	0	2
Anti-Takeover Provisions	0	2	0	2
Any Other Business	0	0	1	1
Appoint Audit Committee (Slate)	1	0	0	1
Appoint Audit Committee Member	1	0	0	1
Appoint Chairman	4	0	0	4
Appoint Independent Proxy	3	0	0	3
Appoint Nomination Committee	2	0	0	2
Appoint Rem Committee (Slate)	1	0	0	1
Appoint Rem Committee Member	11	0	0	11
Approval of Executive's Remuneration Package	5	0	0	5
Approve Agreement	4	0	0	4
Approve Majority Vote Standard for Directors	2	0	0	2
Approve Minutes	1	0	0	1
Auditor - Appointment	48	2	12	62
Auditor - Deputy/Secondary	1	0	0	1
Auditor - Remuneration	15	0	10	25
Auth Board to Issue Shares	31	0	4	35
Auth Board to Issue Shares w/o Pre-emption	28	0	3	31
Authorise Option Grants/Dilution	2	0	0	2
Authorise Political Donations & Expenditure	11	0	0	11
Authorised Capital	0	0	0	0
Authorised Capital [DE/CH/AT]	3	0	1	4
Board Alternate	3	0	0	3
Board Rem - Approve Bonuses	5	0	0	5
Board Size for Year	3	0	0	3
Bundled Resolution	0	0	1	1
Cancel Class of Capital	0	0	0	0
Cancel Treasury Shares	8	0	1	9
Capital Raising	0	0	1	1
Chairs Corporate Responsibility Committee	1	0	1	2
Change Jurisdiction of Incorporation	0	0	0	0
Change of Name	0	0	0	0
Conditional Capital [DE/CH/AT]	1	0	0	1
Delegate Powers	9	0	0	9
Director - Discharge from Liability	125	0	0	125
Director Election - All Directors [Single]	391	10	197	598
Director Election - Chairman	18	3	30	51
Director Election - Chairs Audit Committee	37	1	6	44
Director Election - Chairs Nomination Com	25	3	14	42
Director Election - Chairs Remuneration Com	34	2	8	44
Director Election - Chairs Risk Com	0	0	3	3
Director Election - Executives	83	0	84	167

Director Election - Lead Ind. Director/DepCH	23	4	4	31
Director Election - Non-executive/Sup Board	297	10	102	409
Director Election - Sits on Audit Committee	118	0	20	138
Director Election - Sits on Nomination Com	129	1	16	146
Director Election - Sits on Risk Com	5	0	1	6
Director Election - Slate	7	0	0	7
Director Election - Sts on Remuneration Com	112	2	24	138
Distribute/Appropriate Profits/Reserves	31	0	1	32
Dividend - Approve Policy	1	0	0	1
Dividends - Ordinary	45	0	2	47
Dividends - Scrip	9	0	0	9
EGM Notice Periods	23	0	0	23
Elect Member Audit & Supervisory Board (JP)	16	0	0	16
Financial Statements	31	0	15	46
Financial Statements - Environmental Issues	31	0	14	45
Individual Share Award	1	0	0	1
Investment Strategy/Policy	1	0	0	1
Issue Bonds (Other)	2	0	0	2
Issue Bonds with independent warrants	1	0	0	1
Issue Convertible Bonds	1	0	0	1
Issue Warrants to Directors/Employees	1	0	0	1
Long-term Deferral Systems	4	0	0	4
Long-term Incentive Plans	1	0	15	16
LTI: Discretionary Share Option Plan	1	0	1	2
Meeting Formalities	16	0	0	16
Merger Related Compensation [US]	5	0	0	5
NED Remuneration - Fee Rate/Ceiling	7	0	0	7
NED Remuneration - Fees actually paid	3	0	0	3
NED Remuneration - Fees proposed for year	7	0	0	7
New Class of Capital	6	0	0	6
Other Changes to Governance Arrangements	59	0	2	61
Other Meeting Procedures	3	0	0	3
Ratification of a Prior Act	0	0	0	0
Ratify Co-option to Board	1	0	0	1
Reduce or Reclassify Capital or Reserves	3	0	0	3
Reduce Share Premium Account	2	0	0	2
Reissue (Use) Treasury Shares	1	0	1	2
Related Party Transaction - Specific Transaction	0	0	0	0
Remove Supermajority Provisions	5	0	0	5
Remuneration Policy	14	0	4	18
Remuneration Report	31	0	22	53
Resolution Issues	7	0	1	8
Return of Capital	0	0	0	0
Scheme of Arrangement	0	0	1	1
SH: Animal Welfare Policy & Disclosure	0	0	0	0
SH: Establish Corp Responsibility Committee	1	0	0	1
SH: Independent Chairman	4	0	0	4
SH: Lobbying - Improve Disclosure	1	0	0	1
SH: Pay Disparity	0	0	1	1
SH: Performance Conditions - Strengthen	1	0	0	1

SH: Remove Multiple Voting Rights	1	0	0	1
SH: Remove Voting Rights Ceiling	1	0	0	1
SH: Report on Climate Change Risks	0	0	0	0
SH: Restrict Accelerated Vesting of LTIP Awards	2	0	0	2
SH: Right to Nominate Directors - 'Proxy Access'	4	0	0	4
SH: Shareholder Resolution - Other	1	0	0	1
SH: Supplemental Executive Retirement Plans	1	0	0	1
SH: Voting Procedures	1	0	0	1
Share Buy-back Authority (inc Tender Offer)	29	0	6	35
Share Consolidation	2	0	0	2
Share Split	2	0	0	2
Shareholder Action by Written Consent	0	0	2	2
Significant Transactions	2	0	2	4
Sits on Corporate Responsibility Committee	9	0	2	11
Substitute Member Audit & Sup Board (JP)	2	0	0	2
Unclassified	1	0	1	2
	2062	**40**	**645**	**2747**

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:	**16 July 2015**
Subject:	**Investment Management Report**

Summary:

This report covers the management of the Lincolnshire Pension Fund assets, over the period from 1st January to 31st March 2015.

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

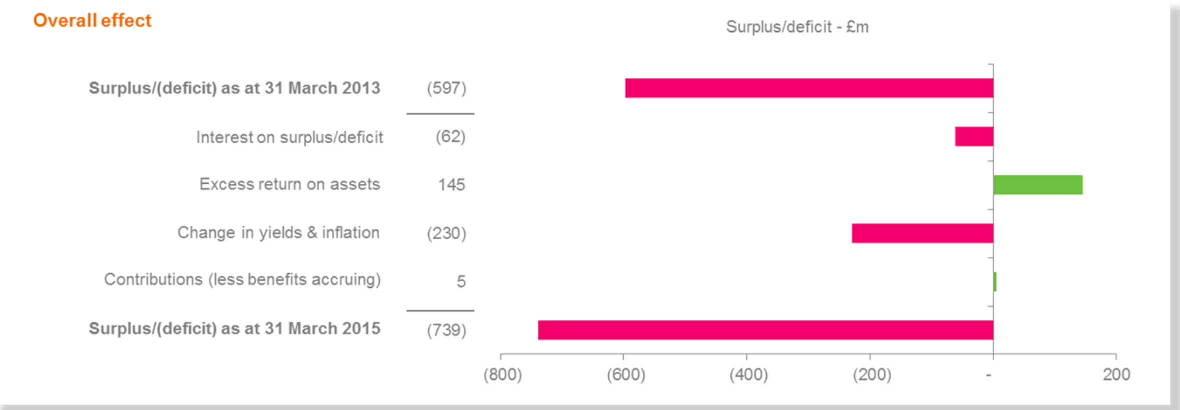
1.1 The funding update is provided to illustrate the estimated development of the funding position from 31st March 2013 to 31st March 2015, for the Fund.

1.2 As the graph below shows, the funding level at the latest formal valuation was 71.5%. As at 31st March 2015 the funding level has decreased to 70.5%.

Change in funding level since last valuation

1.3 As shown below, the deficit in real money has increased from £597m to £739m between the period 31st March 2013 and 31st March 2015. This is largely as a result of a decrease in bond yields, and subsequent discount rate, which places a higher value on the Fund's liabilities. This has been partially offset by good investment performance.

What's happened since last valuation?



1.4 In the period since 31st December 2014, the funding level has risen from 70% to 70.5% as a result of good investment performance.

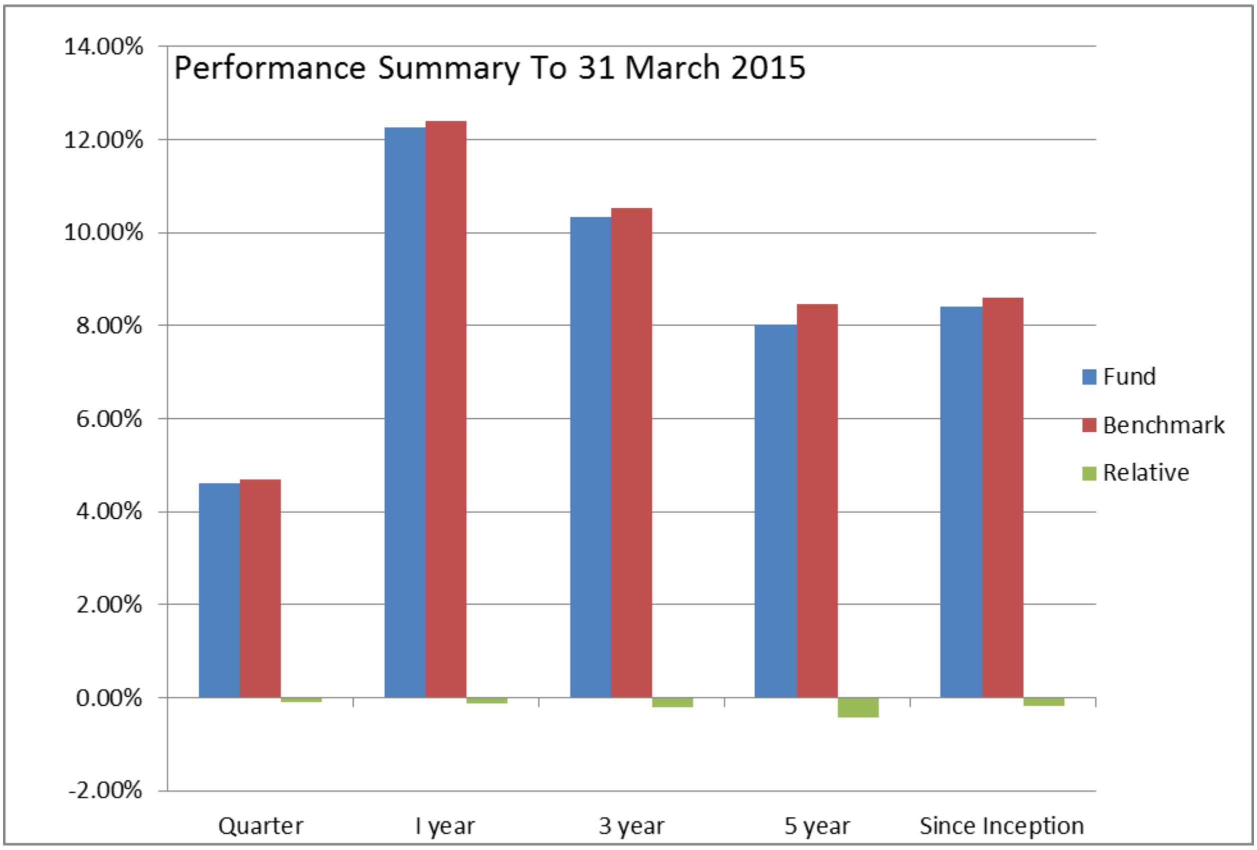
2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £81.9m during the quarter from £1,669.8m to £1,751.7.8m, 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	Q1 2015 £	Q4 2014 £	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	348.1	314.8	19.9	20.0	(0.1)
Global Equities	725.7	719.1	41.4	40.0	1.4
Alternatives	248.2	236.3	14.2	15.0	(0.8)
Property	193.5	190.2	11.0	11.5	(0.5)
Fixed Interest	228.6	206.5	13.1	13.5	(0.4)
Cash	7.6	2.8	0.4	0.0	0.4
Total	**1,751.7**	**1,669.8**	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 4.6% underperforming the benchmark which returned 4.69%. 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 have been no changes to the ratings during the quarter. 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 good quarter for the Fund with all managers producing a positive absolute return. Over the quarter, six managers outperformed their benchmark, with the in house team slightly underperforming by 0.1% and Morgan Stanley Global Brands and Alternatives underperforming by 1.6% and 0.7%. Over the 12 month period only F&C have failed to produce a positive absolute return. Against their target, the performance has been disappointing with only the in house team and Blackrock matching or beating the required return.

	3 months ended 31/03/15			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	Target p.a. %
Passive UK Equity In house	4.3	4.5	(0.1)	5.6	5.8	(0.2)	+/- 0.5
Invesco (Global Equities (ex UK))	8.0	7.8	0.2	20.2	20.3	(0.1)	+1.0
Threadneedle (Global Equities)	8.2	7.6	0.5	19.5	19.0	0.4	+2.0
Neptune (Global Equities)	8.7	7.6	1.0	23.0	19.0	3.4	+4.0
Schroder's (Global Equities)	8.7	7.5	1.1	19.7	18.4	1.1	+3.0
Morgan Stanley Global Brands	5.8	7.5	(1.6)	18.4	19.1	(0.6)	n/a
Blackrock (Fixed Interest)	3.3	3.2	0.1	14.5	14.2	0.3	Match Index
F&C (Fixed Interest)	1.4	0.8	0.7	(1.3)	3.1	(4.3)	3M LIBOR + 3%
Morgan Stanley (Alternative Investments)	0.5	1.2	(0.7)	0.1	4.7	(3.5)	3M LIBOR + 4%

Lincolnshire Pension Fund
UK Equities – In House (Passive UK)
Quarterly Report March 2015

Investment Process

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

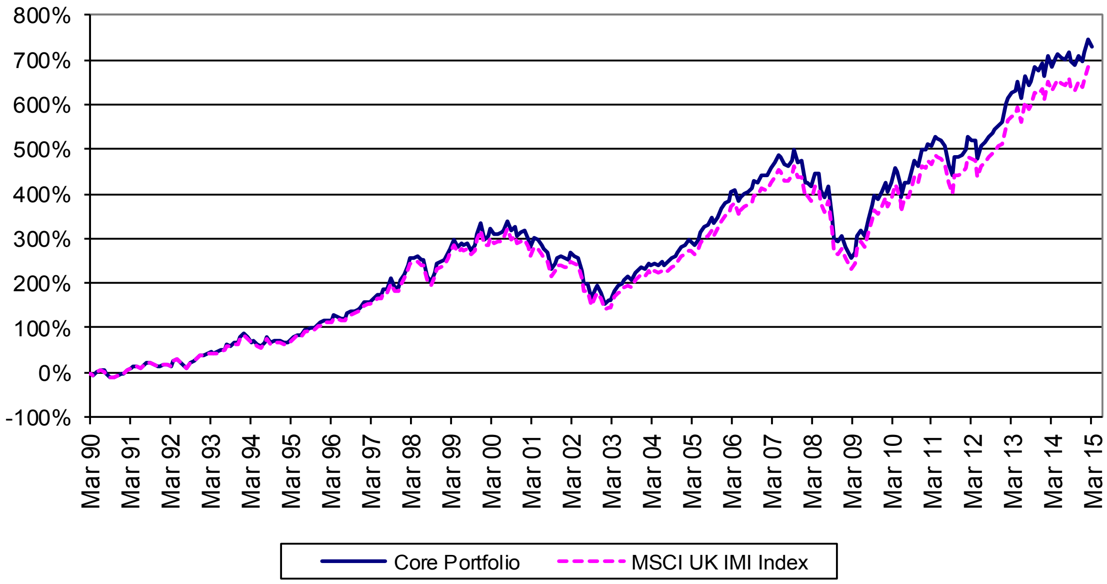
Portfolio Valuation

Value at 31.12.14	Value at 31.03.15
£314,780,654	£348,079,334

Performance

During the quarter the portfolio produced an excellent return of 4.3% but slightly lagged the benchmark by 0.1%. The underperformance was due to the underweight position in financials which delivered a strong return over the quarter. The portfolio is slightly behind the benchmark over one and three year time periods but ahead over five years and since inception.

UK Equities In House Portfolio Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
UK Equities – In House	4.3	5.6	14.4	11.0	8.8
MSCI UK IMI	4.5	5.8	14.5	10.9	8.5
Relative Performance	(0.1)	(0.2)	(0.1)	0.1	0.3

* annualised, inception date 01/10/1989

Turnover

Holdings at 31.12.14	Holdings at 31.03.15	Turnover in Quarter %	Turnover in Previous Quarter %
248	256	3.7	0.01

Purchases and Sales

During the quarter the manager performed a large number of trades following a rebalance of the Lincolnshire Pension Fund. Purchases included Lloyds, Barclays and HSBC as the manager continued to reduce the underweight position in financials. The manager sold positions in Punch Taverns, Jardine Lloyd Thompson and Canaccord as these stocks exited the index.

Largest Overweights

Royal Dutch Shell	0.13%
Babcock Intl	0.13%
BP Group	0.09%
British American Tobacco	0.09%
BG Group	0.09%

Largest Underweights

London Stock Exchange	(0.10%)
Rotork	(0.10%)
Glencore	(0.06%)
Kier Group	(0.06%)
GW Pharmaceuticals	(0.06%)

* Measured against MSCI UK IMI

Top 10 Holdings

1	Royal Dutch Shell	£23,025,947
2	HSBC Holdings	£21,485,474
3	BP	£15,017,363
4	GlaxoSmithkline	£12,780,037
5	British American Tobacco	£12,116,729

6	Vodafone Group	£10,520,870
7	Astrazeneca	£9,841,490
8	Diageo	£7,838,433
9	Lloyds Banking Group	£7,653,508
10	Prudential PLC	£7,366,836

Risk Control

The portfolio has a tracking error limit of 0.5%. At the end of March 2015 the tracking error was 0.17%.

Lincolnshire Pension Fund
Global Equities – Invesco (Global Ex UK Enhanced)
Quarterly Report March 2015

Investment Process

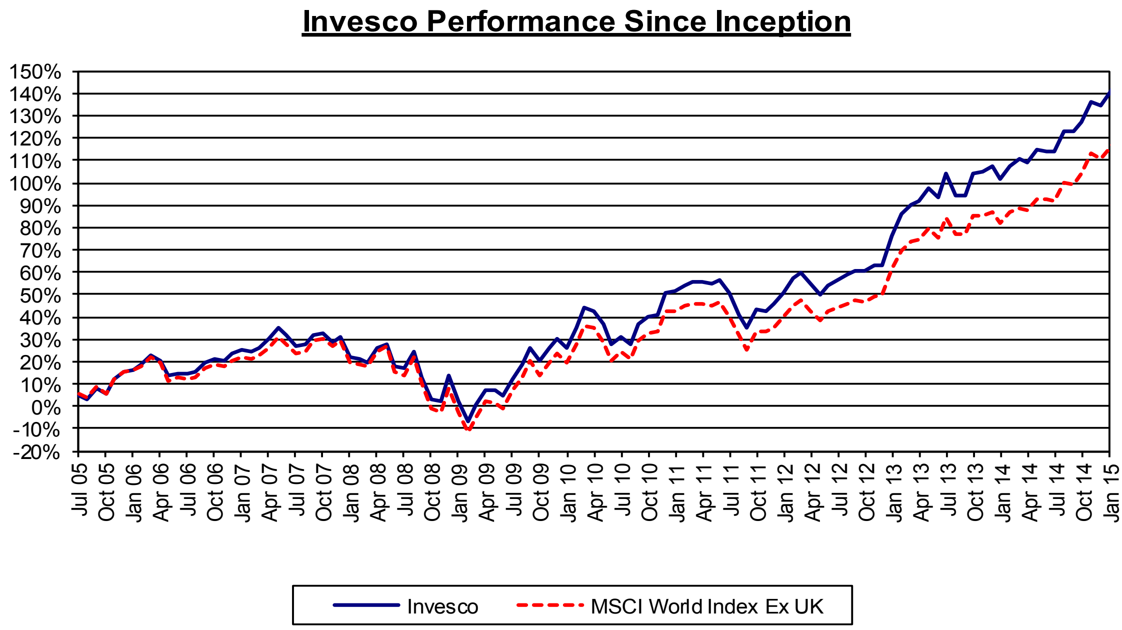
This portfolio is mandated to track the MSCI World ex UK Index, with a performance target of +1% and a tracking error of 1%. The aim is to achieve long-term capital growth from a portfolio of investments in large-cap global companies. Active performance is generated through a quantitative bottom-up investment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

Portfolio Valuation

Value at 31.12.14	Value at 31.03.15
£355,830,048	£363,555,873

Performance

During the quarter Invesco's strategy outperformed its benchmark. Stock Selection had the largest positive impact on relative performance. An underweight position in materials detracted the most, while underweights in healthcare helped performance. Over 12 months Invesco have slightly underperformed their benchmark but over all other periods they are ahead of both the benchmark and the target.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Invesco	8.0	20.2	16.6	12.0	10.0
MSCI World ex UK	7.8	20.3	15.5	10.8	8.8
Relative Performance	0.2	(0.1)	1.0	1.1	1.1

* annualised, inception date 1st July 2005

Turnover

Holdings at 31.12.14	Holdings at 31.03.15	Turnover in Quarter %	Turnover in Previous Quarter %
429	419	11.5	8.0

Purchases and Sales

During the quarter Invesco added Amerisourcebergan and Equity Residential whilst increasing their position in Intel, Abbvie and Comcast. These were funded by selling out of Vinci and Discover Financial and decreasing positions in Chevron, Power Assets and Northrop Grumman.

Largest Overweights

Pfizer	0.81%
Nippon Tel & Tel	0.81%
Citigroup	0.81%
Archer Daniels Midl	0.75%
Northrop Grumman	0.72%

Largest Underweights

Chevron	(0.59%)
Verizon	(0.52%)
Google	(0.51%)
Amazon	(0.47%)
Walt Disney	(0.46%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple Inc	£9,720,223
2	Microsoft Corp	£5,957,983
3	JPMorgan Chase	£5,334,958
4	Pfizer Inc	£5,334,937
5	Citigroup Inc	£4,697,039

6	Johnson & Johnson	£4,596,089
7	Exxon Mobil Corp	£4,042,302
8	Intel Corp	£3,833,773
9	General Electric Co	£3,504,937
10	Nippon Tel & Tel	£3,413,558

Hymans Robertson View

Karl Georg Bayer is retiring as Head of Research and is being replaced by Michael Fraikin. This will mean Fraikin doing fewer client meetings – his role will be taken by Thorsten Paarmann, another very experienced member of the Portfolio Management team. There will be no change, in our view, to the philosophy, process or portfolio structure resulting from Fraikin's promotion.

Risk Control

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

Lincolnshire Pension Fund
Global Equities – Neptune
Quarterly Report March 2015

Investment Process

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

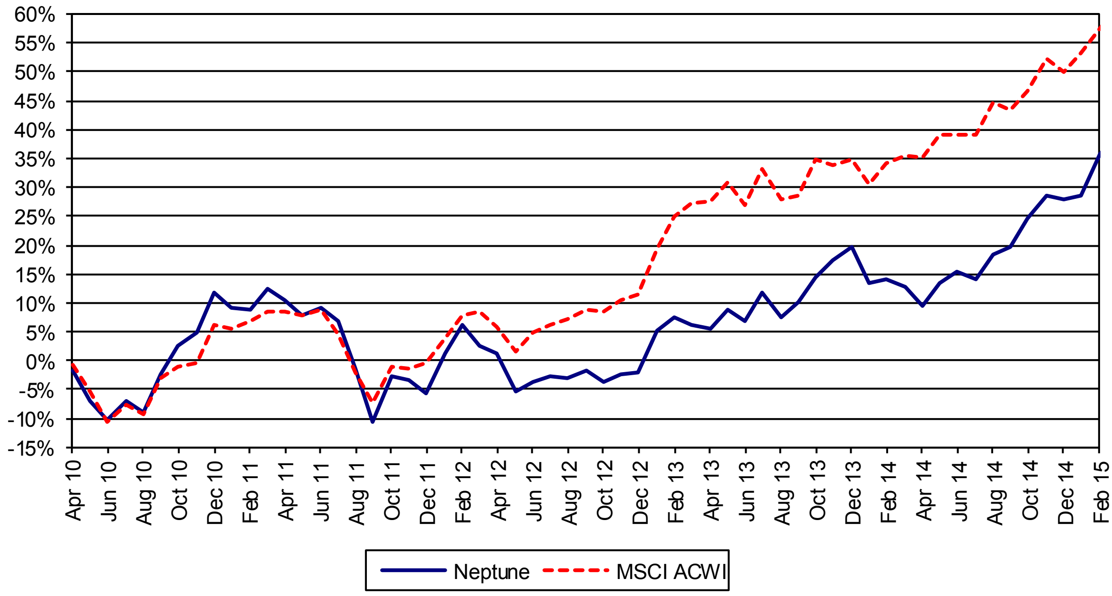
Portfolio Valuation

Value at 31.12.14	Value at 31.03.15
£89,349,824	£91,900,198

Performance

During the quarter Neptune produced a positive return of 8.7% against the benchmark of 7.6%. The Fund's strong performance for the quarter was driven by stock selection, with 8 out of 10 sectors showing positive stock selection. Particularly positive were industrials, IT and financials, with the stocks within those sectors predominately in the US and Japan.

Neptune Performance Since Inception



	Quarter %	1 Year %	3 Year %	5 Year %	Inception* %
Neptune	8.7	23.0	10.6	6.8	6.8
MSCI ACWI**	7.6	19.0	14.1	10.1	10.1
Relative Performance	1.0	3.4	(3.1)	(3.0)	(3.0)

* annualised, inception date 16/04/2010

Turnover

Holdings at 31.12.14	Holdings at 31.03.15	Turnover in Quarter %	Turnover in Previous Quarter %
46	54	17.4	10.4

Purchases and Sales

The main change to the portfolio over the period was an increase to consumer discretionary exposure. This was primarily in the US, where Neptune believe the Consumer's purchasing ability is a stand out beneficiary of the strong dollar and lower oil price. Additionally, on the back of ongoing internal research reports around the health and wellness sector, Neptune added to consumer staples in the US. Neptune also added to healthcare through the purchase of select biotech stocks. These additions were funded by a combination of stock specific sales where target prices had been reached and the trimming of some large US technology stock holdings.

Top 5 Contributions to Return

Fanus	1.3%
Tencent Holdings	0.8%
Isetan Mitsukoshi	0.8%
Apple Computer	0.8%
Blackstone Group	0.5%

Bottom 5 Contributions to Return

Caterpillar Inc	(0.1%)
Microsoft Corp	(0.2%)
ICICI Bank	(0.2%)
Komatsu	(0.2%)
American Express Co	(0.2%)

Top 10 Holdings

1	Fanuc Corp	£3,966,535
2	Apple Inc	£3,259,086
3	Sumitomo Realty	£3,158,257
4	Mitsui Fudosan	£3,106,857
5	Mitsubishi Estate	£3,074,993

6	Taisei Corp	£2,926,708
7	Linkedin Corp	£2,869,579
8	Icici Bank	£2,842,362
9	Tencent Holdings	£2,699,894
10	Google Inc	£2,678,673

Hymans Robertson View

Hymans view has not changed following their meeting with Neptune in early 2015 and still retain their "on watch" rating.

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 March 2015

Investment Process

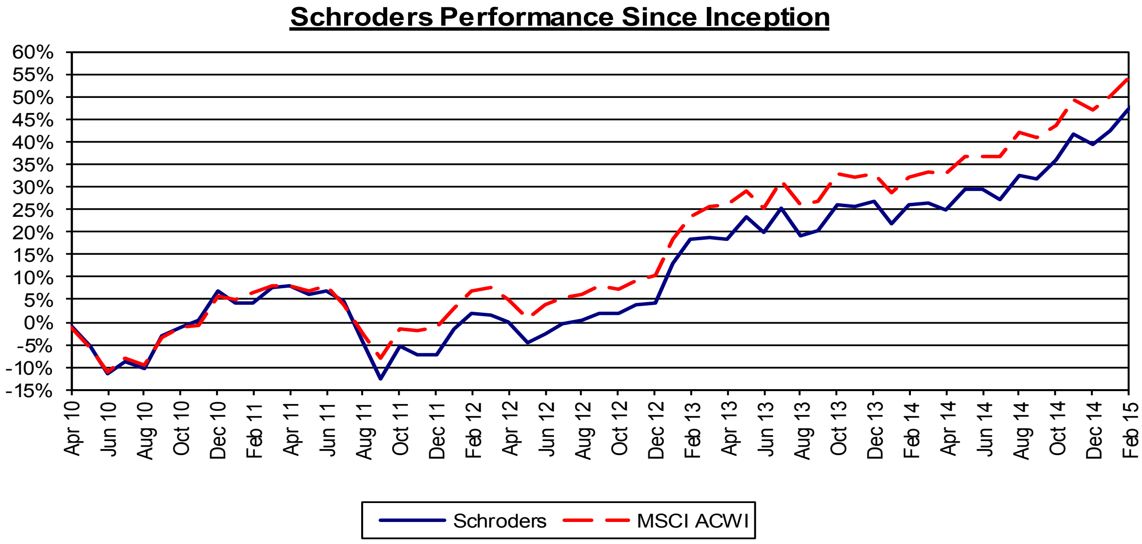
This portfolio is mandated to outperform the MSCI All Countries World Daily Net Index by 2% to 4% over rolling three year periods, gross of fees. This is achieved through an investment approach that is designed to add value relative to the benchmark through both stock selection and asset allocation decisions.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

Portfolio Valuation

Value at 31.12.14	Value at 31.03.15
£93,108,106	£90,450,362

Performance

Schroders outperformed the benchmark over the period as stock selection drove strong relative returns, particularly in North America. Schroder's holdings in the UK were also supportive. Stock selection in Europe and emerging markets detracted from performance. These effects more than offset the negative impact of their positions in the consumer staples and healthcare sectors.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Schroders	8.7	19.7	14.2	8.7	8.7
MSCI ACWI (Net)	7.5	18.4	13.6	9.6	9.6
Relative Performance	1.1	1.1	0.6	(0.8)	(0.8)

*annualised since Inception April 16 2010

Turnover

Holdings at 31.12.14	Holdings at 31.03.15	Turnover in Quarter %	Turnover in Previous Quarter %
67	66	19.4	8.6

Purchases and Sales

During the quarter Schroders made purchases of Pfizer, Estee Lauder and Apple. These were funded by selling out of eBay and Parker Hannifin and reducing their holding in Hershey.

Top 5 Contributions to Return

Cognizant Tech Solution	0.3%
United Health Group	0.3%
Bridgestone	0.2%
Pwens Corning	0.2%
Astellas Pharma	0.2%

Bottom 5 Contributions to Return

Alibaba	(0.2%)
Credit Suisse	(0.2%)
Harley-Davidson	(0.2%)
Citigroup	(0.2%)
Metlife	(0.1%)

Top 10 Holdings

1	Taiwan Semiconductor	£2,554,919
2	Pfizer Inc	£2,330,244
3	Citigroup Inc	£2,329,544
4	Google Inc	£2,134,009
5	BBVA	£2,110,862

6	SMC Corp	£2,051,126
7	Apple Inc	£1,949,830
8	US Bancorp	£1,921,537
9	Sumitomo Mitsui Fin	£1,912,162
10	Amgen Inc	£1,887,882

Hymans Robertson View

Hymans rate Schroders as "on watch". They are optimistic that Schroder's fundamental equity team has been successfully refocused under the leadership of Alex Tedder and Hymans will be reviewing their "on watch" during Q3 2015 at which stage Tedder will have been in his role for 12 months.

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 March 2015

Investment Process

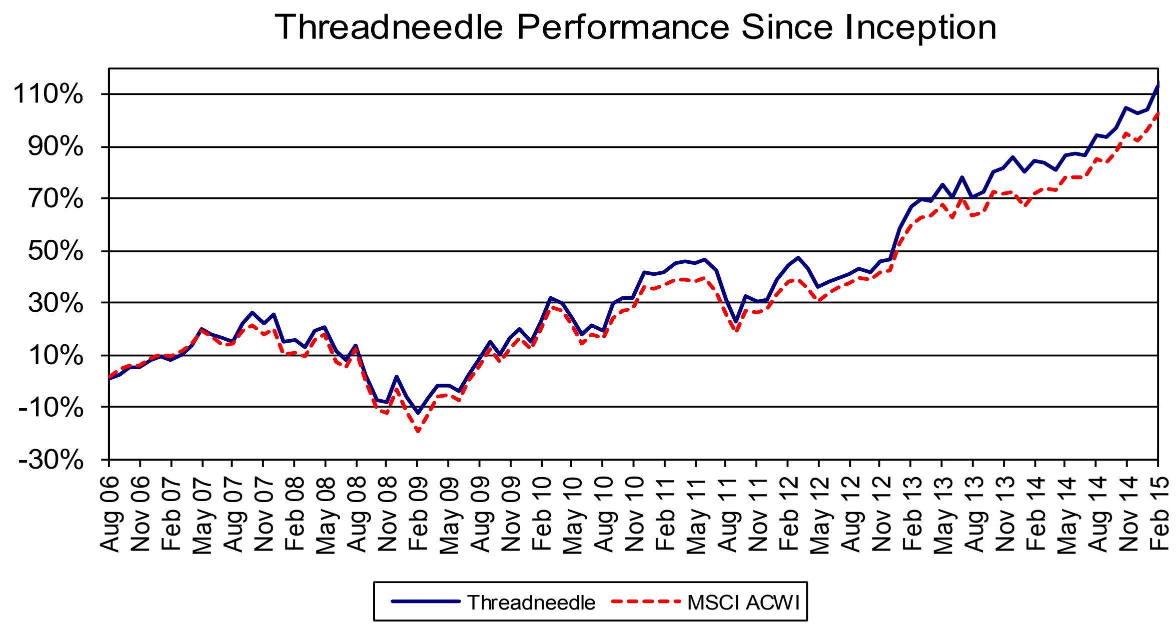
This portfolio is mandated to outperform the MSCI All Countries World Index by 2% per annum, gross of fees over rolling three year periods. This is achieved through investment managers who can draw on their own knowledge and that of other parts of the organisation to implement a thematic approach to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

Portfolio Valuation

Value at 31.12.14	Value at 31.03.15
£97,217,115	£91,378,618

Performance

Threadneedle outperformed its benchmark in the quarter. Regional allocation detracted as Europe ex UK, where they are underweight, outperformed. At a sector level Threadneedle benefitted from its underweight position in energy and utilities, which underperformed. Performance over all periods is above the benchmark but lags the target of 2% outperformance.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Threadneedle	8.2	19.5	14.3	10.7	9.5
MSCI ACWI	7.6	19.0	14.3	10.0	8.7
Relative Performance	0.5	0.4	0.2	0.6	0.7

* annualised, inception date 01/08/2006

Turnover

Holdings at 31.12.14	Holdings at 31.03.15	Turnover in Quarter %	Turnover in Previous Quarter %
87	86	15.0	8.5

Purchases and Sales

Threadneedle opened a position in Towers Watson, Inditex and Tencent. They reduced their position in Praxair and exited their position in Hewlett Packard.

Top 5 Contributions to Return

Apple Inc	0.5%
Japan Exchange Group	0.4%
Ping An Ins group	0.4%
Walt Disney Co	0.4%
Novo Nordisk	0.3%

Bottom 5 Contributions to Return

Mazda Motor Co	(0.2%)
American Express Co	(0.2%)
Alibaba Grp Hldgs	(0.2%)
WESCO Intl Inc	(0.1%)
Hertz Global Hlgs	(0.1%)

Top 10 Holdings

1	Apple Inc	£2,379,051
2	Ping An Ins Group	£2,234,515
3	Walt Disney Co	£2,028,160
4	Express Scripts Hldg	£1,898,579
5	Gilead Sciences	£1,857,677

6	Aon PLC	£1,816,152
7	Comcast Corp	£1,762,591
8	Anheuser Busch	£1,752,569
9	UBS AG	£1,729,764
10	Amphenol Corp	£1,716,785

Hymans Robertson View

Hymans rate Threadneedle as "retain". Personnel turnover has ceased under William Davies who transferred from the successful European team at the end of 2011.

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 March 2015

Investment Process

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

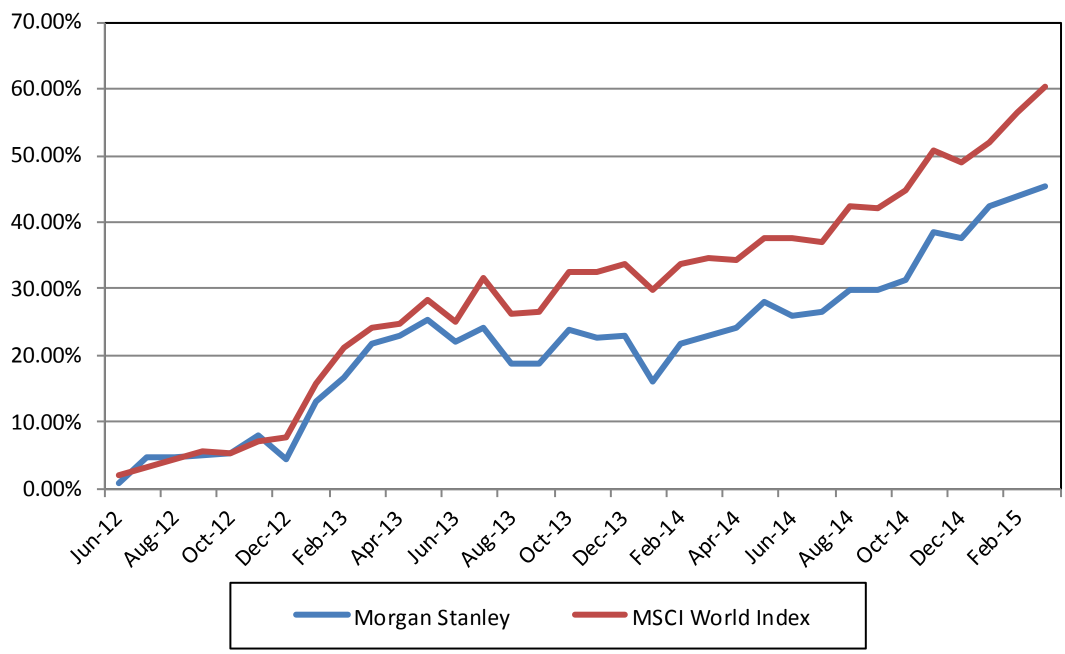
Portfolio Valuation

Value at 31.12.14	Value at 31.03.15
£83,622,490	£88,445,435

Performance

During the quarter Morgan Stanley Global Brands returned 5.8% underperforming its benchmark by 1.6%. The underperformance for the quarter was mainly due to their stock selection in consumer staples and information technology. Morgan Stanley's allocation to healthcare and stock selection in consumer discretionary also detracted from relative performance. The portfolio's zero weights in energy and utilities, and the allocation to and stock selection in financials were positive contributors for the period.

Morgan Stanley Global Brands Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley Global Brands	5.8	18.4	N/A	N/A	14.2
MSCI World Index	7.5	19.1	N/A	N/A	18.1
Relative Performance	(1.6)	(0.6)	N/A	N/A	(3.3)

*annualised, inception date 18/06/2012

Purchases and Sales

During the quarter Morgan Stanley exited their position in Hermes and added to and reduced their positions in select Consumer Staples, Consumer Discretionary and Information Technology names on relative valuation grounds.

Top 3 Contributions to Return

Nestle	0.8%
Reckitt Benckiser	0.8%
Unilever	0.6%

Bottom 3 Contribution to Return

Microsoft	(0.5%)
Procter & Gamble	(0.2%)
Twenty First Century Fox	(0.1%)

Top Ten Holdings

Company	**Industry**	**% Weighting**
Nestle	Food Products	9.6
British American Tobacco	Tobacco	9.2
Reckitt Benckiser	Household Products	7.0
Unilever	Food Products	7.0
Microsoft	Software	6.2
Accenture	IT Services	4.8
Time Warner	Media	4.7
Procter & Gamble	Household Products	4.6
Diageo	Beverages	4.5
Visa	IT Services	4.1

Hymans Robertson View

There was no significant business news from Morgan Stanley over the period.

Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report March 2015

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 March 2015

Portfolio	31.12.14 £	31.03.15 £
Corporate Bond All Stocks Index Fund	54,038,112	58,331,925
Over 5 Years UK Index-Linked Gilt Index Fund	33,150,635	34,465,335
Overseas Bond Index Fund	21,402,944	23,380,074
Total	**108,591,691**	**116,177,344**

Performance

Over all periods the portfolio has slightly outperformed the benchmark.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	3.3	14.5	7.3	n/a	7.8
Composite Benchmark	3.2	14.2	7.2	n/a	7.7
Relative Performance	0.1	0.3	0.1	n/a	0.1

*annualised since inception 28/07/10

Hymans Robertson View

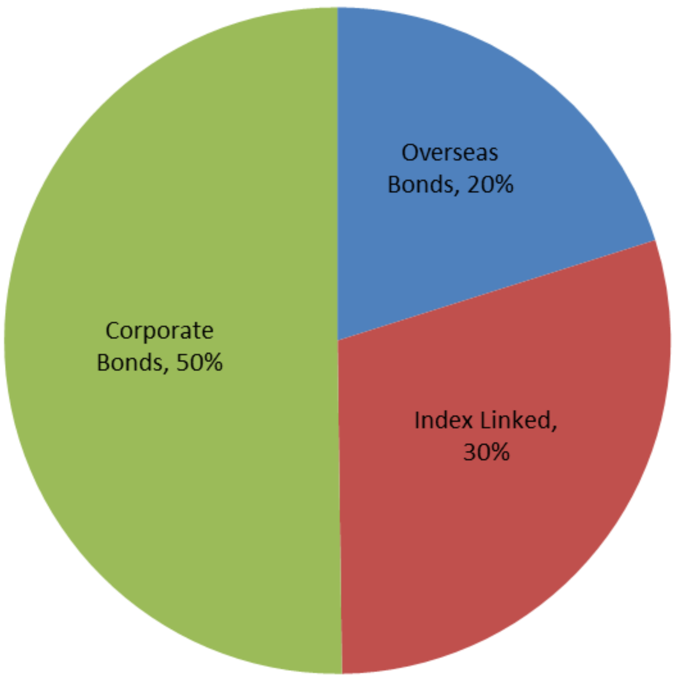
There were no significant developments within the Index Fixed Income team over the quarter; as such Hymans continue to rate Blackrock as one of their preferred passive fixed income managers.

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 March 2015



Lincolnshire Pension Fund
Absolute Return Bonds – F&C
Quarterly Report March 2015

Investment Process

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

Portfolio Valuation

Value at 31.12.14	Value at 31.03.15
£97,880,872	£112,371,266

Performance

F&C produced a positive return of 1.4% during the quarter which was 0.7% above target. The positive return in the quarter was driven by recovering oil prices, which appeared to finally find their floor during January. Even before oil prices rose, dispersion returned to credit markets, which F&C would expect to benefit both Concerto's and Threadneedle's credit selection. Performance over longer periods continues to be behind the target.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
F&C	1.4	(1.3)	2.0	n/a	1.9
3 Month LIBOR + 3%	0.8	3.1	3.1	n/a	3.2
Relative Performance	0.7	(4.3)	(1.1)	n/a	(1.3)

* annualised since inception date 19/07/2010

Allocation

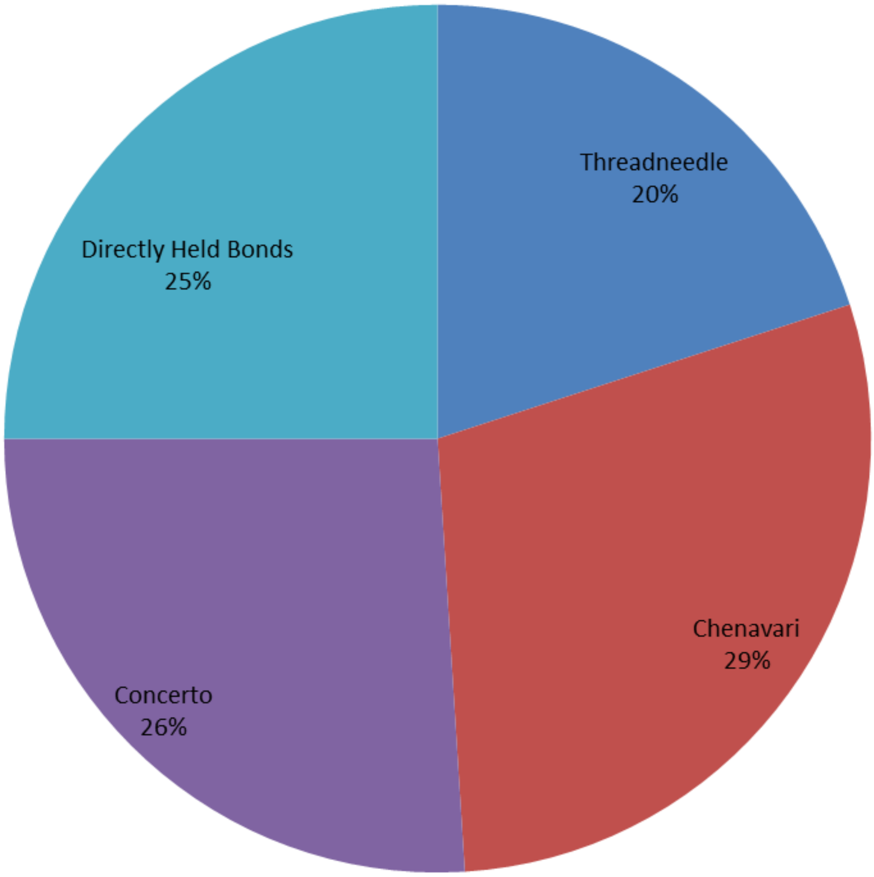
The target return fund is currently split between three managers, listed below with their speciality investment areas:

Threadneedle	Interest rates, currency
Chenavari	Credit
Concerto	Credit

Hymans Robertson View

Hyman's maintain their "retain" rating for F&C and feel the acquisition by BMO was positive and over the past year they have honoured their reputation as being a "hands off" owner. Hymans continue to believe BMO brings much needed stability to the ownership of the F&C business. Lincolnshire Pension Fund remains the largest investor in the Fund. However, under BMO ownership, the distribution reach of the Fund has significantly increased and Hymans have been reassured that further investors into the Fund are being actively sought.

The pie chart below shows the allocation as at 31st March 2015



Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report March 2015

Investment Process

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

Portfolio Valuation

Value at 31.12.14	Value at 31.03.15
£155,911,580	£171,685,176

Performance

Morgan Stanley produced a positive return of 0.5% during the quarter but underperformed their target by 0.7%. Real assets were the primary detractor, particularly within commodities, however positive performance within the broad alpha portfolio and expanded credit generated offsetting gains. Tactical allocations were additive, while manager selection detracted. Morgan Stanley's decision to reduce exposure to commodities in favour of high yield was particularly beneficial. Manager selection, while strong in frontier equity, high yield and convertibles, was largely offset by hedge funds and global macro. Nevertheless, hedge funds were still the top absolute contributor, followed by high yield and senior loans. Commodities were once again the largest detractor, weighed down by a soaring USD and slowing growth around the world.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley	0.5	1.0	4.6	n/a	5.0
3 Month LIBOR + 4%	1.2	4.7	4.7	n/a	4.8
Relative Performance	(0.7)	(3.5)	(0.1)	n/a	0.2

* 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;

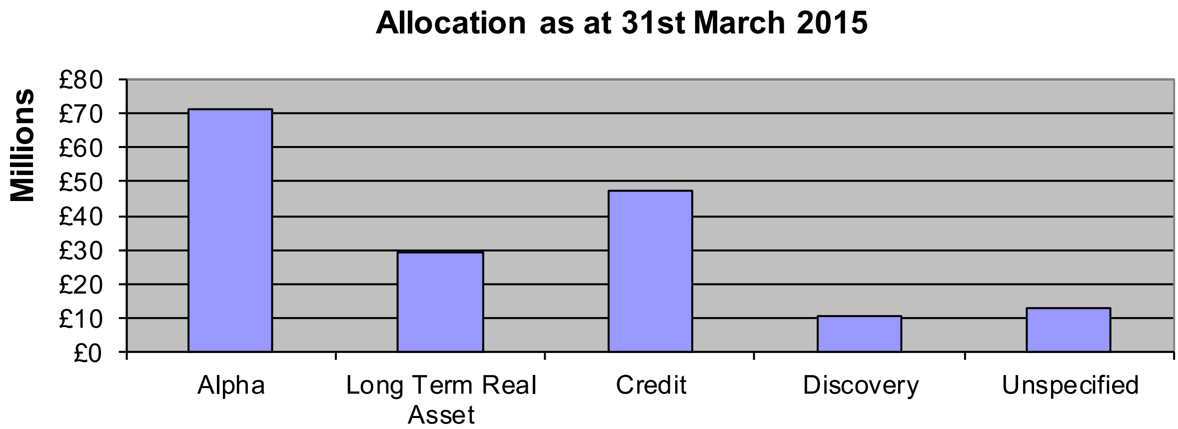
Alpha – These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.

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

Given Morgan Stanley's view of near term weakness in economic fundamentals, they value alpha over beta and therefore restructured their hedge fund allocation during the quarter. They are moving their core exposure out of the diversified pooled fund of hedge funds into a more concentrated customised mandate unique to Lincolnshire that will seek to further enhance risk adjusted returns and better complement other parts of the overall portfolio. Morgan Stanley anticipate interest rates to be lower for longer and have reduced allocations to senior loans and inflation linked assets accordingly. During the quarter they also reduced their exposure to commodities given the continued relative strength of the USD and weakness in the energy sector.

Hymans Robertson View

Hymans continue to rate Morgan Stanley a "5-preferred manager" for Diversified Alternatives.

Risk Control

Portfolio volatility since inception is 3.87% within the guidelines specified by the mandate.

Conclusion

Over the quarter the Fund has produced a positive return of 4.6% which is slightly behind the benchmark. Managers all produced a positive return in the quarter.

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.

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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:	**Pension Committee**
Date:	**16 July 2015**
Subject:	**PENSION ADMINISTRATION REPORT**

Summary:

This is the quartely report by the pension administrator West Yorkshire Pension Fund.

Recommendation(s):

That the committee note the report and consider whether to hold a members annual general meeting.

Background

1. Performance and Benchmarking

1.1 Key Performance Indicators are not yet available as we are still in the first quarter. It should be noted though that performance has slowed due to a number of issues:

a) Missing or partial data
b) Lack of images
c) Extensive staff training required for LPF staff to learn the Civica pensions administration system.
d) Converting Mouchel's process's to WYPF processes.
e) Resources focused on ensuring pensioners got paid.

1.2 Performance has started to improve significantly as issues identified above have been rectified.

1.3 KPI's will be reported at the next meeting.

2. Praise and Complaints

2.1 As part of WYPF's ISO accreditation all faults and complaints are logged and corrective and preventive action is taken where appropriate. Whilst statistics for the first quarter have not yet been compiled some LPF members have complimented on the service provided by WYPF.

2.2 Two complaints have been received about the level of detail on the payslips which have both had a response. Both complainants seem happy with the response.

2.3 A few complaints have also been received from members unable to get through to WYPF's Contact Centre. This has been as a result of unprecedented numbers of calls. As well as LPF members ringing up April was a busy month due to tax code changes and pensions increase. WYPF have now added extra telephone lines to resolve this going forward.

2.4 Accreditation to ISO standards has also been granted to LPF.

3 Administration Update

3.1 The change of administrator from Mouchel to WYPF went very smoothly in April with the priority task to ensure that pensioners got paid on the due date. This was down to good planning and close working from both WYPF and LPF.

3.2 All pensioners were paid correctly in April except for a handful who retired in March. The data received from Mouchel did not indicate they had received part month's pension in March so WYPF paid them the same amount in April. This was corrected and arrears paid with their May pension.

3.3 All pensioners now receive a WYPF payslip which is different in looks and detail to what they received from Mouchel.

3.4 Pensions Increase has been applied and paid to both the Local Government and Fire scheme pensioners.

3.5 All data has been transferred from Mouchel's Altair system to WYPF's Civica system. The bulk of images have also been transferred but work continues on transferring images where there was insufficient information to index to the right members records.

3.6 A number of overpayments were identified through the transition stage of the project. Action has been taken by LPF to recover the overpayments where possible. In all cases pensions are now being paid at the correct rate by WYPF.

3.7 WYPF continue to come across overpayments. These are being investigated and necessary action to recover is being taken by WYPF.

3.8 Getting pensions information for Lincolnshire County Council employees from Serco is proving problematic as they either don't have the resources or the expertise. Serco are currently recruiting for staff which should alleviate the problem. In the meantime WYPF is supporting Serco by providing staff who can extract the information needed.

3.9 Following the announcement that Contracting Out will cease in 2016, HMRC have arranged for Pension Schemes to reconcile the Guaranteed Minimum Pensions (GMPs) to those held by DWP. The Pensions Unit has registered their interest with HMRC and have now received initial data.

Potential issues that the reconciliation will highlight incorrect contracting out periods held by DWP, DWP not holding that a GMP has been transferred to another Scheme, and incorrect GMPs being held. This may lead to benefits having been paid incorrectly (due to pensions increase) or, where a refund has been paid and the DWP have no record of receiving the Contributions Equivalent Premium (ie contribution to put a member back in to State Second Pension), additional benefits payable to the member/DWP.

WYPF will start work shortly on the reconciliation.

4 Current Issues

4.1 Local Government Pension Scheme (Amendment) Regulations 2015

The Local Government Pension Scheme (Amendment) Regulations came into force on 11th April 2015. These amendment regulations made amendments to:

- Local Government Pension Scheme Regulations 2013 and,
- Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

The regulations provided technical amendments required to the regulations.

4.2 Freedom and Choice – Changes to defined Contribution Schemes

In the 2014 budget the government announced reforms to defined contribution schemes, like personal pensions. These reforms are effective from 6 April 2015 and give members of such schemes, aged 55 or over, greater flexibility over how they can access their pension savings. However, even under the new flexibilities, HMRC rules require that anything above 25% of pension savings will be taxable as pension income at a member's marginal rate.

To help people understand their retirement choices from schemes offering the new flexibilities, the government has introduced a free and impartial service called Pension Wise.

Transfers from the LGPS to Defined Contribution Schemes

The LGPS isn't a Defined Contribution Scheme so the new flexibilities don't apply to it. But there are indirect changes for LGPS members considering transferring to such a scheme.

Additional Voluntary Contributions (AVC's)

The department for Communities and Local Government (DCLG) are currently considering how the changes will impact on the LGPS in-house AVC Plans.

4.3 The Pensions Regulator

From April 2015 certain public sector pension schemes must be governed and administered under the Public Service Pensions Act. Therefore managers and pension board members must comply with a number of legal requirements

The Pensions Regulator oversees and regulates the governance and administration of public service schemes in the UK.

A code of practice that sets out the legal requirements, gives practical guidance and set standards that are expected of people involved with public service pension schemes.

5 Future issues

5.1 Annual Meeting

5.1.1 Since 2001 WYPF have held an annual members meeting at which the Director and the external investment advisors present a summary of the fund's performance over the year. After the presentations a panel of senior managers address questions submitted by members.

5.1.2 A guest speaker is also invited. Last year it was the Bradford Credit Union who gave a talk about how credit unions benefit members and local communities alike.

5.1.3 The meetings are very popular and admission is by registering with the Fund. Depending on the venue tickets are restricted to approximately 200.

5.1.4 The cost of hosting an annual meeting consists of:

a) Hire of the venue
b) Hire of audio visual equipment
c) Light buffet lunch and refreshments

5.1.5 Does LPF want to give consideration to holding a members' meeting?

5.2 Data Cleansing

5.2.1 During the course of the data transfer it became apparent that there are many data issues with LPF records which need addressing.

5.5.2 This will be done through targeted exercises planned later in the year such as life certificates, NFI (done 6 monthly) unlike LPF which was done every two years.

5.3 Fire Payrolls

5.3.1 The New Fire Fighters regulations stipulate that pensions are paid monthly in arrears.

5.3.2 Mouchel practice has been to pay pensions on the same payroll as the Old Fire Firefighters pension scheme which is monthly in advance.

5.3.3 WYPF will be taking action to rectify this and pay retirees under the New Fire Scheme monthly in arrears.

5.3.4 This will be phased over a few months so that the impact is minimal. There are 14 affected pensioners.

Conclusion

The shared service partnership will provide an efficient, effective and cost 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 Yunus Gajra, who can be contacted on 01274 432343 or yunus.gajra@bradford.gov.uk.

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**16 July 2015**
Subject:	**UK Equity Portfolio Annual Report**

Summary:

This is the annual report for the year ended 31st March 2015 covering the performance of the UK Equity index-tracking portfolio managed internally. The portfolio is managed within the Pensions and Treasury Section of the Finance and Public Protection Directorate.

Recommendation(s):

That the Committee note the report.

Background

1 UK EQUITY INDEX TRACKING PORTFOLIO - INTRODUCTION

1.1 The objective of this portfolio is to deliver the total return of the MSCI UK IMI index +/-0.5% pa. This is to be achieved while maintaining a predicted portfolio tracking error (i.e. risk exposure) within 0.5% of the index.

1.2 The portfolio is managed through the Bloomberg system which enables officers to see live valuations during the day and to monitor performance and tracking error. The number of stocks held in this portfolio normally varies between 240 and 260 (358 stocks constituted the MSCI UK IMI index as at 31 March 2015). The number of stocks held is much higher than would conventionally be held in an actively managed portfolio, to ensure limited deviation in performance relative to the total return produced by MSCI UK IMI index.

Table 1: Fund Statistics
All data to 31st March 2014

	Fund	Benchmark
Assets	£348m	-
No. of Stocks	251	358
Turnover	0.1%	-

2 MARKET BACKGROUND

2.1 The 2014/15 financial year was fairly flat for the first six months of the year before more volatile markets resurfaced in the following six months of the year. This resulted in six months producing a positive return and six months of negative returns. The monthly returns ranged from -3% to +3.75% and the index posted a total return (capital and income combined) of +5.6% for the year.

2.2 The main market features over the year were:

- The gradual recovery of the economy continued in the second quarter of 2014, and markets saw a continuation of recent trends; equities and higher-yielding assets continued to grind higher, whilst core bond yields remained low.

- The second quarter saw markets initially fall following concerns about geopolitical tensions. These concerns were quickly shaken off and the market recovered, but succumbed to nervousness about the global economic outlook towards the end of the quarter which saw the market fall 3%.
- The volatility in the markets resurfaced in the second half of the year as the oil price plunged to five year lows.

- The market finished the year strongly with positive news from the Office for National Statistics who revised estimates for economic growth from 2.6% to 2.8%, and estimates for 2015 remain strong.

3 PERFORMANCE

3.1 The market value of this portfolio at 31st March 2015 was £348m, representing 19.9% of the Fund's total investments (the value at 31st March 2013 was £319m). Over the year, the portfolio made purchases of £10.5m and sales of £36.1m. Cash redemptions of £8.2m were made in the year and a further investment of £19.5m was made in January 2015 following a rebalance of the Lincolnshire Pension Fund.

3.2 The performance of the UK Index-tracking portfolio is set out in the table below.

Table 2: Fund Performance & Risk

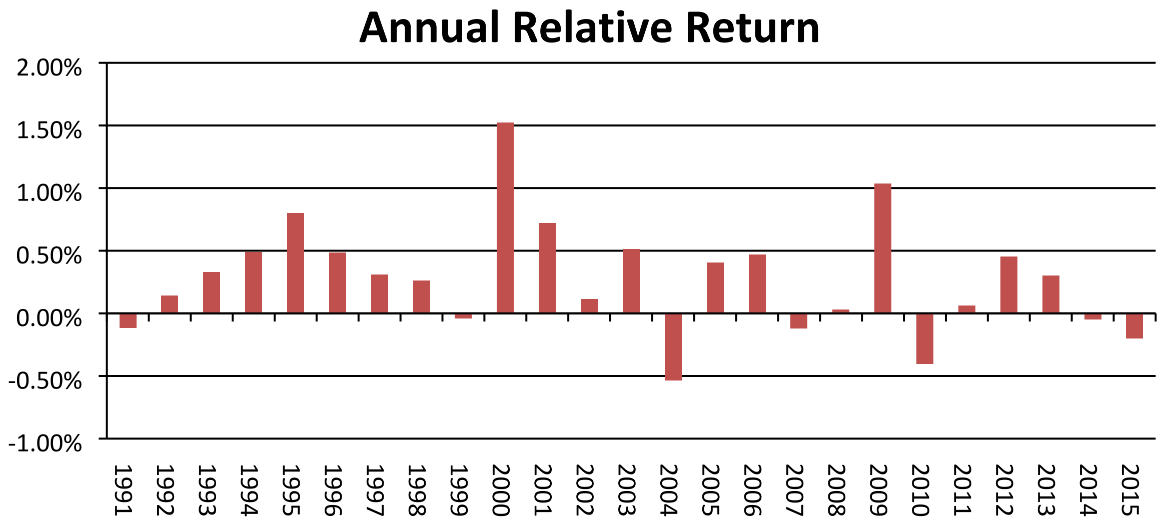
All data to 31st March 2015

Date	Portfolio (%)	Index (%)	Relative (%)
1 Year	5.58	5.79	(0.20)
3 Year *	10.19	10.17	0.02
5 Year *	8.30	8.18	0.11
Since Inception *	8.45	8.15	0.28
Tracking Error	0.17	-	-

*Annualised

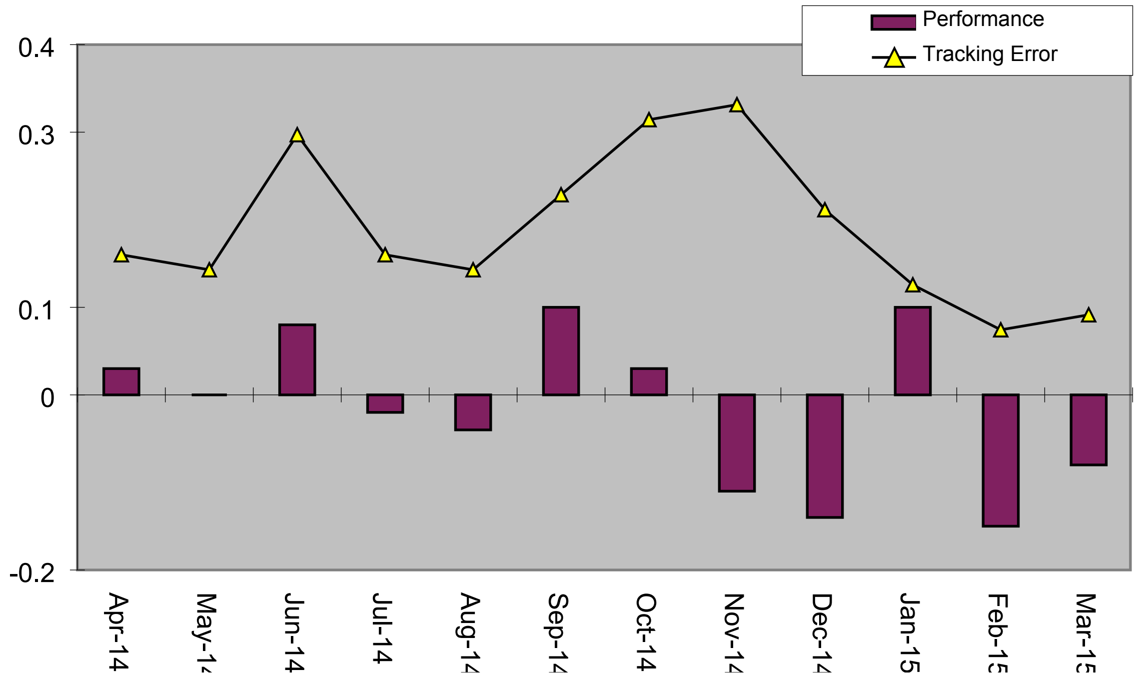
3.3 Chart 1 below shows the total return achieved for each year from 31st March 1991 relative to that of the index. In the 25 years since inception, the portfolio has out-performed the benchmark index in 18 years and under performed in 7 years. Performance is shown gross of fees, which equate to approximately 0.02% per annum.

Chart 1: Returns Relative to the Index on an Annual Basis
31st March 1991 to 31st March 2014



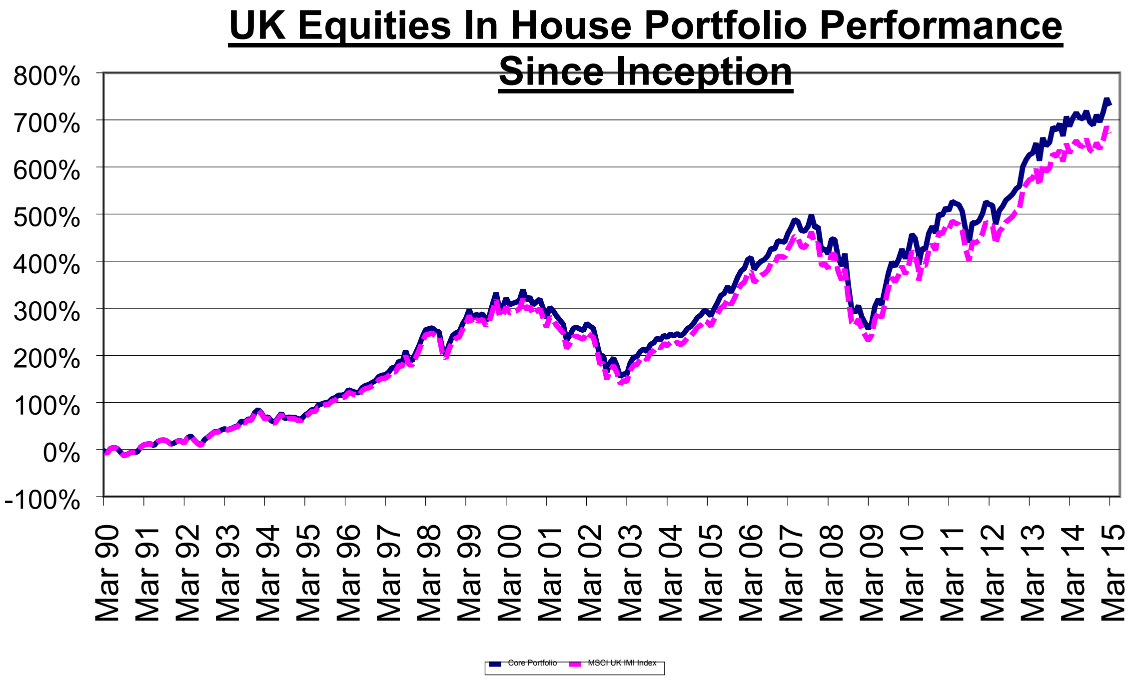
3.4 Over the year, the portfolio performance ranged from -2.9% in September to +3.6% in February and the relative return to the benchmark from -0.15% in February to +0.1% in September and January. The predicted risk (tracking error) of the portfolio was maintained within the permitted range of 0.5% for the whole year. Chart 2, below, shows the monthly forecast tracking error of the portfolio, plotted against the actual monthly performance relative to the benchmark (index). The tracking error is the predicted annual volatility of the actual return compared to the benchmark return. This means that with a forecast tracking error of 0.20%, the return of the portfolio would statistically be expected to be +/-0.20% around the index return, e.g. if the index returned +10%, the portfolio should return between +9.80% and +10.20%. Statistically, this outcome is expected to happen in two years out of three.

Chart 2: Tracking Error and Monthly Portfolio Performance 2013/14



3.5 Portfolio performance over the year was -0.2%, which is within the target range of +/-0.5%. The performance for the year can be split into three periods. The first five months the index was fairly flat and the fund slightly outperformed the benchmark. September and October saw the index fall nearly -4% whilst the index returned -3.7%, with the overweight position to defensive stocks proving beneficial and being the main contributor to the outperformance in those two months. The final five months, between November and March, were very volatile but the index rallied strongly and returned +5.6% for that period. During this period financials performed well and the funds underweight position was a detractor from performance, as was the funds overweight position to energy which underperformed in the period.

3.6 The chart below shows the portfolio's performance around the relevant index benchmark since inception. On an annualised basis the portfolio has returned gross performance of 0.28% and net performance of 0.26%. The performance return is within the performance target of +/- 0.5%.



Conclusion

4. The UK Equity portfolio underperformed the benchmark over the last 12 months by 0.2% but was still within the target of +/- 0.5%. Since inception the Fund has outperformed the benchmark by 0.28% annualised.

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.

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Agenda Item 9

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**16 July 2015**
Subject:	**Annual Report on the Fund's Property Investment**

Summary:

This report outlines the performance of the Fund's property and related investments for the year ended 31st March 2015.

Recommendation(s):

That the Committee note this report.

Background

1 Introduction

1.1 Investment exposure to Property is achieved via holdings in pooled vehicles. The Fund, with a strategic allocation of 11.5%, has traditionally allocated significantly more to the property asset class than the average local authority pension fund (currently 7%). The market value of holdings in pooled vehicles at 31st March 2015 was £189.6m (11% of the Fund). To diversify the property allocation and invest cash flow, the Fund made commitments to European Commercial Property (2002), property venture type funds (2005 and 2006), Private Finance Infrastructure Schemes (2004, 2006, 2007 and 2013) and Asian Commercial Property (2007).

Market value of property and other holdings at 31 March 2015

Property Pooled Investment Vehicle	Undrawn Commitments 31/3/15 £m	Market value of LCC holdings 31/3/15 £m	Total size of pooled vehicle 31/3/15 £m
BALANCED UK PROPERTY			
Aviva Pooled Property Fund	n/a	38.2	1,200.0
Royal London Exempt Unit Trust	n/a	19.3	357.0
Blackrock – UK Property Unit Trust	n/a	19.3	3,010.0
Standard Life - Trustee Investment Plan	n/a	56.6	1,297.0
Total UK Commercial Property		**133.4**	
PROPERTY VENTURES			
RREEF – Property Ventures Fund III	0.0	2.9	42.9
Franklin Templeton European Fund of Funds	0.4	3.1	44.0
Franklin Templeton Asian Fund of Funds	3.2	8.3	128.5
Igloo Regeneration partnership	0.0	5.1	76.8
Total Property Ventures	**3.4**	**19.4**	
EUROPEAN COMMERCIAL PROPERTY			
Standard Life European Growth Fund	0.0	8.7	742.0
INFRASTRUCTURE			
Innisfree PFI Continuation Fund II	0.2	7.6	
Innisfree PFI Secondary Fund	1.4	13.7	
Innisfree PFI Secondary Fund 2	2.5	6.8	
Total Infrastructure	**4.1**	**28.1**	
TOTAL PROPERTY	**7.7**	**189.6**	

2 Balanced UK Commercial Property

2.1 During the year income from the holdings was reinvested but no additional new money was invested and no redemptions were made.

2.2 The pooled investment vehicles have been selected by officers to provide diversified exposure to the UK Commercial Property asset class with the intention of achieving broad market returns. Officers are in regular contact with the various managers to monitor performance.

2.3 Appendix A illustrates the overall UK property sector and regional weightings of the individual pooled vehicles. Overall, the Fund’s property allocation, when compared to an index of similar property funds, is overweight Shopping Centres, Retail Warehouses, Offices in London the "Other" sector (this includes properties such as leisure and residential and listed assets) and cash. The Fund is underweight Standard Retail, Offices in the South East and the rest of the UK, the Industrial sector in the South East and the rest of the UK.

Overall UK property sector asset weightings at 31st March 2015

Property Sector	LCC Fund %	IPD %	Difference %
Retail	35.4	32.3	3.1
Offices	28.9	30.1	(1.2)
Industrial	18.0	23.2	(5.2)
Other	17.7	14.4	3.3
Total	100	100	

2.4 At an individual fund level:

- Royal London has a significant relative allocation to Standard Retail, Offices in London and the South East and the Industrial Sector in the rest of the UK. Royal London has no allocation to Shopping Centres. Property sizes are generally smaller when compared to the other managers.

- Aviva has no allocation to Shopping Centres and is overweight Standard Retail, Retail Warehouse and Offices in the London and the South East. Underweight positions are underweight Industrial in the rest of the UK and cash.

- Blackrock is overweight Retail Warehouses and heavily overweight Other Properties. They are underweight in Standard Retail, Offices in London and the rest of the UK.

- Standard Life is overweight Standard Retail, Shopping Centres and Offices in the rest of UK and London, and underweight Other Property, Industrials in the rest of the UK and Offices in the South East.

3 Market Environment in the Period Reported and Outlook

- Property produced total returns of 16.6% (IPD index), over the twelve months to 31st March 2015, compared to UK equity returns of 6.6% (FTSE All Share) and UK index-linked bond returns of 18.6%.

- Quarter 2 2014 - The improving economic backdrop in the UK remains supportive for recovery in commercial real estate. This is resulting in positive returns for investors, who are becoming more confident in the recovery's sustainability. For example, the latest Investment Property Forum (IPF) data showed that consensus return forecasts for 2014 increased to 13.7% from 12.1% previously.

- Quarter 3 2014 - The UK continued to lead the recovery in global real estate markets, supported by improving economic data. This included an upward revision to second-quarter GDP growth, generally positive forward-looking PMI indicators and improving business sentiment surveys, all of which pointed to a broadening recovery. Eurozone weakness prompted some residual caution, given the UK's trading links with the continent. However, news of further job creation assuaged concerns and suggested that UK growth remains resilient.

- Quarter 4 2014 - With the UK economy on a surer footing, the recovery in UK commercial real estate continued to broaden out. In performance terms, the sector recorded a strong total return for 2014, driven mainly by gains in capital values and a competitive investment market. Having initially been led by London, rental growth also improved in most sectors. Rents in the industrials sector strengthened further on improved tenant demand and a lack of stock. The retail sector still lagged behind as it continued to undergo structural changes. However, there was some emerging evidence that retail rents were beginning to stabilise, helped by the improving financial position of consumers. In terms of the investment market, interest in UK real estate showed no signs of abating and remained broad-based, with overseas investors, UK institutions and private companies all very active in the sector.

- Quarter 1 2015 - The investment market remained strong during the quarter, with overseas investors, UK institutions and private companies continuing to display a huge appetite for real estate assets. The focus remained on well-let assets in prime locations, namely central London, where bidding was competitive and prime assets were hotly contested. Given the ongoing shortage of available stock, some investors had no choice but to move up the risk curve and consider acquiring good-quality secondary assets in strong markets, often with repositioning or asset management opportunities. Investors also began to look more favourably on the real estate alternatives sector, which includes leisure, hotels and student accommodation.

- After a robust finish to last year, UK commercial real estate has made a relatively steady start to 2015, with prices maintaining reasonable acceleration and rents gathering further momentum. In a favourable environment of improving confidence among both businesses and consumers, UK real estate remains well positioned given its relatively high yield and improving income growth prospects. Relative to longer term government bonds, the yield gap remains significant by historic standards. In terms of outlook, managers continue to expect positive total returns for investors over a three-year period due to the strong income component and modest further capital appreciation. They expect locational choices to be the defining characteristics, contributing to returns over the remainder of the year. Prime/good quality secondary assets and selective poorer-quality secondary assets in stronger locations are likely to provide the best opportunities in the robust economic environment we anticipate over the course of 2015.

4 Investment Performance

4.1 The table below sets out the annualised performance of the Fund's current UK Commercial Property Investments over 1, 3, and 5 years and since inception. The IPD UK Pooled Property Funds Index All Balanced Fund Median is used to compare the managers' performance. This index was developed for all the leading managers of balanced property funds. The returns reported are taken from the published performance data. The transfer of Rreef portfolio to Blackrock took place in December 2012 so we currently have no since inception performance figures to report. The 2014/15 3 years annualised and 5 years annualised figures for Blackrock relate to the pooled fund and are not specific to Lincolnshire Pension Fund.

UK Commercial Property Investment returns to 31st March 2015

	2014/2015 %	**3 years Annualised %**	**5 years Annualised %**
Aviva	14.9	7.8	7.2
Royal London	13.5	8.4	8.2
Blackrock	14.6	9.1	8.2
Standard Life	16.6	9.9	8.4
IPD UK PPFI All Balanced Median return	16.6	9.4	8.4

Inception dates are: Aviva – June 1993, Royal London – July 1991, Blackrock – December 2012, Standard Life – June 1993

4.2 Aviva underperformed the benchmark over one year having delivered 14.9% against a benchmark return of 16.6%. Over the last twelve months the fund has completed a number of asset purchases and sales. In accordance with the fund strategy purchases have been focused on core-plus/value-add assets that present the opportunity to generate performance by harnessing the cyclical upswing in the occupational market through asset management, refurbishment and development. The sales have been focussed on assets that have underperformed and that no longer meet the fund strategy. As a result the transactions costs incurred have held back returns over the period. The fund's overweight position to cash has also held back returns over the 12 months. The benchmark cash position during Q4 was between 5% and 6% and therefore the overweight cash position diluted the direct property performance over the quarter. During the first quarter of this year there were no transaction costs and the cash position was neutral to performance. The fund's income return is now broadly in line with benchmark so the underperformance was due to a below benchmark capital return. Whilst there was asset management activity during the quarter that contributed to the fund's capital return, it was generally focused on smaller initiatives rather than the larger projects that have the potential to materially affect the fund's performance. Importantly, good progress was made with these larger projects so we expect them to deliver performance later this year but the lack of significant added value from asset management was the main driver of underperformance.

4.3 RLAM returns were not as strong as they would have liked them to be, but the Fund is well-positioned in the short to medium term for improved levels of performance. Throughout 2014 and into this year, the Fund has been placing a new allocation of investor money into the market as well as working through a number of asset management initiatives across various properties. Consequently, the Fund has incurred higher levels of costs than normal as well as consciously running a void rate higher than the benchmark in the short term. However, the properties that have been acquired offer good future growth opportunities and investors will benefit from these going forward as well as from the returns now coming through further to certain asset management initiatives having been completed.

As at 31 March 2015 the void rate of the Fund was 12.6% (16.1% as at 31 December 2014), compared with a benchmark figure of 7.2%. The overall Fund void is spread across a number of properties and isn't concentrated in only one or two. The void rate continues to fall and two properties containing a degree of void, Glencairn Industrial Estate, Kilmarnock & 2 Soho Square, London, have been sold ahead of valuation during Q2 2015. The Fund is also successfully letting up the newly completed industrial business park that it acquired in Chessington last year. This will further reduce the void level and increase levels of performance.

The Fund is generally invested at the prime end of the market and the property portfolio is of good quality. It is balanced across the UK, with a substantial focus on the south-east of England. Consequently, the income return is marginally lower to reflect the quality of the occupational tenants and properties. While there has been yield compression at the prime end of the market, the significant yield movement has been seen at the more volatile secondary end of the market. Secondary properties generally provide a higher income return to reflect the riskier nature of the income secured against them. While market conditions remain strong, this most likely won't always be so. Prime properties in core locations will usually provide more stable and robust returns in times of market fluctuations.

4.4 The Standard Life Fund matched the benchmark over the year and is ahead of the benchmark of three years but trails over five years and since inception. The office and industrial sectors again drove portfolio performance. All other segments underperformed against the Fund level return, particularly the supermarket holdings, which saw negative capital growth over the quarter in line with the market as a whole. The provincial office portfolio produced the highest total returns, with the development at St Andrew Square, Edinburgh, benefiting from improved rental values and further yield compression on the office element. The South East industrial portfolio also delivered strong total returns at just under 4%, primarily because of the level of income return and further yield compression. Standard Life believe the Fund currently remains well structured and they will continue to pursue their strategy of improving the overall quality and duration of the Fund's income stream. They balance this approach with acquiring opportunities where they can add value through asset management and / or stock selection.

4.5 The Blackrock Fund delivered a return of 14.6% for the 12 months compared to the benchmark return of 16.6%. The Fund continues to underperform the benchmark over three and five year periods. The long term objective of the Fund is to outperform the average of similar institutional pooled vehicles by investing in a diversified range of property throughout the UK, principally, but not exclusively, in the retail, office and industrial sectors. The Fund ended the year with 102 assets, delivering an income yield of 3.9%.

4.6 During the year the property benchmark was changed to show the split between UK Commercial Property Unit Trusts and Property Venture investments. The UK Commercial Property Unit Trusts maintained the benchmark of the IPD UK All Balanced Median Return and the Property Venture holdings benchmark was set at 7% per year. The overall return in the year for UK Commercial Property was 14.73% against a benchmark of 16.6%, whilst the return for Property Ventures for 9.79% against the benchmark of 7%. The return for property combined was 13.06% against the combined benchmark of 13.64%.

5 PROPERTY VENTURES

5.1 To diversify from the UK core property market, investments have been made in a number of different types of property funds aiming, over the long term, to exceed conventional market returns through specialist and active involvement in different parts of the property market. The four Funds have limited lives of between seven and ten years, over which time they will try to invest in specific projects to improve their value and then realise the profits through sales and the return of capital to investors. The commitments for these funds are generally drawn down over three to five years, and for some investments, it is too early to report meaningfully on performance. Comments on the initial activity are set out below.

5.2 **RREEF Ventures III Unit Trust**

The Committee approved the commitment of £10m in January 2006 and this has now been fully drawn down to fund a number of projects, some of which have now been realised. The value of the Fund’s units at 31st March 2015 was £2.9m. The Fund continues to be wound up and at the end of the year owned six assets, with two sales that should complete shortly. The management continue to work through the asset management plans and as these are completed the properties will be sold.

5.3 **Franklin Templeton European Real Estate Fund of Funds – Luxembourg public limited company**

The Committee approved the investment in October 2005 of €15m. So far this Fund of Funds has made commitments to eleven underlying funds, including a portfolio of German nursing homes, a specialist French property investor, a UK real estate partnership, a pan European real estate fund and a German commercial property investor. At this stage the Fund's investment is valued at the £3.1m, but the valuation of the underlying funds is as at a terminal valuation, and therefore very prudent.

5.4 **Franklin Templeton Asian Real Estate Fund of Funds – Luxembourg public limited company**

The Committee approved the investment in October 2007 of $25m. The Fund has made a total of sixteen investments at this stage and has drawdown 97% of the Fund's total commitments. The value of the Pension Funds investment is £8.3m at 31st March 2015. Total distributions are 69% of total commitments to date. Managers are pleased with the portfolio assembled and the progress that has been achieved to date.

5.5 **Igloo Regeneration Partnership**

The Committee approved the commitment of £10m in April 2006 to a partnership with a pipeline of early stage regeneration projects in the UK. The partnership produced a return of 15.4% over the twelve months ended March 2015, behind the IPD benchmark of 18.32%. The Pension Fund's investment value is £5.1m at 31st March 2015. The Igloo Fund has undertaken a thorough review of its strategy from 2014 to 2018 (5 years). The Fund's Business Plan is to target the delivery of 13% per annum returns over the remaining Fund term through the realisation of investment asset sales and development of nearly 800 homes and 100,000 sq ft of commercial space.

6 **EUROPEAN BALANCED PROPERTY FUND**

6.1 **Standard Life European Property Growth Fund – Unit Trust**

To diversify the Fund's balanced property exposure, a commitment of €5m was made in November 2002 to a new pooled investment vehicle created by Standard Life to invest in Continental European property. A further commitment of €10m was approved to the European Property Growth Fund in July 2005. As at the 31st March 2014, this commitment had been fully drawn and the investment in the Fund was valued at £8.7m The Fund owns office, retail and distribution properties in France, Spain, Belgium, Portugal, Hungary, Germany, Poland, Sweden and the Czech Republic. Over the twelve months ended 31st December 2014, the European Fund produced a return (after costs), in euro terms, of 3.06%, with an annualised performance since inception of 3.3%. The strategy remains to continue to reposition the Fund's portfolio to capture future growth by increasing the Fund's exposure to both stronger and recovering economies, focusing on asset management initiatives which increase income yield over the medium term, lengthen the term of secured income, reduce vacancies, and improve income covenants and portfolio quality.

7 INFRASTRUCTURE

The Fund has made commitments to funds managed by a specialist investor in Private Finance Initiative and similar projects, both in the UK and overseas. The investments offer prospective long term indexed returns in excess of those available from bonds. There is potential for improved returns from refinancing opportunities and contract variations. Whilst the investments hold equity stakes in the ownership and operation of large capital projects, they are not property investments in the strictest sense. The long-term nature of these investments fits well with the investment perspective of a pension fund.

7.2 Innisfree Continuation Fund II – partnership

The Committee approved a commitment of £8m to the Innisfree Continuation Fund II in January 2006. Following the Fund’s acquisition of assets from an earlier Innisfree primary fund, and the subsequent follow on investments in Arrow Light Rail (2008), Sheffield Schools and MOD Main Building (2009), the Dutch High Speed Rail Link and West Berks Hospital (2011) and Derby Hospital and Walsgrave Hospital (2012); and the disposal of the Arrow Light Rail in December 2011. Fund 2C now has a total of £337m committed to 12 project investments, all of which are operational. From inception, the Fund’s portfolio of investments has generated returns that are over 29% higher than was anticipated in the base case acquisition model, and investors have received an average net yield of 8.9%.

The investment is currently valued at £7.6m. The forecast long-term gross IRR of the portfolio is 10.9%, compared to the base case of 8.75%.

7.3 Innisfree Secondary Fund (ISF) - partnership

The Committee approved a commitment of £15m to the Innisfree Secondary Fund in July 2007. Secondary Funds are long term holders of PPP (public/private partnerships) and PFI projects which have typically reached their operating stage. Returns to investors are principally by way of cash generated by the projects during the remainder of their concession lives. ISF had its final closing on 30 June 2008, taking aggregate commitments to £600.5m, with 21 limited partners. As at 31st March 2015 the Fund had total commitments of £585.3m to 34 projects. The Fund is 98% committed to investments and around 89% of investor commitments have been cash drawn.

The investment is currently valued at £13.7m. The current investment IRR is 14.6% compared to a base case of 10.5% and the forecast 10 year average yield is 10.9%.

7.4 **Innisfree Secondary Fund 2 (ISF2) - partnership**

The Committee approved a commitment of £10m to the Innisfree Secondary Fund 2 in January 2013. ISF2 had its final closing on 31st March 2013, taking aggregate commitments to £544m, with 11 limited partners. The Fund was 70% committed to investments and 67% of investor commitment had been cash drawn at 31st March 2015.

ISF2 was the other fund that bought the assets of Innisfree Fund III, acquiring 68% of each Fund III investment. This portfolio is forecast to provide a gross to fund purchase IRR of 10.5% and a ten year average yield of 9.2%.

Conclusion

8.1 Overall, the Pension Fund's investment in property and infrastructure generated a good return of 13.06%, which was behind the benchmark (as measured by JPMorgan) return of +13.64%. The property allocation, at 11%, was less than its benchmark allocation of 11.5%, with a further £7.7m in undrawn commitments.

8.2 The performance since inception, which is not directly comparable due to different start dates, shows that good long term returns have been achieved by most of the Funds, at over 7% per annum.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report

Appendix A	UK Balanced Property Allocation at 31st March 2015

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.

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APPENDIX A

UK BALANCED PROPERTY ALLOCATION AT 31st MARCH 2015

	Retail %			Offices %			Industrial %		Other %			Total %
	Standard Retail	**Shopping Centres**	**Retail Ware House**	**London**	**Rest SE**	**Rest UK**	**SE**	**Rest UK**	**Other Prop.**	**Listed Assets**	**Cash**	
Aviva	18.1	0.0	20.3	13.5	16.5	7.2	13.6	3.8	2.3	0.0	4.7	100
Royal London	19.0	0.0	17.2	15.0	9.6	1.6	10.5	12.4	10.9	0.0	3.8	100
Blackrock	3.4	5.3	20.5	13.3	8.0	3.1	11.8	7.3	20.9	0.0	6.4	100
Standard Life	13.2	13.8	20.0	24.8	2.1	5.4	12.6	2.1	1.5	0.0	4.5	100
Weighted Average	9.5	5.8	20.1	16.0	8.5	4.4	12.3	5.7	12.2	0.0	5.5	100
IPD UK Pooled Property Fund Indicies	11.6	3.4	17.3	13.4	11.8	4.9	13.9	9.3	10.2	0.0	4.2	100
Difference (absolute)	(2.1)	2.4	2.8	2.6	(3.3)	(0.5)	(1.6)	(3.6)	2.0	0.0	1.3	

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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:	**16 July 2015**
Subject:	**Pension Fund Draft Annual Report and Accounts**

Summary:

This report brings to the Committee the draft Annual Report and Accounts for the Pension Fund.

Recommendation(s):

That the Committee approve the draft Pension Fund Annual Report and Accounts.

Background

1. The Pension Fund Annual Report and Accounts for the year ended 31st March 2015 (included as Appendix A) has been completed and is in the process of being independently audited by the Council's external auditors, KPMG. These accounts form part of the Lincolnshire County Council Statement of Accounts.

2. The Annual Report and Accounts have been produced taking into account the guidance produced by CIPFA.

3. The Annual Report needs to be approved by the Pensions Committee before external audit can issue their formal opinion on the Pension Fund accounts. The draft annual report will be finalised once the external auditor has issued his formal opinion and this has been incorporated into the report.

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

Conclusion

5. The Lincolnshire Pension Fund Report and Accounts has been produced for the year ended 31st March 2015. The Pensions Committee are required to approve this document before external audit will offer an opinion on the accounts. Once the formal opinion has been received, a copy of the Pension Fund Annual Report and Accounts will be distributed to interested parties.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund Annual Report and Accounts 2015

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

Annual Report

and Accounts

For the Year Ended 31st March

2015

Pension Fund

LINCOLNSHIRE COUNTY COUNCIL

LOCAL GOVERNMENT PENSION SCHEME

ANNUAL REPORT FOR THE YEAR ENDED 31st MARCH 2015

CONTENTS **Page**

MANAGEMENT ARRANGEMENTS

Administering Authority Lincolnshire County Council

Pensions Committee Members at 31st March 2015

County Councillors
M G Allan (Chairman)
N I Jackson
B W Keimach
C E D Mair
R J Phillips (Vice Chairman)
S Rawlins
A H Turner

District Council Representatives
Cllr M Leaning

Representatives of Other Employers
J Grant

Employee Representative
A Antcliff (Unison)

Professional Advisors

County Council Officers	
Executive Director of Finance and Public Protection	P Moore BA CPFA
County Finance Officer	D C Forbes BSc CPFA
Independent Advisor	P Jones
Fund Actuary	Hymans Robertson
Fund Consultant	Hymans Robertson
Voting Advisor	Manifest Voting Agency

External Investment Managers of Segregated Portfolios
(all Global Equities)

Invesco Asset Management Ltd
Neptune Investment Management
Schroder Investment Management Ltd
Threadneedle Asset Management Ltd

Auditors	KPMG
Investment Custodian	JP Morgan Securities Services
AVC Provider	Prudential
Fund Banker	Barclays
Benefits Administration	Mouchel Group PLC

REPORT OF THE PENSIONS COMMITTEE

Introduction

The Pensions Committee of Lincolnshire County Council is responsible for the management of the Pension Fund, covering administration, investments and governance. It approves the investment policy of the Fund and monitors its implementation during the year. The Committee generally meets eight times a year, including two manager presentation meetings and two training meetings. Special meetings are convened if considered necessary.

Following the local elections in May 2013, the membership of the Pensions Committee changed considerably, with eight new members to the Committee. Members of the Committee as at 31st March 2015 are listed on page 2.

All members of the Committee can exercise voting rights.

Corporate Governance and Social Responsibility

The Fund complies with corporate governance best practice by voting its shareholdings at all UK, developed Europe, US, Canada and Japan company meetings. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), an organisation that monitors the governance of companies. The LAPFF seeks to protect and enhance shareholder returns by engaging with companies on a wide range of social, environmental and governance issues. The Fund has produced a Stewardship Code Statement, in accordance with the Financial Reporting Council's Stewardship Code, to explain how it acts as a responsible shareholder. This can be found on the Fund's website (details below).

Investment Performance

The Fund has an investment objective to meet its liabilities over the long term and to produce a return of 1% p.a. over the return produced by the strategic asset allocation benchmark.

The twelve months to 31st March 2015 produced a positive return to the Fund. Global equity markets rose during the 12 months but this masked a considerable amount of equity market volatility, largely driven by the accelerating slide in oil prices since June 2014. Equity returns, as measured by FTSE, ranged from +27.1% in Japan to +6.6% in the UK. Bond markets delivered strong returns with falling inflation expectations and disappointing economic growth in the Eurozone being the main drivers of performance. Bond returns ranged from +22.8% for UK Gilts and +3.2% for Overseas Bonds. Property delivered a solid return of +18.6%, due to UK commercial property continuing to be highly sought by both overseas and domestic investors due to the relatively high level of current income it generates, the emerging growth in rental levels and continued increase in capital values.

Performance over the year, at 12.3%, marginally under-performed the specific benchmark return of 12.4%, producing a relative under-performance of -0.1%. This compares to a rise in retail prices of 0.9% and a decrease in public sector earnings of -0.9%. Over the last ten years, the Fund's annualised investment performance is a solid 7%, although this is slightly behind the benchmark return of 7.4%.

Manager Arrangements

There were no manager changes made during the year.

Fund Governance and Communication Statements and the Statement of Investment Principles

The Fund's investments are managed in accordance with the Statement of Investment Principles (SIP).

The Fund's SIP, Governance Compliance Statement, Communications Policy and Funding Strategy statements are all attached at the end of this report. These documents, and other related publications, can also be downloaded from the Pension Fund's website, at www.lincolnshire.gov.uk/pensions.

Hard copies of any of these statements may be obtained from:

Jo Ray, Pensions & Treasury Manager
Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL
(Tel: 01522 553656)
(email: jo.ray@lincolnshire.gov.uk).

Mark Allan

CHAIRMAN

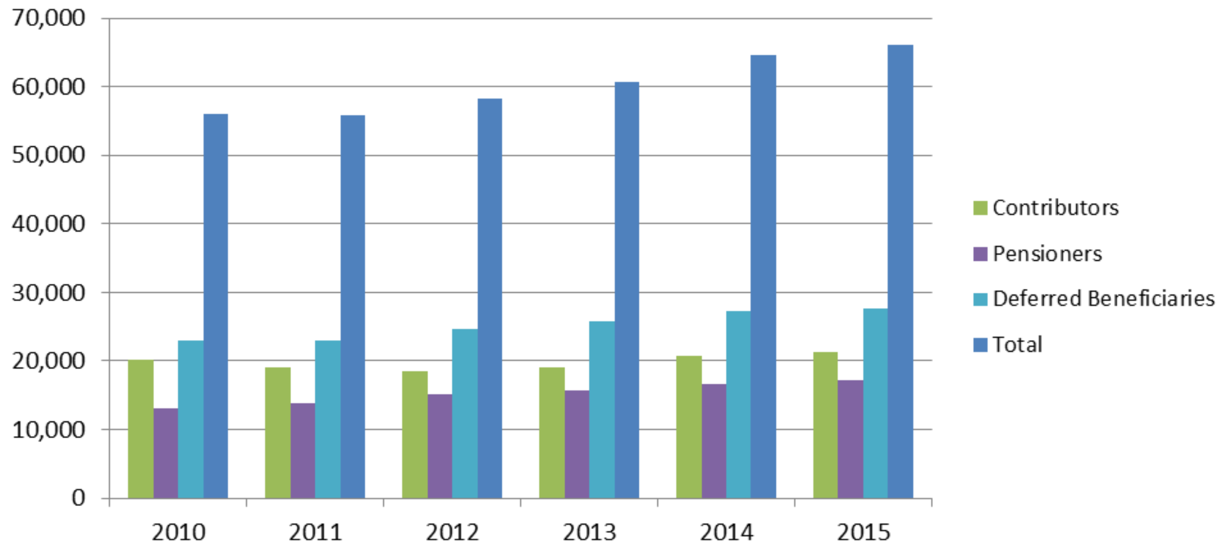
PENSIONS COMMITTEE

MANAGEMENT REPORT OF THE ADMINISTERING AUTHORITY

The Local Government Pension Scheme (LGPS) is a national scheme administered on a local basis by Lincolnshire County Council, providing current and future benefits for over 66,000 scheme members.

Local Government Pension Scheme Membership

As can be seen from the chart below, the membership is still increasing, and the fall in active membership seen over the last few years has reversed. The Fund has matured considerably over the last five years, with deferred members (those that are no longer in the Scheme but will be entitled to a pension at some point in the future) making up 42% of the overall membership.



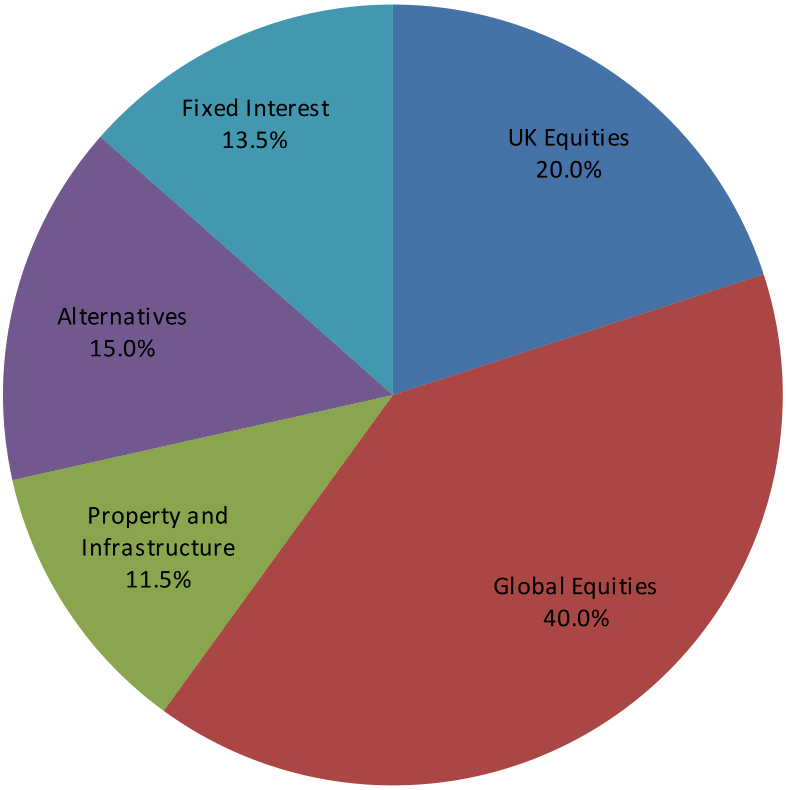
Year ended 31st March	2011	2012	2013	2014	2015
Contributors	19,043	18,527	19,102	20,697	21,262
Pensioners	13,865	15,143	15,702	16,577	17,264
Deferred Beneficiaries	22,931	24,620	25,799	27,246	27,577
Total	**55,839**	**58,290**	**60,603**	**64,520**	**66,103**

(Note: The numbers disclosed in the table above reflect individual pension records within the County Council's database. Current and past members of the LGPS may have more than one pension record as a result, for example, of having more than one part time contract of employment with a Scheme employer.)

Investment Policy

The Fund is managed with regard to a strategic asset allocation benchmark. This is reviewed every three years, following the Fund's triennial valuation. The strategic asset allocation is set to provide the required return, over the long term, to ensure that all pension payments can be met. The actual asset allocation may differ from the strategic benchmark within tolerances that are agreed by the Pensions Committee. The distribution of investments is reported to the Pensions Committee monthly and quarterly.

Strategic Asset Allocation Benchmark



Asset class	Strategic Benchmark 31st March 2015 %	Actual Asset Allocation 31st March 2015 %
UK Equities	20.0	19.9
Global Equities	40.0	41.4
Total Equities	**60.0**	**61.3**
Property and Infrastructure	**11.5**	**11.0**
Alternative (incl. Private Equity)	**15.0**	**14.3**
Fixed Interest	**13.5**	**13.0**
Cash (incl. current assets)	**0.0**	**0.4**
Total	**100**	**100**

Investment Performance

The twelve months period ended 31st March 2015 saw the value of the Fund increase by £160m to £1,752m. All managers, other than the absolute return bond portfolio managed by F&C, produced positive absolute returns over the year. The investment return of 12.26% was marginally behind the Fund's specific benchmark return of 12.4%. Over the last ten years, the Fund's annualised investment performance of 7% is slightly behind the benchmark return of 7.4%.

Annual investment performance over the previous ten years is set out in the table below. The Fund's annual return of 12.3% compares to a rise in retail prices of 0.9% and decrease in public sector earnings of -0.9%.

Investment Performance of the Fund 1st April 2005 to 31st March 2015

	Lincolnshire Fund Return	Comparative Benchmark Return	Retail Price Inflation	Public Sector Increase in earnings
	%	%	%	%
2005/06	24.4	24.1	2.4	4.4
2006/07	6.9	6.5	4.8	3.1
2007/08	(4.4)	(3.3)	3.8	3.7
2008/09	(18.6)	(20.0)	(0.4)	3.4
2009/10	29.7	36.7	4.4	4.0
2010/11	7.9	7.8	5.3	2.2
2011/12	1.5	2.4	3.6	1.8
2012/13	12.6	11.3	3.3	1.1
2013/14	6.3	6.2	2.5	1.1
2014/15	12.3	12.4	0.9	(0.9)
10 years annualised	7.0	7.4	3.1	2.4

Investment Management Arrangements

The arrangements for segregated management of the Fund's assets, in place at 31st March 2015, are set out below. Portfolio values include cash at the balance sheet date.

Segregated Investment Management Mandates

Asset Class	Manager	Market value £m's	% of the Fund
UK Equities	Lincolnshire County Council	345.6	19.8
Global Equities - (Ex UK)	Invesco	362.2	20.8
Global Equities – All Countries	Neptune	92.0	5.3
Global Equities – All Countries	Schroders	90.2	5.2
Global Equities – All Countries	Threadneedle	91.1	5.2
	Total Segregated Equities	**981.1**	**56.3**

The Fund also invests in a number of asset classes by means of collective investment vehicles, also known as pooled funds.

Pooled Funds

Asset Class	Manager	Market value £m's	% of the Fund
Property and Infrastructure	Franklin Templeton	11.4	0.6
	Igloo	5.1	0.3
	Innisfree	28.1	1.6
	Aviva	38.2	2.2
	Royal London	19.3	1.1
	Rreef	2.9	0.2
	Blackrock	19.3	1.1
	Standard Life	65.3	3.7
	Total UK Property	**189.6**	**10.8**
Private Equity	Capital Dynamics	17.3	1.0
	Pantheon	32.4	1.8
	Standard Life	15.7	0.9
	EIG	8.2	0.5
	Total Private Equity	**73.7**	**4.2**
Alternatives	Morgan Stanley	164.8	9.4
	Total Alternatives	**164.8**	
Global Equities	Morgan Stanley	88.4	5.0
	Total Global Equities	**88.4**	
Fixed Interest	Blackrock	116.2	6.6
	F&C/Goodhart	112.4	6.4
	Total Fixed Interest	**228.5**	**13.0**

Stewardship Responsibilities

As a responsible shareholder, the Lincolnshire Pension Fund has produced a Stewardship Code statement in compliance with the Financial Reporting Council's Stewardship code, and encourages its external managers and service providers to produce their own codes.

The Pensions Committee agree that the adoption of good practise in Corporate Governance will improve the management of companies and thereby increase long term shareholder value.

The Fund votes on all company holdings in the UK, developed Europe, US, Canada and Japan. Votes are filed via a third party agent, Manifest Voting Agency, in accordance with a template agreed by the Pensions Committee. The votes cast are reported to the Pensions Committee on a quarterly basis, and this information is available on the Lincolnshire County Council website in the relevant Committee documents. Over the year, the Fund voted at 778 company meetings, and cast votes in respect of 12,009 resolutions.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation of 64 public sector Pension Funds based in the UK. LAPFF exists to promote the investment interests of Local Authority Pension Funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance in the companies in which they invest. Further information on the work of the LAPFF can be found on their website at www.lapfforum.org. Highlights for the year include:

- Continued engagement with companies to discuss issues such as remuneration, carbon management, employment standards.

- Lobbies G20 meeting on global tax avoidance. In the light of high profile media examination of the tax affairs pf companies such as Amazon, Apple, Starbucks and Google, politicians of all persuasions from the US, UK and many other countries are under continued pressure to take increased action to reduce the more egregious examples of corporate tax evasion and opacity around their operations.

- Provided a response to the Law Commission fiduciary duty consultation presenting a LGPS perspective on key issues of stewardship, short termism and beneficiaries.

- Following collaborative engagement on board diversity, London Stock Exchange appointed two women to the board.

- Engaged with companies in eleven country domiciles on a wide range of governance and risk management concerns.

Risk Management

Risk management is an integral element of managing the Pension Fund. The Pension Fund has a risk register which identifies the major risks associated with managing the Fund. This is reviewed by the Pensions Committee annually, and new or increased risks are reported at each quarterly meeting.

The table below highlights the key risks and how they are managed.

Key risk identified:	A range of controls are in place including:
Assets do not cover liabilities	Triennial valuation, diversification of investments, regular monitoring and reporting, professional advisors.
The inability to deliver the Pensions Administration Service, due to failure in the outsourced contract.	Performance and management indicators, monthly meetings, internal and external audits, service level agreement and benchmarking.
Paying pensions correctly	Process controls, checking, audits, reconciliations, tracing bureau, task management.
Collecting contributions correctly	Employer contribution monitoring, annual contribution checks, audits, employer training, reconciliations.
Loss of key staff, knowledge and skills	Diversified staff/team, pensions user groups, procedural notes, section meetings, appraisals.
The transition to the new Pensions Administration provider for 1st April 2015	Project board, transition plan, meetings with the new provider.

Information regarding the risks relating to financial instruments is included within the notes to the accounts, later in this report.

ACTUARIAL POSITION AND STATEMENT

The employers' contribution rates applying in the year ended 31st March 2015, for employers with more than 100 employees participating in the LGPS, are set out below.

Employers' Contribution Rates 2014/15

Employer	Rate as a % of pay
Lincolnshire County Council	19.7
Boston Borough Council	16.9
City of Lincoln Council	16.9
North Kesteven District Council	16.4
South Holland District Council	17.5
South Kesteven District Council	17.0
West Lindsey District Council	16.1
East Lindsey District Council	16.0
Lincolnshire Police	19.9
Magna Vitae	16.0
G4S	19.9
Compass Point Business Services	18.8
Bishop Grosseteste University	18.0
Boston College	20.1
Grantham College	19.4
Lincoln College	21.1
Stamford College	20.7
Boston Witham Federation	20.9
Deepings School (Academy)	20.9
Lincoln Christ Hospital Academy	20.9
Priory Federation of Academies	19.0
Skegness Academy	20.9
Sleaford St Georges Academy	22.5
Spalding Sir John Gleed Academy	20.9
Welton William Farr CE School (Academy)	22.7

The Lincolnshire Pension Fund underwent its triennial valuation as at 31st March 2013. The results from this are published on the Fund's website.

The table below summarises the financial position in respect of benefits earned by members up to this date, compared with the previous valuation.

	31st March 2010	31st March 2013
Past Service Liabilities	£1,585m	£2,092m
Market Value of Assets	£1,204m	£1,495m
Surplus/(Deficit)	(382)	(597)
Funding Level	75.9%	71.5%

Lincolnshire County Council Pension Fund ("the Fund")
Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependents' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 70% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £1,495 million, were sufficient to meet 71.5% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £597 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 21 March 2014.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	3.80%	1.30%
Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.5 years	26.8 years

*Future pensioners are assumed to be aged 45 as at the last formal valuation date

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Lincolnshire County Council, the Administering Authority to the Fund.

Experience over the period since April 2014

Experience has been worse than expected over the year to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been only partially offset by the effect of strong asset returns, meaning that funding levels are likely to have worsened and deficits increase over this period,

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Peter Summers

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

7 July 2015

Hymans Robertson LLP, 20 Waterloo Street, Glasgow,

INVESTMENT BACKGROUND

Returns for Major Markets

The twelve months to 31st March 2015 ended with positive returns across asset classes.

Equity markets had a large difference in returns ranging from 6.6% in the UK to 27.1% in Japan.

There was also a divergence across bond assets, with UK Gilts returning 22.8%, whilst Overseas Bonds and UK Corporate Bonds returned 3.2%.

Property had a very good year, returning 18.6% for investors.

Investment Returns to sterling based investors 1st April 2014 to 31st March 2015

Asset Class	Index	Index return to sterling investors %
Equities		
United Kingdom	FTSE All Share	6.6
Global Equities	FTSE World (ex UK)	19.9
United States	FTSE North America	25.1
Europe	FTSE Europe (ex UK)	7.5
Japan	FTSE Japan	27.1
Far East	FTSE Pacific (ex Japan)	12.8
Emerging Markets	FTSE Emerging	16.5
Fixed Interest		
UK Index Linked Gilts	FTSE Index–Linked All Stocks	18.6
UK Gilts over 15 yrs	UK Gilts and All Stocks	22.8
Overseas Bonds	JP Morgan World ex UK	3.2
UK Corporate Bonds	IBoxx Sterling Non-Gilts All Stocks	3.2
Property	IPD Index	16 .6
Cash	LIBID Seven Day Rate (compounded)	0.4

World Equity Markets

It has been an unusual year for global financial markets characterised by a series of economic, geopolitical, and market shifts. Global equity markets rose during the 12 months to the end of March 2015 but this masked a considerable amount of equity market volatility, largely driven by the accelerating slide in oil prices since June 2014. A surprise surge in production and weaker-than-expected global demand for crude sent oil reserves soaring and prices tumbling which triggered broader turmoil across global financial markets. Energy stocks suffered, as have oil-dependent countries such as Venezuela and Russia.

A brief summary of each quarter of the financial year is shown below.

Q2 2014

Global equities made solid gains over the second quarter, with sentiment driven by the ongoing support from the world's central banks. Janet Yellen, the US Federal Reserve (Fed) chairwoman, bolstered markets when she indicated that interest rates would remain at a record low for some time to come. Not to be outdone, European Central Bank (ECB) President Mario Draghi attempted to kick-start the struggling Euro-zone economy by announcing a series of bold policy measures in June. Equities were further lifted by well-received political elections in emerging markets and buoyant corporate activity from around the world. Meanwhile, geopolitics continued to buffet markets, with the eruption of violence in the Middle East causing the price of oil to spike and prompting investors to take profits.

Q3 2014

Global equities were broadly positive over the quarter, with sentiment driven by ongoing central bank policy support, improving US economic data and a raft of eye-catching M&A deals. The European Central Bank (ECB) was particularly active, cutting interest rates and announcing an asset-purchase scheme. Data from China, however, were mixed. Geopolitics also played their part, with the West imposing ever-stricter sanctions on Russia, civilian protests in Hong Kong and the ongoing conflagration in the Middle East unsettling markets.
Meanwhile, declining commodity prices and a rising US dollar hit a number of emerging nations.

Q4 2014

Despite pronounced bouts of volatility, global equity markets finished ahead for the quarter. Investors had much to consider, from the plunging oil price and ongoing geopolitical tensions, to uneven economic growth and Europe's seemingly inexorable slide into deflation.
Central bank policy also continued to dictate sentiment. The heightened prospect of a US rate hike in the 2015 unnerved some, and caused a sell-off in many emerging markets. By contrast, further stimulus measures in Japan (to the surprise of everyone) and a rate cut in China boosted risk assets. The European Central Bank, meanwhile, continued its slow march towards quantitative easing. In the corporate world, M&A activity remained sprightly, while the latest results season was generally positive.

Q1 2015

Familiar themes dictated sentiment for global equity investors over the first quarter of 2015, including ongoing central bank policy initiatives, the depressed oil price and mixed economic data. The strength of the US dollar was also a major talking point, and proved to be a mixed blessing for investors. Meanwhile, the European Central Bank was back under the spotlight after it launched a €1.1 trillion quantitative easing programme. The move lifted equities globally. However, a victory for the anti-austerity Syriza party in Greece brought the viability of the Eurozone project back into question. Geopolitics remained a feature, as Ukraine/Russia agreed a ceasefire and violence erupted in Yemen.

Fixed Interest

A brief summary of each quarter of the financial year is shown below.

Q2 2014

It was a positive quarter for investment grade corporate bonds in both absolute and relative terms. Returns were driven by a further decline in government bond yields across most core markets and credit spread tightening. Central bank policy continued to prove supportive for the asset class. The ECB announced a package of measures aimed at reinvigorating the Euro-zone economy and combating the threat of deflation. US and UK credit also made good progress, although speculation that interest rates would have to rise sooner than expected in the UK proved a headwind during June.

Q3 2014

Government bond markets enjoyed a strong three-month period. Supportive central bank policy and a number of geopolitical concerns ensured demand for developed market government bonds remained strong. Indeed, US Treasury, German bund and UK gilt yields all declined markedly over the period. European government bonds were especially well served by the introduction of a suite of measures by the European Central Bank to try and stimulate the moribund Eurozone economy. Corporate bond markets made good progress. A favourable environment of low interest rates, expansionary monetary policy and positive-but-low economic growth allowed the asset class to deliver solid returns over the period. There were some notable idiosyncratic issues during the period, such as the impact of the crisis in Crimea on the bonds of companies with direct or indirect exposure to Russia and Ukraine.

Q4 2014

The last quarter of 2014 proved eventful for global bond markets. Actual and anticipated intervention by major central banks was one driver of moves in bond yields, while a precipitous decline in the oil price was another. With inflation in most jurisdictions continuing to surprise to the downside, a disinflationary tone pervaded markets and pushed interest rate expectations out further. As a result, core government bonds made good progress. Corporate credit made positive progress but underperformed on a relative basis due to the robust nature of the rally in underlying government bonds. In what was a generally risk-averse period, higher-rated bonds outperformed lower rated issuance, with high yield once again struggling. At a company-specific level, the falling oil price created both winners and losers, with a number of high-profile oil-related companies coming under pressure.

Q1 2015

It was another volatile quarter for core government bond markets. Generally, however, performance was positive despite 2015 starting with yields at already very low levels. The most important development during the period was the decision by the European Central Bank to finally embark on a programme of sovereign bond-buying. This was particularly positive for European bonds. Corporate bonds generally enjoyed a strong three months, with government bond yields falling and credit spreads narrowing – the best possible outcome for the asset class. The exception was Europe where spreads widened. Sterling denominated corporate bonds were particularly strong over the period, outperforming both euro and dollar bonds.

UK Commercial Property

A brief summary of each quarter of the financial year is shown below.

Q2 2014

The improving economic backdrop in the UK remains supportive for recovery in commercial real estate. This is resulting in positive returns for investors, who are becoming more confident in the recovery's sustainability. As the recovery develops, investors are also starting to turn their attention from the lower yielding Central London market towards the regions. Opportunities are beginning to arise outside the capital, where there is limited future supply, but demand is picking up as the domestic economy improves. In addition, while liquidity is more constrained regionally, we believe that pricing remains attractive.

Q3 2014

The UK continued to lead the recovery in global real estate markets, supported by improving economic data. Capital values increased, while rental growth began to materialise in most sectors. Offices were the best performing sector, followed by industrials and retail. The Central London office occupier market remained strong, with robust demand and limited supply pushing up rents. Overseas investors were again the most active in the capital, accounting for 72% of take up in the third quarter, up from 68.6% on the previous quarter (CBRE). Encouragingly, though, this improving activity appears to be spreading to the regions as investors look for more affordable investments outside of London and the south east.

Q4 2014

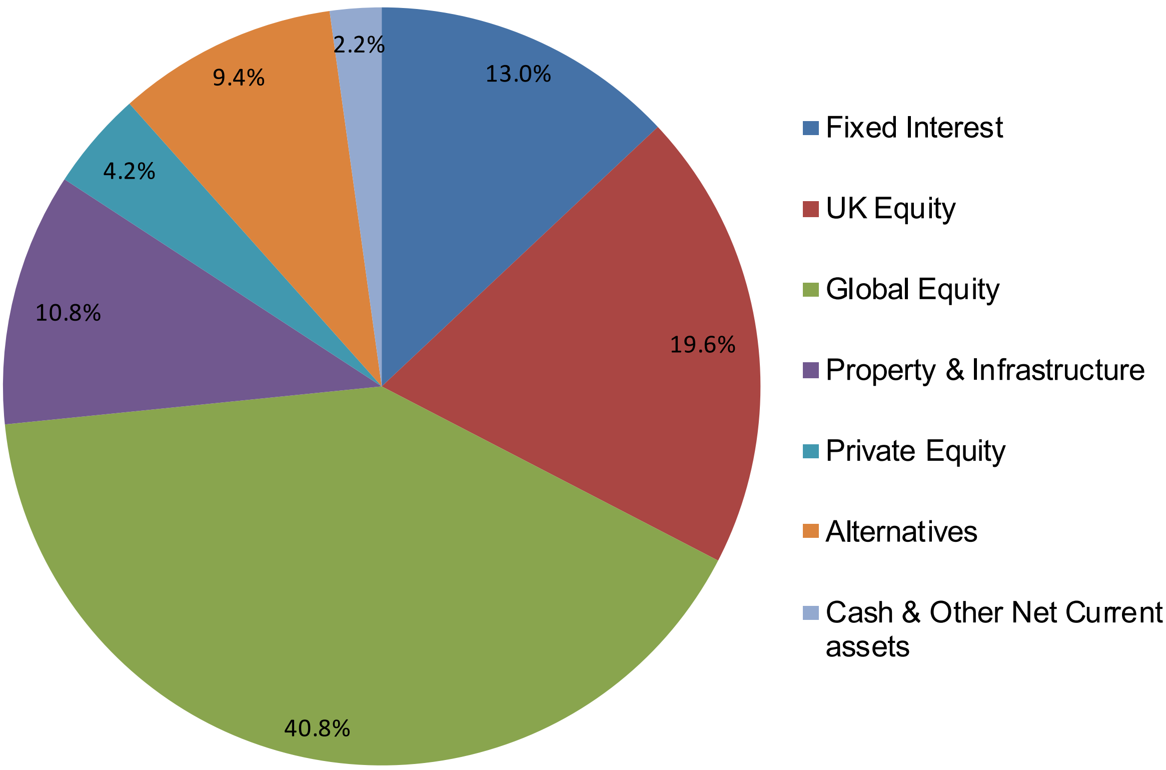
UK commercial real estate continued to lead the global property recovery and ended 2014 strongly. Capital values increased further over the quarter, driven mainly by a competitive investment market. Having initially been led by London, rental growth also improved in most sectors. Rents in the industrials sector strengthened on improved tenant demand and a lack of stock. The retail sector continued to lag behind as it undergoes structural changes. However, there was some emerging evidence that retail rents were beginning stabilise, helped by the improving financial position of consumers. In terms of the investment market, interest in UK real estate showed no signs of abating and remained broad-based, with overseas investors, UK institutions and private companies all active in the sector.

Q1 2015

After a very strong finish to 2014, UK commercial real estate made a steady start to 2015. Both capital values and rents grew over the first quarter albeit at a slower pace than in the last few months of 2014. The markets continue to see capital value growth for secondary property equalise with that of prime property, although there are geographic and sector differences. For example, performance among secondary properties in the office and industrial sectors is catching up with prime, while this has yet to occur in retail. From an investment perspective, there remains strong interest in UK real estate, with ongoing activity from overseas investors, UK institutions and private companies.

Asset Distribution

Asset class	Market Value £000	31/3/15 %	31/3/14 %
Fixed Interest	228,549	13.0	12.5
UK Equity	344,094	19.6	19.4
Global Equity	717,029	40.8	40.6
Property and Infrastructure	189,640	10.8	11.0
Private Equity	73,692	4.2	5.2
Alternatives	164,801	9.4	7.9
Cash & Other Net Current assets	38,298	2.2	3.4
Total	**1,756,283**	**100**	**100**



Top Holdings

Listed below are the top twenty holdings, including pooled investments, as at 31st March 2015. These account for £761m and make up 43.3% of the Fund's investments.

	Market Value £000	Proportion of Fund %
Morgan Stanley Alternatives	164,801	9.4
F&C/Goodhart Absolute Return Bond Fund	112,371	6.4
Morgan Stanley Global Brands Fund	88,446	5.0
Aquila Life Corporate Bond Fund	58,332	3.3
Standard Life Property Fund	56,624	3.2
Aviva Pooled Property Fund	38,201	2.1
Aquila Life Over 5 Year Index Linked Gilt Fund	34,466	1.9
Aquila Life Overseas Bond Fund	23,380	1.3
Royal Dutch Shell A & B Shares	22,712	1.3
HSBC	20,285	1.2
Royal London	19,324	1.1
Blackrock Property Fund	19,276	1.1
Apple	17,444	1.0
BP	13,951	0.8
Innisfree Secondary Fund	13,686	0.8
GlaxoSmithkline	13,240	0.8
British American Tobacco	11,776	0.7
Vodafone	11,686	0.7
Pantheon USA VII	10,921	0.6
Astrazeneca	10,124	0.6
Total	**761,046**	**43.3**

ADMINISTRATION OF BENEFITS

Lincolnshire County Council has contracted with Mouchel to administer LGPS benefits and other services. The service is monitored through a number of performance indicators. These are detailed in the table below, showing the performance achieved over the last year against the expected performance.

Service Area	Days to complete	Performance Target (%)	Total cases	Actual Performance (%)
Processing new entrants	18	98.5	6,109	99.0
Transfers – in (calculation)	30	98.5	204	77.9
Transfers – in (payment received)	30	98.5	153	100
Transfers – out (calculation)	30	98.5	401	98.3
Transfers – out (payment made)	30	98.5	102	100
Actual retirements	5	98.75	492	99.8
Deferred into payment	20	98.5	641	98.3
Deferred benefits	10	98.5	1,764	98.6
Estimates	10	98.25	1,488	96.7
Death in service	5	98.5	12	100
Death of a pensioner	5	98.5	313	95.5
Refunds	5	98.75	372	96.2
Pension calculations	10	98.5	597	96.7

As can be seen from the table above, only one area is highlighted in red, transfers in, where 77.9% of cases were achieved in 30 days, against a target of 98.5%. Performance is reported quarterly to the Pensions Committee, and monthly meetings are held between LCC and Mouchel to manage any performance issues.

SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS FROM 1ST APRIL 2014

Membership of the LGPS is available to all contracted employees of participating employers whether whole time or part time. Casual employees may also be members providing their contract of employment is for a minimum of three months. Whilst membership of the Scheme is not compulsory, employees of Scheme employers who are eligible are deemed to have joined unless they specifically opt out, whilst employees of transferred Admission Bodies are eligible only if they are employed in connection with the service transferred.

National legislation and regulation cover the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits are not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits available are outlined below:

Contributions

Employees contribution rates from 1 April 2014 are based on actual pensionable pay using the pay band table below. The bands are increased each April in line with inflation by the Department for Communities and Local Government. The bands, as they stood at 31st March 2014, are shown below.

Full Time Equivalent Pay	Contribution Rate
Up to £13,600	5.5%
More than £13,601 and up to £21,200	5.8%
More than £21,201 and up to £34,400	6.5%
More than £34,401 and up to £43,500	6.8%
More than £43,501 and up to £60,700	8.5%
More than £60,701 and up to £86,000	9.9%
More than £86,001 and up to £101,200	10.5%
More than £101,201 and up to £151,800	11.4%
Over £151,800	12.5%

Benefits

The retirement age for scheme members is their Normal Pension Age which is the same as their State Pension Age (but with a minimum of age 65). However, employees may retire and draw their pension at any time between age 55 and 75. If an employee chooses to retire before their Normal Pension Age it will normally be reduced, as it is being paid earlier and if taken later the Normal Pension Age then it will be increased as being paid later. Retirement before age 55, other than on ill-health grounds, is not possible.

Annual Pensions

Pensions are calculated at a rate of 1/49th of the employee's pensionable pay in each scheme year. Inflation increases will be added to ensure that pension accounts keep up with the cost of living.

Lump Sum Payments

A member receives a tax free lump of three times their pension on service accrued prior to 1 April 2008. On service from 1 April 2008 there is no automatic lump sum, but members have the option to commute pension at the rate of £12 cash lump sum for every £1 pension given up, subject to maximum tax free lump sum of 25% of capital value of accrued benefits at retirement.

Ill Health Retirement

There are three tiers of benefits. The benefits are calculated as for normal retirement with additional service under tiers one and two depending on age.

Death-benefits

Death in service attracts a tax free lump sum of three time's final pensionable pay. An annual pension is payable to a spouse/civil partner/ 'nominated' dependent partner and eligible children, however civil partners and 'nominated' dependent partners pensions are based on post 5th April 1988 membership only. If a member dies within ten years of their retirement, a single lump sum payment is made of ten times the member's annual pension, less any pension paid since retirement. For a member who retired prior to 1st April 2008 and dies within five years of their retirement, a single lump sum payment is made of five times the member's annual pension less any pension paid since retirement. The surviving spouse is entitled to an annual pension based on 1/160ths accrual of the member's membership.

Supplementary Pensions

Scheme members may purchase additional pension of up to a maximum of £5,000 per annum, in blocks of £250. As an alternative, Scheme members may increase their benefits by paying Additional Voluntary Contributions (AVCs). The AVC provider, appointed by the County Council as the administering authority, is Prudential.

SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS FROM 1ST APRIL 2008 to 31ST MARCH 2014

LGPS 2014 came into effect from the 1st April 2014. Prior to this the key features were as follows:

Membership of the LGPS is available to all contracted employees of participating employers whether whole time or part time. Casual employees may also be members providing their contract of employment is for a minimum of three months. Whilst membership of the Scheme is not compulsory, employees of Scheme employers who are eligible are deemed to have joined unless they specifically opt out, whilst employees of transferred Admission Bodies are eligible only if they are employed in connection with the service transferred.

National legislation and regulation cover the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits are not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits available are outlined below:

Contributions

Employees contributed between 5.5% and 7.5% of their pensionable pay towards their pension.

Benefits

The retirement age for scheme members is 65. However, employees may retire between 60 and 65 but would suffer a reduction to their benefits (unless protected under the 85 year rule). Retirement before age 60, other than on ill-health grounds, is not possible without the permission of the employer.

Annual Pensions

Pensions are calculated at a rate of 1/60th (1/80th for service accrued prior to 1 April 2008) of the employee's average 'final' pay in their last twelve months of employment for each year of pensionable service. Pensions for persons aged 55 and over (no age restriction for ill-health) are increased each April in line with inflation.

Lump Sum Payments

A member receives a tax free lump of three times their pension on service accrued prior to 1 April 2008. On service from 1 April 2008 there is no automatic lump sum, but members have the option to commute pension at the rate of £12 cash lump sum for every £1 pension given up, subject to maximum tax free lump sum of 25% of capital value of accrued benefits at retirement.

Ill Health Retirement

There are three tiers of benefits. The benefits are calculated as for normal retirement with additional service under tiers one and two depending on age.

Death-benefits

Death in service attracts a tax free lump sum of three time's final pensionable pay. An annual pension is payable to a spouse/civil partner/ 'nominated' dependent partner and eligible children, however civil partners and 'nominated' dependent partners pensions are based on post 5th April 1988 membership only. If a member dies within ten years of their retirement, a single lump sum payment is made of ten times the member's annual pension, less any pension paid since retirement. For a member who retired prior to 1st April 2008 and dies within five years of their retirement, a single lump sum payment is made of five times the member's annual pension less any pension paid since retirement. The surviving spouse is entitled to an annual pension based on 1/160ths accrual of the member's membership.

Supplementary Pensions

Scheme members may purchase additional pension of up to a maximum of £5,000 per annum, in blocks of £250. As an alternative, Scheme members may increase their benefits by paying Additional Voluntary Contributions (AVCs). The AVC provider, appointed by the County Council as the administering authority, is Prudential.

SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS TO 31st MARCH 2008

The department for Communities and Local Government (CLG) issued amended regulations to replace the existing scheme with a 'New Look' scheme from the 1st April 2008. Prior to this the key features were as follows:

Membership of the LGPS is available to all contracted employees of participating employers whether whole time, part time or casual.

National legislation and regulation cover the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits are not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits available are outlined below:

Contributions

Employees contributed 6% of their pensionable pay towards their pension, the exception being manual workers who were Fund members before 1 April 1998 who pay 5%.

Benefits

The normal retirement age for Scheme members is 65 but employees in the Scheme prior to 1 April 1998 can retire at 60 provided they have 25 years' service. Retirement before these ages, other than on ill-health grounds, is not possible without the permission of the employer.

Annual Pensions

Pensions are calculated at a rate of 1/80th of the employee's average 'final' pay in their last twelve months of employment for each year of pensionable service. Pensions for persons aged 55 and over are linked to the movement in inflation.

Lump Sum Payments

A member receives a tax free lump sum payment in retirement of three times their pension, with an option to take a bigger lump sum by exchanging part of their pension. Up to 25% of the capital value of a member's pension can be taken as tax free cash.

Ill Health Retirement

Benefits are as for normal retirement but with additional years added dependent on the length of pensionable membership.

Death-benefits

Death in service attracts a lump sum grant equivalent to up to twice final pensionable pay. An annual pension is payable to the surviving spouse and any eligible children. For death after retirement a single payment is made of five times the member's annual pension (less any pension paid since retirement). The surviving spouse is entitled to an annual pension of up to 50% of the member's pension for the rest of their life.

Supplementary Pensions

Scheme members may purchase additional membership within the Scheme up to a maximum of 6 2/3rd years. As an alternative, Scheme members may increase their benefits by paying Additional Voluntary Contributions, up to limits prescribed in scheme rules, to an AVC provider appointed by the County Council as the administering authority. The Lincolnshire AVC provider is Prudential plc.

The principal points of contact in respect of questions about the LGPS are:

Pension Fund and Investments	Jo Ray, Group Manager – Pensions & Treasury Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL Tel: 01522 553656 Email : jo.ray@lincolnshire.gov.uk
Pensions Administration	West Yorkshire Pension Fund WYPF, PO Box 67, Bradford, BD1 1UP Tel: 01274 434999 Email: wypf@mouchel.com

PENSION FUND KNOWLEDGE AND SKILLS – POLICY AND REPORT

As an administering authority of the Local Government Pension Scheme, Lincolnshire County Council recognises the importance of ensuring all staff and members charged with the financial management and decision making with regard to the pension fund, are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. Within the management of the Pension Fund, LCC seeks to appoint individuals who are both capable and experienced, and will provide and arrange training for staff and members involved to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

An annual training plan is agreed by the Pensions Committee each April, setting out what training will be covered over the coming year and relating it back to the CIPFA Knowledge and Skills Frameworks. Knowledge and skills are acquired and maintained through the regular Pensions Committees, as well as through additional training sessions targeting specific areas and attendance at seminars and conferences. In addition, all members were offered the opportunity to attend the three-day fundamentals training arranged by the Local Government Association.

The County Finance Officer, the delegated S151 Officer, is responsible for ensuring that policies and strategies are implemented.

Activity in 2014/15

A full training plan was taken to Pensions Committee in April 2014 to identify training requirements over the coming year. The training plan was linked to specific areas within the CIPFA Knowledge and Skills Framework.

The 6 areas within the Knowledge and Skills Framework 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

The table below details the various areas covered in training and Committee presentations during the year, and the areas within the Knowledge and Skills Framework that they relate to.

Date	Topic	KSF area(s)
22nd May 2014 Committee topics	Pension Fund Discretions (LGPS2014) External Manager Presentations	1 4,5
17th Jul 2014 Committee topics	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 Investment Consultant – Asset Liability Study	4,5 1,3,4 4,5 1 2 4 4,5 1 1,4 4,5
4th Sep 2014 Training	Safeguarding the Fund's Assets Role of the Pensions Board	4 1
9th Oct 2014 Committee topics	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
11th Dec 2014 Committee topics	External Manager Presentations	4,5
8th Jan 2015 Committee topics	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report	4,5 1,3,4 4,5 1

5th Feb 2015 Training	Pensions Administration – shared service Investment topic (tba)	1,4 5
12th Apr 2015 Committee topics	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report Annual Training Paper	4,5 1,3,4 4,5 1 1

As the officer responsible for ensuring that the training policies and strategies are implemented, the County Finance Officer can confirm that the officers and members charged with the financial management of and the decision making for the Pension Fund collectively possess the requisite knowledge and skills necessary to discharge those duties and decisions required during the reporting period.

LINCOLNSHIRE COUNTY COUNCIL PENSION FUND ACCOUNT & NET ASSETS STATEMENT FOR THE YEAR ENDED 31st MARCH 2015

	See Note	2013/14 £000	2014/15 £000
Contributions and Benefits			
Contributions Receivable	8	76,984	82,503
Transfers in	9	6,732	6,372
		83,716	**88,875**
Benefits Payable	10	74,244	78,057
Leavers	11	3,922	34,458
		78,166	**112,515**
Net additions from dealings with fund members		**5,550**	**(23,640)**
Management Expenses	12	**4,568**	**4,807**
Returns on Investments			
Investment Income	13	27,815	26,619
Profit (Loss) on Forward Deals & Currency Deals	17	3,085	(4,149)
Change in Market Value of Investments	15	64,495	170,838
Net returns on investments		**95,395**	**193,308**
Net increase in the Fund during the year		96,377	164,861
Opening net assets of the Fund		1,495,045	1,591,422
Closing net assets of the Fund		**1,591,422**	**1,756,283**
Net Assets statement as at 31st March 2014			
Investments	15		
Equities		880,027	972,857
Pooled Investments:			
Property		174,702	189,640
Private Equity		83,313	73,692
Fixed Interest		168,971	194,083
Index Linked Bonds		29,623	34,466
Equities		74,715	88,445
Alternatives		125,936	164,801
Cash Deposits		38,836	25,695
Other Investment Balances	18	4,364	473
		1,580,487	**1,744,152**
Current Assets and Liabilities			
Cash Balances		4,630	7,855
Debtors	19	6,974	4,005
Long Term Debtors	19	2,131	2,132
Creditors	19	(2,800)	(1,861)
		10,935	**12,131**
		1,591,422	**1,756,283**

Notes to the Pension Fund Account

1 Pension Fund Account

The Lincolnshire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme and Lincolnshire County Council is the Administering Authority. Benefits are administered by Mouchel, alongside a Council wide contract. From 1st April 2015 the administration of the Fund will be in a shared service arrangement with West Yorkshire Pension Fund.

The following information is a summary only, and further detail can be found in the Lincolnshire Pension Fund Annual Report 2014/15 (available on the Fund's website at www.lincolnshire.gov.uk/pensions), and in the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined benefit pension scheme to provide pensions and other benefits for pensionable employees of Lincolnshire County Council, the district councils in Lincolnshire and a range of other scheduled and admitted bodies within the county. Teachers, police officers and fire-fighters are not included as they come within other national pension schemes.

The Fund is overseen by the Lincolnshire County Council Pensions Committee.

Membership

Membership of the LGPS is automatic for eligible employees, but they are free to choose whether to remain in the scheme or make their own personal arrangements outside of the scheme
.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members.

- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include charitable organisations and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 182 employer organisations in the Fund including the County Council (a list of scheduled employers is shown at note 28) and the membership numbers are shown below:

	31 Mar 2014	31 Mar 2015
Number of employers with active members	185	182
Number of employees in the scheme		
Lincolnshire County Council	10,734	10,679
Other employers	9,963	10,583
Total	20,697	21,262
Number of pensioners		
Lincolnshire County Council	10,121	10,664

Other employers	6,456	6,600
Total	16,577	17,264
Number of deferred pensioners		
Lincolnshire County Council	18,794	18,872
Other employers	8,452	8,705
Total	27,246	27,577

Funding
Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31 March 2013, and employer contribution rates were set ranging from 15.1% to 28.7% of pensionable pay. In addition, a number of employers are paying deficit contributions as cash payments.

Benefits
Prior to 1st April 2014, pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1st April 2008	**Service post 31st March 2008**
Pension	Each year is worth 1/80 x final pensionable salary.	Each year is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3/80 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1st April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to our shared pensions website, at www.wypf.org.uk .

2 Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position at year end as at 31st March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits due. The accounts do not take into account liabilities to pay pensions and other benefits after the period end. These liabilities are dealt with through the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined by these valuations.

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

3 Significant Accounting Policies

Fund account - revenue recognition

Contributions income

- Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.
- Employer deficit funding contributions are accounted for on the day on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than due date.
- Employer augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the relevant regulations. Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Investment Income

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

Fund account - expense items

Benefits payable

Pensions and lump sum benefits payable are included in the accounts at the time of payment.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Management expenses

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Council discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and Governance

All oversight and governance expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment expenses

All investment management expenses are accounted for on an accruals basis.

Fees for the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase and decrease as the value of the investments change.

In addition, the Fund has negotiated with the following managers that an element of their fee be performance related:

- Invesco Asset Management - Global Equities (ex UK)
- Schroder Investment Management - Global Equities
- Neptune Investment Management – Global Equities
- Threadneedle Asset Management – Global Equities
- Morgan Stanley Investment Management Ltd - Alternative Investments

Where an investment manager's fee invoice has not been received by the financial year end, an estimate based upon the market value of their mandate is used for inclusion in the Fund accounts.

<u>Net assets statement</u>

Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined as follows:

Market Quoted investments – The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

Fixed Interest Securities – These are recorded at net market value based on current yields.

Unquoted Investments – The fair value of investments for which market quotations are not readily available is determined as follows:

Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Council expects to receive on wind-up, less estimated realisation costs.

Securities subject to takeover offer – the value of the consideration offered under the offer, less realisation costs.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in private equity funds and unquoted limited partnerships are valued based on the Fund's share of the net assets in the private equity or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

Limited partnerships – Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

Pooled investment vehicles – These are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of withholding tax.

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

Derivatives

The Fund uses derivative financial instruments to manage its exposure to certain risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contracts are priced at fair value and open contracts are included within the other investment balances.

The value of futures contracts is determined using the exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with and equal and opposite contract.

Cash and cash equivalents

Cash comprises cash in hand and deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimum risk of changes in value.

Foreign currency transactions
Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31st March 2015 are shown in note 29.

Financial liabilities

Financial liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial liability is recognised in the net asset statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Prior Period Adjustments

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

The following disclosures will be made:
• the nature of the prior period error;
• for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and
• the amount of the correction at the beginning of the earliest prior period presented.

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

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

4 Actuarial Valuation

An actuarial valuation of the Fund undertaken as at 31 March 2013 indicated that the Fund's assets were £1,495m and covered 71.5% of the Funds liabilities. This compared with assets of £1,204m at the valuation as at 31 March 2010, which covered 76% of the Fund's liabilities. The main actuarial assumptions for the 2013 valuation were as follows:

	Nominal per annum %	Real per annum %
Investment Return		
- Equities	4.6	2.1
- Bonds	3.0	

Rate of Pensionable pay inflation	3.8	1.3
Rate of Price inflation	2.5	

The Fund is valued using the projected unit method, which is consistent with the aim of achieving a 100% funding level. The changes in contribution rates resulting from the actuarial valuation as at 31 March 2013 will be effective from April 2014. The contribution rates have been set by the Actuary to target a funding level, for most employers, on an ongoing basis of 100% over a period of up to 20 years. The next actuarial valuation will be undertaken as at 31 March 2016. A copy of the Fund Valuation report can be obtained from the Council's website.

5 Actuarial Present Value of Promised Retirement Benefits

Below is the note provided by the Fund's Actuary, Hymans Robertson, to provide the Actuarial present value of the promised retirement benefits, as required under the Code. The report titled 'Actuarial Valuation as at 31 March 2014 for IAS19 purposes' referred to in the note can be obtained from the Pensions and Treasury Management section at the County Council.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

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

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

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

I have been instructed by the Administering Authority to provide the necessary information for Lincolnshire Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	**31 Mar 2015** **£m**	**31 Mar 2014** **£m**
Present value of Promised retirement benefits	2,953	2,456

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2015 comprises £1,400m in respect of employee members, £557m in respect of deferred pensioners and £996m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £401m.

Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	**31 Mar 2014** **% p.a.**	**31 Mar 2015** **% p.a.**
Inflation/Pension Increase rate	2.8	2.4
Salary Increase Rate*	4.1	3.8
Discount Rate	4.3	3.2

* Salary increases are 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter.

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.5 years	26.8 years

*Future pensioners are assumed to be aged 45 at the last formal valuation date.

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumption

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 17 April 2015. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Anne Cranston AFA
6 May 2015
For and on behalf of Hymans Robertson LLP

6 Assumptions Made and Major Sources of Uncertainly

The accounts contain estimated figures that are based on assumptions made by the council, and other Professionals, about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the accounts for the year ended 31st March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Actual present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on investments. A firm of consulting actuaries are engaged to provide expert advice about the assumptions to be applied.	The effects of changes in the individual assumptions can be measured. For example: 1) a 0.5% increase in the discount rate assumption would result in a decrease of the pension liability of £282m. 2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £50m. 3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £207m. 4) a one-year increase in assumed

		life expectancy would increase the liability by approximately £89m.
Private Equity	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Fund are £73.7m. There is a risk that these may be over or understated in the accounts.

7 Pension Fund Investments 2014/15

The strategic asset allocation for the investment of the Fund, as agreed by the Pensions Committee, is detailed below.

Asset allocation	
UK Equities	20.0%
Global Equities	40.0%
Property	11.5%
Fixed Interest	13.5%
Alternative Investments (incl. Private Equity)	15.0%
	100.0%

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

Fund manager	**31-Mar 2014 £m**	**%**	**31-Mar 2015 £m**	**%**
EXTERNALLY MANAGED				
Invesco	332	21	362	21
Neptune	79	5	92	5
Schroders	84	5	90	5
Threadneedle	87	6	91	5
Morgan Stanley (Global Brands)	75	5	89	5
Morgan Stanley (Alternatives)	139	9	175	8
Morgan Stanley (Private Equity)	87	6	77	7
Blackrock	98	6	116	7
Goodhart	101	6	112	6
INTERNALLY MANAGED				
Pooled Investments:				
Property	179	11	194	11
UK Equity	317	20	346	20

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

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

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, JP Morgan. The total amount of stock on loan at the year-end was £36,449,527 and this value is included in the net assets statement to reflect the Funds continuing economic interest in the securities on loan. As security for the stocks on loan, the Fund was in receipt of collateral at the year-end valued at £39,913,115, which represented 109.5% of the value of securities on loan.

Income received from stock lending activities, before costs, was £286,900 for the year ending 31 March 2015 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

8 Contributions Receivable

Contributions receivable are analysed below:

	2013/14 £000	**2014/15 £000**
Employers		
Normal	48,015	56,897
Deficit Funding	9,603	5,465
Additional - Augmentation	1,446	1,457
Members		
Normal	17,786	18,577
Additional years	134	107
	76,984	**82,503**

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

	2013/14 £000	2014/15 £000
Lincolnshire County Council	35,356	37,286
Scheduled Bodies	37,816	40,522
Admitted Bodies	4,812	4,695
	76,984	**82,503**

9 Transfers In

	2013/14 £000	2014/15 £000
Individual transfers from other schemes	6,732	6,372
Bulk transfers in from other schemes	0	0
	6,732	**6,372**

There were no material outstanding transfers due to the Pension Fund as at 31 March 2015

10 Benefits Payable

	2013/14 £000	2014/15 £000
Pensions	60,641	63,097
Commutations & Lump Sum Retirement Benefits	12,337	13,348
Lump Sum Death Benefits	1,266	1,612
	74,244	**78,057**

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

	2013/14 £000	2014/15 £000
Lincolnshire County Council	37,857	41,623
Scheduled Bodies	31,820	32,477
Admitted Bodies	4,567	3,957
	74,244	**78,057**

11 Payments to and on account leavers

	2013/14 £000	2014/15 £000
Individual transfers to other schemes	3,917	3,726
Bulk transfers to other schemes	0	30,638
Refunds to members leaving service	5	94
	3,922	**34,458**

Bulk transfers were made out of the Fund in respect of the Probation Service moving to Greater Manchester Pension Fund and the Police Forensics Team moving to Derbyshire Pension Fund.

There were no material outstanding transfers due from the Pension Fund as at 31 March 2015.

12 Management Expenses

The analysis of the costs of managing the Lincolnshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The external Audit fee for the year was £29,220 and is included within the oversight and governance costs below.

	2013/14 £000	2014/15 £000
Administrative Costs	1,079	1,289
Investment Management Expenses	3,051	3,127
Oversight and Governance Costs	438	391
Total Management Expenses	4,568	4,807

A further breakdown of the investment management expenses is shown below.

The management fees disclosed include all management fees directly incurred by the Fund and include £511,014 (£462,993 in 2013/14) in respect of performance related fees paid / payable to the Fund's investment managers.

	2013/14 £000	2014/15 £000
Management Fees	2,949	3,027
Custody Fees	102	100
Total Investment Management Expenses	**3,051**	**3,127**

13 Investment Income

		2013/14 £000	2014/15 £000
Equities		26,520	25,369
Pooled Investments			
	Property	985	895
	Alternatives	6	(6)
Cash deposits		30	59
Stock Lending		272	302
Class Actions		2	0
		27,815	**26,619**

Analysis of Investment Income Accrued 31 March 2015

	UK	Non-UK	Global	Total
Equities	2,552	1,346	818	4,716
Bonds	0	0	0	0
Property (direct holdings)	0	0	0	0
Alternatives	254	0	0	254
Cash and Equivalents	0	0	0	0
Other	0	0	0	0
Total	**2,806**	**1,346**	**818**	**4,970**

Analysis of Investment Income Accrued 31 March 2014

	UK	Non-UK	Global	Total
Equities	1,834	1,158	671	3,663
Bonds	0	0	0	0
Property (direct holdings)	0	0	0	0
Alternatives	235	0	6	241
Cash and Equivalents	0	0	0	0
Other	0	0	0	0
Total	**2,069**	**1,158**	**677**	**3,904**

14 Taxes on Income

	2013/14 £000	2014/15 £000
Withholding tax - Equities	1,060	1,114
	1,060	**1,114**

15 Investments

	Value at 31/03/2014 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2015 £000
Equities	880,027	334,616	348,703	106,917	972,857
Pooled Investments					
Property	174,701	3,323	10,291	21,907	189,640
Private Equity	83,313	1,555	22,430	11,254	73,692
Fixed Interest	168,971	21,392	1,901	5,621	194,083
Index Linked Bonds	29,623	1,845	3,336	6,334	34,466
Equities	74,715	0	0	13,730	88,445
Alternatives	125,936	122,982	89,192	5,075	164,801
	1,537,286	**485,713**	**475,853**	**170,838**	**1,717,984**
Cash Deposits	38,836				25,695
Other Investment Balances	4,365				473
Current Assets & Liabilities	10,935				12,131
	1,591,422	**485,713**	**475,853**	**170,838**	**1,756,283**

	Value at 31/03/2013 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2014 £000
Equities	842,804	288,543	299,287	47,967	880,027
Pooled Investments					
Property	155,117	13,292	5,459	11,751	174,701
Private Equity	95,595	3,193	15,266	(209)	83,313
Fixed Interest	155,540	11,624	0	1,807	168,971
Index Linked Bonds	29,525	1,377	0	(1,279)	29,623
Equities	74,037	0	0	678	74,715
Alternatives	113,613	41,812	33,269	3,780	125,936
	1,466,231	**359,841**	**353,281**	**64,495**	**1,537,286**
Cash Deposits	14,696				38,836
Other Investment Balances	5,242				4,365
Current Assets & Liabilities	8,876				10,935
	1,495,045	**359,841**	**353,281**	**64,495**	**1,591,422**

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £674,585 (£502,409 in 2013/14). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments. The amount of indirect costs is not separately provided to the scheme.

Geographical Analysis of Fund Assets as at 31 March 2015

	UK £'000	Non-UK £'000	Global £'000	Total £'000
Equities	344,094	358,688	358,521	1,061,303
Bonds	34,465	23,380	170,703	228,548
Property (direct holdings)	0	0	0	0
Alternatives	170,750	88,606	168,777	428,133
Cash and Equivalents	25,695	0	0	25,695
Other	0	0	0	0
Total	**575,004**	**470,674**	**698,001**	**1,743,679**

Geographical Analysis of Fund Assets as at 31 March 2014

	UK £'000	Non-UK £'000	Global £'000	Total £'000
Equities	309,436	329,932	315,374	954,742
Bonds	29,623	18,977	149,993	198,593
Property (direct holdings)	0	0	0	0
Alternatives	152,144	101,623	130,183	383,950
Cash and Equivalents	38,837	0	0	38,837
Other	0	0	0	0
Total	**530,040**	**450,532**	**595,550**	**1,576,122**

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

		2013/14 £000	2014/15 £000
Property			
	Unit Trusts	116,296	133,426
	Other managed funds (LLP's)	58,405	56,214
Private Equity			
	Other managed funds (LLP's)	83,313	73,692
Fixed Interest			
	Other managed funds	168,971	194,083
Index linked gilts			
	Other managed funds	29,623	34,466
Equities			
	Other managed funds	74,715	88,445
Alternatives			
	Other managed funds	125,936	164,801
Total Pooled Vehicles		**657,259**	**745,127**

It is required to disclose where there is a concentration of investment (other than in UK Government Securities) which exceeds 5% of the total value of the net assets of the scheme. The three investments that fall into this category as follows:

Investment	**2013/14 Value (£000)**	**% of net assets**	**2014/15 Value (£000)**	**% of net assets**
Goodhart Absolute Return Bond Fund	100,617	6.3	112,371	6.4
Morgan Stanley Alternative Investments	125,936	7.9	164,801	9.4
Morgan Stanley Global Brands	74,715	4.7	88,445	5.0

16 Analysis of Derivatives

The holding in derivatives is used to hedge exposures to reduce risk in the fund. The use of any derivatives is managed in line with the investment management agreements of the various investment managers.

The only direct derivative exposure that the Fund has is in forward foreign currency contracts. In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to one month	GBP	49	AUD	(95)	-	-
	GBP	26	EUR	(36)	-	-
	GBP	4	ILS	(23)	-	-
	GBP	53	JPY	(9,477)	-	-
Over one month						
	CHF	20,400	GBP	(14,074)	156	-
	GBP	110,908	EUR	(146,130)	4,992	-
	JPY	10,687,000	GBP	(59,945)	231	-
	USD	404,300	GBP	(259,284)	13,290	-
	GBP	17,926	CHF	(26,400)	-	(498)
	EUR	66,400	GBP	(51,061)	-	(2,931)
	GBP	97,559	JPY	(17,528,477)	-	(1,088)
	GBP	374,624	USD	(583,935)	-	(18,977)
Total					**18,669**	**(23,494)**
Net forward currency contracts at 31 March 2015						**(4,825)**
Prior year comparative						
Open forward currency contracts at 31 March 2014					**7,463**	**(7,503)**
Net forward currency contracts at 31 March 2014						**(40)**

17 Profit (Loss) on Forward Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of the normal trading of the Fund’s managers who manage multi-currency portfolios. It also includes the unrealised loss of £0.5m (unrealised loss of £0.6m in 2013/14) from the Fund’s two Currency Overlay Managers.

18 Other Investment Balances

		2013/14 £000	2014/15 £000
Dividends Receivable		2,991	3,830
Recoverable Tax		888	1,100
Outstanding Foreign Exchange		(40)	(4,825)
Outstanding Stock Lending		18	30
Unsettled Trades	Purchases	(1,024)	(1,796)
	Sales	1,531	2,134
		4,364	**473**

19 Current Assets and Liabilities

Debtors are recorded in the accounts when income due to the Pension Fund, for example from sales of investments or dividend payments, has not actually been received. Debtors include a figure of £2,495,177 for contributions due from employers (2013/14 £4,099,190). Long term debtors are amounts due to the Pension Fund that will not be received within 12 months. The Pension fund only has one long term debtor, the Magistrates Court, who are funding the cost of their pensioner and deferred member liabilities over a 10 year period. Similarly, creditors are recorded where services supplied to the Pension Fund, or purchases of investments have been made by 31 March, but payment is not made until the following financial year.

A thorough reconciliation of the data held on the Pensions Administration system and the pensioner payroll system took place ahead of the move from Mouchel to WYPF for the Pension Administration services. A small number of over and underpayments were identified. Any underpayments were corrected immediately. Overpayments are being addressed on a case-by-case basis. The overall amount is not considered material.

As required by the Code, creditors and debtors are split by type below:

	2013/14 £000	2014/15 £000
Debtors		
Central Government Bodies	745	1,683
Other Local Authorities	4,868	1,466
NHS Bodies	0	0
Public Corporations and Trading Funds	12	141
Other Entities and individuals	1,349	715
	6,974	**4,005**
Long Term Debtors		
Central Government Bodies	2,131	2,132
Other Local Authorities	0	0
NHS Bodies	0	0
Public Corporations and Trading Funds	0	0
Other Entities and individuals	0	0
	2,131	**2,132**
Creditors		
Central Government Bodies	(569)	(667)
Other Local Authorities	(891)	(87)
NHS Bodies	0	0
Public Corporations and Trading Funds	(781)	(1,106)
Other Entities and individuals	(559)	(1)
	(2,800)	**(1,861)**

20 Contingent Liabilities and Contractual Commitments

Investment commitments have been made to a number of pooled vehicles that make private equity or property investments. At the year end, the value of outstanding commitments to the 25 investment vehicles amounted to £24,059,856.

21 Contingent Assets

Five admitted body employers in the Fund hold insurance bonds or equivalent cover to guard against the possibility of being unable to meet their pension obligations. These arrangements are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

22 Impairment Losses

The Fund has no recognised impairment losses.

23 Additional Voluntary Contributions

Scheme members may make additional contributions to enhance their pension benefits. All Additional Voluntary Contributions (AVC) are invested in a range of investment funds managed by the Prudential plc. At the year end, the value of AVC investments amounted to £9,233,388 (£8,675,676 in 2013/14) and member contributions of £1,217,147 (£1,087,950 in 2013/14) were received by the Prudential in the year to 31st March. The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

24 Dividend Tax Claims

During the financial year 2006/07, the County Council lodged a number of claims with HM Revenue and Customs for the recovery of dividend tax credits relating to earlier years. The total value of the claims is £793,497 and relates to both Foreign Income Dividends paid by UK companies and certain dividends paid by overseas companies. The claims are based on interpretations of European Union law and a number of recent relevant judgements. The County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2009/10, the County Council lodged a claim with HM Revenue and Customs for the recovery of withholding tax suffered on manufactured overseas dividends. This is a tax imposed on overseas dividends due to the Pension Fund when the stock is on loan to another party, through the stock lending service provided by the Fund’s custodian, JP Morgan. The value of the claim is approximately £714,000 and relates to the periods from 2004/05 to 2008/09. In 2010/11 a top-up claim was submitted for the year 2009/10, for approximately £278,000. No additional claims were made in this area in 2012/13, however top-up claims for the period from 1st April 2011 to 31st March 2013 were made in May 2013, for £377,253. As with the tax claim detailed in the paragraph above, the County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2011/12, the County Council lodged a claim with the relevant tax authorities for the recovery of withholding tax suffered on overseas dividends from Spain (approx. £101,000) and Germany (approx. £165,000), covering the periods from 2007-2010. During the financial year 2012/13 the Spanish tax authorities rejected elements of the claim, reducing the value to approximately £70,000, followed by a further rejection of approximately £65,000. In Spain repayments are increasingly being seen and a repayment of €79,565 has been approved by the Spanish Tax Authority with payment due in April 2015. After this repayment, the only quarter outstanding is Q4 2004.

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

25 Related Party Transactions

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

Under legislation introduced in 2003/04, Councillors have been entitled to join the Scheme, however this changed from the 1st April 2014 and no new Councillors are now able to join the scheme. Councillors who are current members will cease to be in the scheme following the end of their term as Councillor. Committee member M Leaning of the Pensions Committee currently receives pension benefits from the Fund. Committee members M Allan, R Phillips and A Antcliff are contributing members of the Pension Fund as at 31st March 2015.

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

The Treasury Management section of the County Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the County Council's cash and lent out in accordance with the Council's Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £8,846.5m and interest of £58k was earned over the year.

Lincolnshire County Council paid contributions of £26.7m into the Pension Fund during the year and all payments were received within agreed timescales.

Paragraph 3.9.4.2 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulations 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit Regulations 2005) satisfy the key management and personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of Lincolnshire Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lincolnshire County Council at note 47. This can be found on the Council's website at www.lincolnshire.gov.uk.

26 Financial Instruments

Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading. No financial assets were reclassified during the accounting period.

	Designated as fair value through profit & loss £000	2013/14 Loans & receivables £000	Financial liabilities at amortised cost £000	Designated as fair value through profit & loss £000	2013/14 Loans & receivables £000	Financial liabilities at amortised cost £000
Financial Assets						
Equities	880,027			972,857		
Pooled Investments:						
Property	174,701			189,640		
Private Equity	83,313			73,692		
Fixed Interest	168,971			194,083		
IL Bonds	29,623			34,466		
Equities	74,715			88,445		
Alternatives	125,936			164,801		
Cash		43,466			33,550	
Other Inv. Balances	12,892			25,763		
Debtors		9,105			6,137	
	1,550,178	**52,571**	**-**	**1,743,747**	**39,687**	**-**
Financial Liabilities						
Other Inv. Balances	(8,527)			(25,290)		
Creditors			(2,800)			(1,861)
	(8,527)	**-**	**(2,800)**	**(25,290)**	**-**	**(1,861)**
	1,541,651	**52,571**	**(2,800)**	**1,718,457**	**39,687**	**(1,861)**

Net gains and losses on financial instruments

	2013/14 £000	2014/15 £000
Financial Assets		
Fair value through profit & loss	64,495	170,838
Loans and receivables		
Financial liabilities measured at amortised cost		
Financial Liabilities		
Fair value through profit & loss	(40)	(4,825)
Loans and receivables		
Financial liabilities measured at amortised cost		
	64,455	**166,013**

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the managers to the private equity funds in which the Lincolnshire Fund has invested.

These valuations are prepared in accordance with the Private Equity and Venture Capital Valuation Guidelines (US investments), and the International Private Equity and Venture Capital Valuation Guidelines (non US investments) which follow the valuation principles of IFRS and US GAAP. Valuations are shown to the latest valuation date available and adjusted for cash flow where required to 31st March 2015.

The value for the alternatives investments with Morgan Stanley are provided by the underlying managers within the pool of investments and assurance is provided by Morgan Stanley on the quality of the valuations.

The following table provides an analysis of the financial assets and liabilities grouped into Level 1 to 3, based on the level at which fair value is observable.

Values at 31st March 2015	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Fair value through profit & loss	1,315,614	189,640	238,493	1,743,747
Loans and receivables	39,687			39,687
Financial liabilities measured at amortised cost				
Total Financial Assets	**1,355,301**	**189,640**	**238,493**	**1,783,434**
Financial Liabilities				
Fair value through profit & loss		(25,290)		(25,290)
Loans and receivables				-
Financial liabilities measured at amortised cost	(1,861)			(1,861)
Total Financial Liabilities	**(1,861)**	**(25,290)**	**-**	**(27,151)**
Net Financial Assets	**1,353,440**	**164,350**	**238,493**	**1,756,283**

Values at 31st March 2014	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Fair value through profit & loss	1,166,228	174,701	209,249	1,550,178
Loans and receivables	52,571			52,571
Financial liabilities measured at amortised cost				
Total Financial Assets	**1,218,799**	**174,701**	**209,249**	**1,602,749**
Financial Liabilities				
Fair value through profit & loss		(8,527)		(8,527)
Loans and receivables				
Financial liabilities measured at amortised cost	(2,800)			(2,800)
Total Financial Liabilities	**(2,800))**	**(8,527)**		**(11,327)**
Net Financial Assets	**1,215,999**	**166,174**	**209,249**	**1,591,422**

27 Nature and Extent of Risks Arising from Financial Instruments

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the Fund. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cashflows.

Market Risk

Market risk is the loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future prices and yield movements and the asset mix.

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

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instrument. To mitigate this price risk, each manager is expected to maintain a diversified portfolio within their allocation.

Price risk - sensitivity analysis

Following analysis of historical data and expected investment return during the financial year, in consultation with a fund manager, the Fund has determined that the following movements in market price are reasonably possible for the 2013/14 reporting period.

Asset Type	Potential market movements (+/-)
UK Equities	12.2%
Overseas Equities	10.7%
UK Bonds	7.5%
UK Index Linked	10.00%
Overseas Bonds	9.0%
Private Equity	10.7%
Alternative Investments	10.0%
Property	5.8%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits would have been as follows (the prior year comparative is shown below):

Asset Type	**Value at 31/03/2015 £000**	**Percentage Change %**	**Value on Increase £000**	**Value on Decrease £000**
Cash deposits	25,695	0.0	25,695	25,695
UK Equities	361,374	12.0	404,739	318,009
Overseas Equities	699,928	10.7	774,820	625,036
UK Bonds	81,712	7.5	87,840	75,584
UK Index Linked	34,466	10.0	37,913	31,019
Overseas Bonds	112,371	9.0	122,484	102,258
Private Equity	73,692	10.7	81,577	65,807
Alternative Investments	164,801	10.0	181,281	148,321
Property	189,640	5.8	200,639	178,641
Dividends Accrued	3,830	0.0	3,830	3,830
Recoverable Tax	1,100	0.0	1,100	1,100
Outstanding FX	(4,825)	0.0	(4,825)	(4,825)
Outstanding Stock Lending	30	0.0	30	30
Unsettled Purchases	(1,796)	0.0	(1,796)	(1,796)
Unsettled Sales	2,134	0.0	2,134	2,134
Total assets available to pay benefits	1,744,152		1,917,462	1,570,842

Asset Type	**Value at 31/03/2014 £000**	**Percentage Change %**	**Value on Increase £000**	**Value on Decrease £000**
Cash deposits	38,836	0.0	38,836	38,836
UK Equities	398,530	12.2	447,151	349,909
Overseas Equities	556,212	8.9	605,715	506,709
UK Bonds	68,353	5.7	72,249	64,457
UK Index Linked	29,623	7.7	31,904	27,342
Overseas Bonds	100,618	6.8	107,460	93,776
Private Equity	83,313	14.6	95,477	71,149
Alternative Investments	125,936	10.0	138,530	113,342
Property	174,702	5.8	184,835	164,569
Dividends Accrued	2,991	0.0	2,991	2,991
Recoverable Tax	888	0.0	888	888
Outstanding FX	(40)	0.0	(40)	(40)
Outstanding Stock Lending	18	0.0	18	18
Unsettled Purchases	(1,024)	0.0	(1,024)	(1,024)
Unsettled Sales	1,531	0.0	1,531	1,531
Total assets available to pay benefits	1,580,487		1,726,521	1,434,453

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes to market interest rates. The Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

Asset Type	31/03/2014 £000	31/03/2015 £000
Cash deposits	38,836	25,695
Cash balances	4,630	7,855
Pooled Fixed Interest Securities	198,594	228,549
Total	242,060	262,099

Interest rate risk - sensitivity analysis

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset Type	Value at 31/03/2015 £000	Change in Year +1% £000	-1% £000
Cash deposits	25,695	25,952	25,438
Cash balances	7,855	7,934	7,776
Pooled Fixed Interest Securities	228,549	230,834	226,264
Total	262,099	264,720	259,478

Asset Type	Value at 31/03/2014 £000	Change in Year +1% £000	-1% £000
Cash deposits	38,836	39,224	38,448
Cash balances	4,630	4,676	4,584
Pooled Fixed Interest Securities	198,594	200,580	196,608
Total	242,060	244,480	239,640

Currency risk

Currency risk represents the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling.
To assist in managing this risk and to reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

The following table summarises the Fund's currency exposure at 31 March 2014 and 31 March 2013.

Currency Exposure - Asset Type	31/03/2014 £000	31/03/2015 £000
Overseas Equities (quoted)	556,212	611,483
Pooled Investments:		
Overseas Property	23,779	20,098
Overseas Private Equity	82,091	72,484
Overseas Fixed Interest	100,617	112,371
Total	762,699	816,436

Currency risk - sensitivity analysis

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one standard deviation).

A 10% fluctuation in the currency is considered reasonable based on an analysis of long term historical movements in month-end exchange rates. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	Value at 31/03/2015 £000	Change in Year +10% £000	Change in Year -10% £000
Overseas Equities (quoted)	611,483	672,631	550,335
Pooled Investments:			
Overseas Property	20,098	22,108	18,088
Overseas Private Equity	72,484	79,732	65,236
Overseas Fixed Interest	112,371	123,608	101,134
Total	816,436	898,080	734,792

Currency Exposure - Asset Type	Value at 31/03/2014 £000	Change in Year +10% £000	Change in Year -10% £000
Overseas Equities (quoted)	556,212	611,833	500,591
Pooled Investments:			
Overseas Property	23,779	26,157	21,401
Overseas Private Equity	82,091	90,300	73,882
Overseas Fixed Interest	100,617	100,679	90,555
Total	762,699	838,969	683,429

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund is exposed to credit risk through securities lending, forward currency contracts and its daily treasury activities.

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

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

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

Liquidity risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed equities - instruments that can be liquidated at short notice, normally three working days. As at 31 March 2014, these assets totalled £1,153m, with a further £38.8m held in cash. Currently, the Fund is cash flow positive each month (i.e. the contributions received exceed the pensions paid). This position is monitored regularly and reviewed at least every three years alongside the Triennial Valuation.

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

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

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

Custody, Accounting and Performance Measurement

JPMorgan are the Pension Fund's appointed Custodian, with responsibility for safeguarding the assets of the Fund. JPMorgan are a global industry leader, with more than $19 trillion in assets under custody. They have been the Fund's Custodian since 2004, and were reappointed at the end of their seven year contract in March 2011. Monthly reconciliations of holdings are performed to ensure that the Custodians records match those of the Managers. Regular meetings and conference calls are held to discuss performance, and quarterly key performance indicators are produced.

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

28 Scheduled & Admitted Bodies Contributing to the Fund

County and District Councils

Lincolnshire County Council
(incl. LCC schools)
Boston Borough Council
East Lindsey District Council
City of Lincoln Council
North Kesteven District Council
South Holland District Council
South Kesteven District Council
West Lindsey District Council

Internal Drainage Boards

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

Parish and Town Councils

Billinghay PC
Bourne TC
Bracebridge Heath PC
Crowland PC
Deeping St James PC
Gainsborough TC
Greetwell PC
Heighington PC
Horncastle TC
Ingoldmells PC
Langworth PC
Louth TC
Mablethorpe and Sutton TC
Market Deeping TC

Parish and Town Councils

Metheringham PC
Nettleham PC
North Hykeham TC
Skegness TC
Skellingthorpe PC
Sleaford TC
Stamford TC

Academies

Alford Queen Elizabeth
Boston Grammar
Boston High School
Boston West Academy
Boston Witham Federation
Bourne Abbey C of E
Bourne Academy
Bourne Grammar
Bourne Westfield Primary
Bracebridge Infant and Nursery
Branston Community
Branston Junior Academy
Caistor Grammar
Caistor Yarborough
Carlton Academy
Charles Read Academy
Cordeaux Academy
Ellison Boulters Academy
Ermine Primary
Fosse Way
Gainsborough Benjamin Adlard
Gainsborough Parish Church
Giles Academy
Gipsey Bridge Academy
Grantham Kings School
Grantham Walton Girls
Harrowby C of E Infants
Hartsholme Academy
Heighington Millfield Academy
Hillcrest EY Academy
Hogsthorpe Primary Academy
Horncastle QE Grammar
Huntingtower Community Primary
Huttoft Primary Academy
Ingoldmells Academy
John Spendluffe Tech. College

Academies

Kesteven & Sleaford High
Kesteven and Grantham Academy
Kidgate Primary Academy
Kirkby La Thorpe
Lincoln Castle Academy
Lincoln Christs Hospital School
Lincoln Our Lady of Lincoln

Phoenix Family Academy
Priory Federation of Academies
Rauceby C of E
Ruskington Academy
Sir John Gleed
Sir Robert Pattinson Academy
Sir William Robertson
Skegness Academy
Skegness Grammar
Skegness Infant Academy
Skegness Junior Academy
Sleaford Carres Grammar
Sleaford Our Lady of Good Couns
Sleaford St Georges Academy
Sleaford William Alvey
Spalding Grammar
Splisby Eresby
Spilsby King Edward Academy
St John's Primary Academy
Stamford Malcolm Sargent
Stamford Queen Eleanor
Stamford St Augustine's
Stamford St Gilberts
The Deepings Academy
The Phoenix School
Thomas Cowley Academy
Tower Road Academy
Trent Valley Academy
University Academy Holbeach
Utterby Primary
Washingborough Academy
Welton St Mary's C of E
Welton William Farr CE
West Grantham Federation
White's Wood Academy
William Lovell Academy

Academies

Witham St Hughs Academy
Woodhall Spa Academy

Admitted Bodies

Acis Group
Active Nation
Adults Supporting Adult

Sudbrooke PC
Washingborough PC
Woodhall Spa PC

FE Establishments
Bishop Grosseteste College
Boston College
Grantham College
Lincoln College
Stamford College

Other Scheduled Bodies
Acorn Free School
Compass Point
BG (Lincoln) Ltd
Lincolnshire Police Authority
Lincolnshire Probation Service

Lincoln St Hugh's
Lincoln St Peter & St Paul's
Lincoln Westgate Academy
Ling Moor Academy
Little Gonerby C of E
Long Bennington C of E
Mablethorpe Primary Academy
Manor Leas Infant Academy
Manor Leas Junior Academy
Market Rasen De Aston School
Mercer's Wood Academy
Mount Street Academy
National C of E Juniors
Nettleham Infants Academy
North Kesteven School
North Thoresby Primary

Boston Mayflower
CfBT
Edwards & Blake
G4S
Heritage Trust for Lincs
Lincoln Arts Trust
Lincoln BIG
Lincs HIA
Lincs Sports Partnership
Kier Group (May Gurney)
Mouchel Connextions
New Linx Housing
Rentokil Initial

29 Exchange Rates Applied

The exchange rates used at 31 March 2014 per £1 sterling were:

Australian Dollar	1.7987
Brazilian Real	3.7619
Canadian Dollar	1.8401
Swiss Franc	1.4727
Danish Krone	9.0310
Euro	1.2096
Hong Kong Dollar	12.9322
Indonesian Rupiah	18,938.8237
Israeli Shekel	5.8186
Japanese Yen	171.6914
Korean Won	1,774.5978
Mexican Peso	21.7542
Norwegian Krone	9.9813
New Zealand Dollar	1.9212
Polish Zloty	5.0371
Swedish Krona	10.8091
Singapore Dollar	2.0965
Thai Baht	54.0823
Turkish Lira	3.5664
Taiwan Dollar	50.7689
US Dollar	1.6671
South African Rand	17.5349

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**16 July 2015**
Subject:	**Pension Fund Policies Review**

Summary:

This report brings to the Committee the main policies of the Pension Fund for review.

Recommendation(s):

That the Committee agree the policies and note the report.

Background

1. Under the various Local Government Pension Scheme Regulations, the Pensions Committee, as the Administering Authority of the Lincolnshire Pension Scheme, is required to produce and maintain a number of key policy documents. Policies are brought to the Committee annually, and the last comprehensive review of all such policies was in July 2014. This report presents the latest version of these policies for them to be formally endorsed by the Committee.

Policies for Approval

2. The key policies to be reviewed and approved are set out as Annexes to this report. Any significant changes will be brought to the Committee's attention and explained during the meeting.

Appendix A – The Statement of Investment Principles

3. The Statement of Investment Principles sets out the Committee's approach to the investment of the Fund's assets, and how the Fund complies with the six Myners principles of good investment practice. This document is

amended whenever there is a change in the investment policy of the Fund, such as when new managers are appointed.

Appendix B - Governance Policy and Compliance Statement

4. The Governance Policy sets out the arrangements for the management of the Pension Fund, and the Compliance Statement sets out the extent that this policy complies with best practice, on a comply or explain basis.

5. Within the compliance statement, the areas where the Fund is only partially compliance are detailed below:

- Principle A – Structure – (b) – the Committee does not include representatives for pensioner or deferred members.

- Principle B – Representation – (a) - the Committee does not include representatives for pensioner or deferred members.

- Principle E – Training/Facility Time/Expenses – (c) – the Committee has an annual training plan at Committee level, but not for individual members.

- Principle H – Scope – (a) – The Committee does not have an independent observer for administration and governance issues.

Appendix C – Communications Policy

6. The Communication Policy sets out how the Fund intends to communicate with members, prospective members and employers, including the format, frequency and method of distributing any information or publicity.

Appendix D – Stewardship Code Statement

7. The Stewardship Code Statement sets out how the Lincolnshire Pension Fund complies with the FRC's (Financial Reporting Council) UK Stewardship Code. The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire and operates on a 'comply or explain' basis.

8. The other main policy, not being reviewed at this time, is the Funding Strategy Statement, which sets out the Fund's approach to managing its solvency. This is generally updated every three years, in line with the Triennial Valuation, and is the framework that guides the Fund Actuary. It was approved at the January 2014 meeting of this Committee.

Conclusion

9. In accordance with the various Local Government Pension Scheme Regulations, the Fund has prepared a number of key policy documents. The Statement of Investment Principles, Governance Policy and Compliance Statement, Communications Policy and Stewardship Code Statement have been appended to this report for review and approval by the Pensions Committee.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund Statement of Investment Principles
Appendix B	Lincolnshire Pension Fund Governance Policy and Compliance Statement
Appendix C	Lincolnshire Pension Fund Communications Policy
Appendix D	Lincolnshire Pension Fund Stewardship Code Statement

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 Pension Fund

Statement of Investment Principles

July 2015

Statement of Investment Principles – Contents

1. INTRODUCTION

1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Regulations) require Lincolnshire County Council, acting as administering authority to the Lincolnshire Pension Fund, to prepare and publish a Statement of Investment Principles (SIP) to describe the key issues that govern the investment of Pension Fund money.

1.2 The SIP is published on the Pension Fund's shared website at www.wypf.org.uk.

1.3 The Pensions Committee (the Committee) act with the delegated authority of Lincolnshire County Council, and consists of eight County Councillors, one District Council representative, one non Local Authority employer representative and one employee representative. All members of the Committee have full voting rights. The Committee meet at least quarterly.

1.4 Investments are monitored on a regular basis by the Committee, supported by advice from Executive Director of Finance and Public Protection and professional advisers as required.

1.5 The Committee has agreed a long term strategic asset allocation benchmark, reflecting the outcome of the Asset Liability Modelling following the Triennial Actuarial Valuation of the Fund. This is reviewed every three years, after each Valuation.

1.6 The Committee are responsible for the ongoing monitoring and review of all investments, service providers and Fund administration.

1.7 The SIP is reviewed annually and revised if necessary. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the SIP will be updated within six months from the date of any material change in the information detailed in this document.

2 FUND OBJECTIVES

2.1 Primary Objective

The primary objective of the Fund is to ensure that that there are sufficient resources available to pay current pensions and to build up assets to provide adequate security to make future pension payments.

As required by the Regulations, an Actuary conducts a triennial valuation to assess to what extent the Fund's assets match its pension obligations and then determines appropriate levels of contributions for the various employers participating in the Scheme.

2.2 Funding Objective

The Pension Fund, in collaboration with the Fund's Actuary, has produced a Funding Strategy Statement (FSS) which is published on the Pension Fund's shared website at www.wypf.org.uk, or is available in hard copy by request (see contact details on page 7).

The purpose of the Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The FSS sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis. The FSS is reviewed every three years alongside the Actuarial Valuation.

3 INVESTMENT OBJECTIVES

The Fund's investment objective is to achieve a level of return from the assets that will, as a minimum, meet the investment return assumptions made by the Actuary in the triennial valuation. In order to achieve this long term objective, the following has been agreed by the Pensions Committee.

3.1 Investment Policy

The Committee will ensure that one or more investment managers are appointed to manage and invest Fund money, and that they are authorised under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Committee, after seeking appropriate advice, will formulate a policy for investment, called the strategic benchmark, and in doing so consider the variety and suitability of investments. The Fund's strategic benchmark is shown in appendix A. The Fund has an objective to achieve a return of 1% above the return of the strategic benchmark, per annum, over the long term. This objective is being reviewed, given the changes in asset allocation over the last few years.

3.2 Investment Managers

The Managers appointed to manage the Fund's assets are detailed in appendix B. A management agreement is in place for each specialist mandate, detailing performance targets and benchmarks.

3.3 Custody and Stock-Lending

The Fund has appointed JPMorgan as Global Custodian for all listed assets. The Custodian is responsible for the safekeeping of the Fund's assets.

The Fund participates in a collateralised stock-lending programme managed by the Custodian. This is restricted to an overall limit of £220 million and an individual counterparty limit of £33 million, within the 25% maximum allowed in the Regulations.

3.4 Allowable Investments

All investments made by the Fund are in accordance with those permitted under the Regulations. These include equities, bonds, property and a range of alternative investments including private equity. The types of investments held by the current managers are detailed in appendix B.

3.5 Balance Between Types of Investment

The overall strategy of the Fund, to produce the Strategic Benchmark, is reviewed every three years alongside the Actuarial Valuation. An asset liability study was undertaken following the 2013 Valuation.

The study addresses the long term strategy for the Fund, taking into consideration the liability profile of the Fund, the current solvency level and the risk tolerance of the Committee.

All recommendations of changes to the Strategic Benchmark are agreed by the Pensions Committee, before being implemented over an agreed period of time.

3.6 Risk

The Pensions Committee's appetite for risk is factored into the Asset Liability Study mentioned above, and the overall acceptable level of risk for the Fund is used to allocate funds between different asset classes.

Each asset class, and within that each manager, operates within a tolerance range to ensure that the Fund does not deviate too far from the agreed Strategic Benchmark, whilst allowing for a degree of flexibility.

The appointment of more than one manager diversifies the manager risk within asset classes, and each manager is expected to maintain a degree of diversification within their investment portfolio. This is monitored by the Pensions Committee.

3.7 Expected Returns

The Strategic Benchmark is expected to produce a return in excess of the investment return assumed in the Actuarial Valuation, over the longer term. The assumptions used in the latest Valuation are shown in appendix C. Individual manager performance against benchmark and target, as well as the overall return to the Fund, is regularly monitored by the Pensions Committee.

3.8 Realisation of Investments

The Pension Fund is currently cash positive, in that it has excess cash paid into the Fund each month from contributions and investment income after all pensions are paid. The Fund expects to be cash positive for the short to medium term.

The majority of the Fund's investments are quoted on major stock markets and can be realised quickly, in normal market conditions, if required. More illiquid investments, such as property and private equity make up a smaller proportion of the Fund. The mix of liquid and illiquid investments is one consideration in preparing the Strategic Benchmark.

4 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC'S)

All local government pension funds have an in-house AVC scheme where scheme members can invest money, deducted directly from salaries, through an AVC provider. The Fund has appointed Prudential to act as its' provider and a comprehensive range of investment funds is offered.

Information about AVC's is available on the Pension Fund's shared website at www.wypg.org.uk.

5 PENSION FUND CASH

There are two aspects to cash management within the Pension Fund:

5.1 Cash Held in the Pension Bank Account

The cash held in the Pension Fund Bank account is managed by the Lincolnshire County Council (LCC) Treasury Team. This cash is managed in accordance with the LCC Treasury Management Strategy. A Service Level Agreement is in place between the Pension Fund and LCC detailing how risk and return are apportioned.

5.2 Cash Held in the Custodian Bank Accounts

Each investment manager in the Fund with a segregated account will have a number of bank accounts (of various currencies) with the Fund's Custodian. Cash held in these accounts is either frictional, and arises due to timing issues of purchases, sales or income received; or as a strategic decision by the investment manager. Maximum cash limits are agreed with managers in their Investment Management Agreements, and managers have the discretion as to how this cash is dealt with. Other cash is held by the Custodian to fund investment draw-downs (e.g. for property investments), or currency hedging outflows.

Cash balances at the Custodian are monitored daily.

6 OTHER ISSUES

6.1 Corporate Governance

The Pensions Committee agree that the adoption of good practise in Corporate Governance will improve the management of companies and thereby increase long term shareholder value.

The Fund votes on all UK, developed Europe, US, Canada and Japanese company holdings. Votes are filed via a third party agent, Manifest Voting Agency, in accordance with a template agreed by the Pensions Committee. The votes cast are reported to the Pensions Committee on a quarterly basis, and this information is available on the Lincolnshire County Council website in the relevant Committee documents.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation of 64 public sector Pension Funds based in the UK. LAPFF exists to promote the investment interests of Local Authority Pension Funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance in the companies in which they invest.

The Fund has produced a Stewardship Code statement (available on the Pension Fund website) in compliance with the Financial Reporting Council's Stewardship code, and encourages its external managers and service providers to produce their own codes.

6.2 Socially Responsible Investing

Whilst the Fund does not have an explicit policy on socially responsible investing (SRI), most of the fund is managed externally by managers who incorporate a strategic commitment to SRI. Their decision-making process on investments takes into account social, ethical, environmental and governance issues because, as investors, they seek strong, sustainable companies with good all-round credentials. Many of these managers are signed up to the UN Principles of Responsible Investment (PRI), which provides a framework for investors to consider environmental, social and corporate governance issues.

6.3 Compliance with the Myners Principles

The Myners report on Institutional Investment in the UK was published in 2001, and included ten principles of good investment practice. The Local Government (management and Investment of Funds) (Amendment) Regulations 2002 required administering authorities to publish the extent to which they complied with these principles.

In 2007, a review was conducted to assess the progress made throughout the pensions industry since the introduction of the Myners principles in 2001. The outcome of this review was reported by the Treasury in 2008, and the ten principles were updated to reflect the findings.

The outcome was a set of six principles, which have been modified in the context of the LGPS, to replace the original ten principles. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require the administering authority to publish the extent to which they comply with these six principles. This is shown at appendix D.

7 CONTACT DETAILS

For further information on any of the subjects contained in the Statement of Investment Principles, please contact:

Jo Ray Pensions & Treasury Manager

Tel: 01522 553656
Email: jo.ray@lincolnshire.gov.uk

Reviewed 16th July 2015 by the Pensions Committee

APPENDIX A – STRATEGIC BENCHMARK

Asset Class	Manager Allocation %	Asset Class Strategic Benchmark %
UK Equities		20.0
Passive - Internally Managed	20.0	
Global Equities		40.0
Enhanced Passive ex. UK– Invesco	20.0	
Active – Neptune	5.0	
Active – Schroders	5.0	
Active – Threadneedle	5.0	
Active – Morgan Stanley	5.0	
Property		11.5
Bonds		13.5
Passive – Blackrock	6.75	
Absolute Return - Goodhart	6.75	
Alternatives		15.0
Absolute Return - Morgan Stanley	15.0	

The Fund has an active currency overlay programme in place with two managers, Record Currency Management and HSBC Trinkaus & Burkhardt, for the Invesco Enhanced Index Global ex UK Equities mandate.

Passive means trying to match the return of a specified index.

Enhanced Passive means trying to outperform an index by a small amount.

Active means trying to outperform an index by a considerable amount, with perhaps little or no regard to the index.

Absolute return means trying to provide a positive return over and above a cash return.

APPENDIX B – INVESTMENT MANAGER ARRANGEMENTS AND OTHER SERVICE PROVIDERS

Manager	Asset Class	Index	Mandate	Relative Targets against index (3yr rolling basis before fees)*	Fee basis
Internal Team	UK Equities	MSCI UK IMI	Passive	+/- 0.5% p.a.	In-house
Invesco	Global ex UK Equities	MSCI World ex UK	Enhanced Passive	+1% p.a.	% of assets and performance fee
Neptune	Global Equities	MSCI AC World	Active	+2% to +4% p.a.	% of assets and performance fee
Schroders	Global Equities	MSCI AC World	Active	+2% to +4% p.a.	% of assets and performance fee
Threadneedle	Global Equities	MSCI AC World	Active	+2% p.a.	% of assets
Morgan Stanley	Global Equities	MSCI World	Active	n/a*	% of assets
Blackrock	Bonds	50% iBoxx Sterling Non Gilt 30% FTS Govt IL > 5yr 20% JPM GBI Global ex UK	Passive	0% p.a.	% of assets
Goodhart	Bonds	3mth LIBOR	Absolute Return	+3% p.a.	% of assets and performance fee
Various Unit Trusts	Property	IPD	Active	Fund specific	% of assets
Various Funds / Fund of Funds	Specialist Property	Fund specific	Active	Fund specific	% of assets
Morgan Stanley	Alternative Investments	3mth LIBOR	Absolute Return	+4% p.a.	% of assets and performance fee

* - The Morgan Stanley Global Franchise strategy seeks to generate attractive long term returns by investing in high quality franchises characterised by dominant intangible assets, high barriers to entry and strong free cash flow generation. To achieve this objective, the investment process focuses on minimising the absolute risks associated with the portfolio holdings. Whilst the portfolio construction process is benchmark agnostic, the strategy is expected to outperform broadly based benchmarks such as the MSCI World Index over a full market cycle with less than average absolute volatility.

OTHER SERVICE PROVIDERS

Service Provider	Mandate	Fee Basis
Currency Overlay **Record Currency Managers** **HSBC Trinkaus & Burkhardt**	Manage the currency risk for a specific Global equity portfolio, to return 1% p.a. on a rolling three-year basis	% of assets
Custodian **JP Morgan**	Custody of all listed assets	Fee based in part on fixed rates per transaction and in part by percentage of assets
Investment Consultant **Hymans Robertson**	Investment advice to Pensions Committee	Indexed rates for specific types of work
Actuary **Hymans Robertson**	Actuarial advice	Indexed rates for specific types of work
Voting Adviser **Manifest**	Advice and vote processing for UK, developed Europe, US, Canada and Japan listed equities	Indexed fixed fee

APPENDIX C – ACTUARIAL ASSUMPTIONS (2013 VALUATION)

Assumption	Derivation	Rate at 31 March 2013	
		Nominal	Real
Price Inflation (CPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date	2.5%	-
Pay increases	Assumed to be 2% p.a. in excess of price inflation	3.8%	1.3%
"Gilt-based" discount rate	The yield on fixed interest (nominal) and index-linked (real) Government bonds	3.0%	0.5%
Funding basis discount rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	4.6%	2.1%

APPENDIX D – COMPLIANCE WITH THE SIX MYNERS PRINCIPLES OF GOOD INVESTMENT PRACTISE

	Principle	Compliance Statement
1	**EFFECTIVE DECISION MAKING** Administering authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	The Pensions Committee of the County Council is delegated with the responsibility for determining the Pension Fund's investment policy, appointing and reviewing managers and advisers, and for considering any other matters relevant to the Fund's management. The Pensions Committee makes decisions after advice from one or more of the Executive Director of Finance and Public Protection, the Fund Actuary and the Independent Advisor. Committee members are encouraged to attend the LGE Fundamentals training course, and are invited to the LGE Annual Conference, to keep up-to date with developments in the Local Government pension world. An annual training plan is agreed by the Pensions Committee, setting out what training will be covered over the coming year and relating it back to the CIPFA Pension Finance Knowledge and Skills Frameworks. Knowledge and skills are acquired and maintained through the regular Pensions Committees, as well as through additional training sessions targeting specific areas and attendance at seminars and conferences.
2	**CLEAR OBJECTIVES** An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the	The overall objective for the Fund is to achieve a return of 1% (currently being reviewed) above the return of the strategic benchmark, per annum, over the long term.

	attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.	The Pension Fund is seeking to ensure that there are sufficient resources available to pay current pensions and to build up assets to provide adequate security to make future pension payments. This is done whilst considering the affordability and sustainability of contributions, both from the employer and the employee, and is achieved by regular actuarial valuations and Asset Liability Modelling. The Fund's Funding Strategy Statement can be found on the Pension Fund's shared website at www.wypf.org.uk.
3	**RISK AND LIABILITIES** In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	The Fund's actuary undertakes a triennial valuation of the Fund, measuring the gap between the Fund's assets and its' liabilities. Interim valuations are also prepared for the larger employers in the Fund. Following each triennial valuation, the Fund's consultant undertakes Asset Liability Modelling to ensure that the investment strategy is fit for purpose. The Fund is a member of Hymans Robertson's Club Vita, which looks at the longevity risk specific to the Lincolnshire Fund.
4	**PERFORMANCE ASSESSMENT** Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	All investment managers are measured against specific targets, which are based on the Fund's bespoke strategic benchmark. Fund and individual investment manager performance is reported to the Pensions Committee on a monthly and quarterly basis. Investment managers report in person to the Pensions Committee at least

		once every year. Officers from the Investment Team regularly discuss performance with all investment managers, and meet with them at least once every year. The results from an independent performance measurement company are reported quarterly and annually to the Pensions Committee. The Pensions Committee formally reviews the strategic asset allocation on a triennial basis, as a minimum.
5	**RESPONSIBLE OWNER** Administering authorities should: • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • Include a statement of their policy on responsible ownership in the statement of investment principles • Report periodically to scheme members on the discharge of such responsibilities.	The Fund's position on Corporate Governance and Socially Responsible Investment (SRI) is set out in the SIP. The Fund has appointed Manifest Voting Agency to undertake voting services. All votes are cast in accordance with a template agreed by the Pensions Committee, and voting is reported quarterly to the Committee. The Fund has signed up to the Financial Reporting Council's Stewardship code, and a statement is on the Fund's website. The individual fund managers' decision-making process on investments takes into account social, ethical, environmental and governance issues because, as investors, they seek strong, sustainable companies. Many of our managers are signed up to the UN Principles of Responsible Investment (PRI), which provides a framework for investors to consider environmental, social and corporate governance issues.
6	**TRANSPARENCY AND REPORTING** Administering authorities should: • Act in a transparent manner,	The Fund's Governance Policy and

	communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives • Provide regular communication to scheme members in the form they consider most appropriate.	Compliance Statement, Communication Policy Statement and Stewardship Code Statement can be found on the Pension Fund's shared website at www.wypf.org.uk. The Lincolnshire Fund has an Employer's Forum, to ensure that all employers can be updated with the issues concerning the Fund, and can feedback ideas to the Fund. This meets twice a year, and an annual employer meeting is also held. The Fund produces an Annual Report and Accounts, which can also be found on the Pension Fund's shared website at www.wypf.org.uk. The Fund communicates regularly to all scheme members. The Communication Policy detailing scheduled communication can be found on the Pension Fund's shared website at www.wypf.org.uk.

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

LINCOLNSHIRE COUNTY COUNCIL

LOCAL GOVERNMENT PENSION SCHEME

Lincolnshire County Council, as administering authority (and Scheme Manager) for the Local Government Pension Scheme, is required by statute to publish a governance compliance statement. The Council has elected to do this by publishing a concise Governance Policy Statement and then to outline, as required by legislation, the extent to which that statement and the underlying practices demonstrate compliance with best practice guidance as published by the Department for Communities and Local Government. This latter aspect constitutes the Governance Compliance Statement.

The Governance Policy and Compliance Statements are set out in turn below.

GOVERNANCE POLICY STATEMENT

The County Council has delegated its pension fund administering authority functions to a Pensions Committee and the Executive Director of Finance and Public Protection. The Public Service Pensions Act (2013) required all administering authorities to introduce a local Pension Board to assist the Scheme Manager.

Pensions Committee

The Pensions Committee has 11 members in total, 8 of which are County Councillors and 3 co-opted members. All the members have full voting rights.

The 8 County Councillors represent the political balance of the Council.

The 3 co-opted members comprise:

- 1 representative from the other local authorities within the County,
- 1 representative for non Local Authority employers, and
- 1 Trade Union representative, reflecting the interests of scheme members.

Under the County Council's Constitution, the Pensions Committee exercises the following functions, to;

- set investment policies for the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, drawing upon appropriate professional advice,
- appoint and review the performance of all Fund Managers and associated professional service providers,

- approve the Annual Report and Statement of Accounts of the Fund,

- consider any other matters relevant to the operation and management of the fund, and

- respond to any relevant consultation impacting upon the Local Government Pension Scheme.

The Pensions Committee has four regular meetings, two manager monitoring meetings and two training meetings each year. In addition, one or more special meetings may be held to appoint new investment managers or other professional advisers.

The Pensions Committee's regular quarterly meetings are open to the public and agendas, reports and minutes are made available through the County Council's website. An annual report on the management of the fund is provided to all scheme employers with an abbreviated version distributed to scheme members.

Executive Director of Finance and Public Protection

The Executive Director of Finance and Public Protection is responsible for the day-to-day administration of the benefits and assets of the pension scheme, specifically to:

- authorise payment of statutory pensions and allowances,

- undertake or arrange for all necessary transactions associated with the management of the assets of the Pension Fund, and

- to agree appropriate means of securing external representation on the Pensions Committee, in consultation with relevant external bodies.

Lincolnshire Pension Board

The Lincolnshire Pension Board will ensure the Scheme Manager effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pensions Regulator. The Board will also ensure that it complies with the knowledge and understanding requirements in the Pensions Regulator's Code of Practice.

In addition to the local structure, the Lincolnshire Pension Board is accountable to the Pensions Regulator and the National Scheme Advisory Board.

The Pensions Regulator will also be a point of escalation for whistle blowing or similar issues (supplementary to the whistle blowing policy and anti- fraud and corruption policy operated by the administering authority, which operate to include all of the functions of the Council and its advisers).

The role of the Lincolnshire Pension Board is set out below:

- Assist Lincolnshire County Council as Scheme Manager;

- To secure compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;

- To secure compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator; and

- In such other matters as the scheme regulations may specify.

The terms of reference for the Board are available on the Funds shared website with WYPF at www.wypf.org.uk.

The Lincolnshire Pension Board consists of five members:

- two employer representatives (to represent all employers within the Scheme)
- two scheme members representatives (to represent all members of the Scheme (active, deferred and pensioner))
- an independent member (to act as Chairman)

The employer and scheme member representatives can vote. The Independent Chairman cannot vote.

The Lincolnshire Pension Board has a minimum of four meetings each year. In addition, Board members must attend regular training events.

The Lincolnshire Pension Board meetings are open to the public and agendas, reports and minutes are made available through the Funds shared website with WYPF at www.wypf.org.uk. An annual report on the work of the Board is included in the Fund's annual report, which is published on the Council's website and provided to all scheme employers with an abbreviated version distributed to scheme members.

Any complaint or allegation of breach of due process brought to the attention of the Lincolnshire Pension Board shall be dealt with in accordance with the Code of Practice as published by the Pensions Regulator.

Any questions about the governance of the Lincolnshire Local Government Pension Fund should be addressed to Jo Ray, Pensions & Treasury Manager, Finance and Asset Management. Jo.ray@lincolnshire.gov.uk, telephone 01522 553656.

Reviewed 16th July 2015 by the Pensions Committee

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
A - Structure	**a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.**	Yes	See terms of reference for the Pensions Committee in the Policy Statement above.
	b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Partial	The Council has not, to date, seen the need to establish a secondary committee/panel. It will, however, keep this aspect under review and does establish working groups from the Committee to deal with specific issues. Pensioner and deferred beneficiaries are not presently represented directly on the Committee – see B a. below.
	c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not Relevant	As discussed above, no such forum has been established as yet.
	d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not Relevant	As discussed above, no such forum has been established as yet.
B - Representation	**a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :-**	Partial	The Committee has 11 members, all with voting rights, of which 8 are County Council Councillors. Other members include one representing other local authorities (district

	• **Employing authorities (including non-scheme employers, e.g. admitted bodies);** • **Scheme members (including deferred and pensioner scheme members),** • **Where appropriate, Independent professional observers, and** • **Expert advisors (on an ad hoc basis)**		councils) and one representing small scheduled bodies, currently from an Internal Drainage Board. Member related issues are dealt with by having a trade union representative on the Committee. Given the statutory guarantee that exists in respect of member benefits, this is felt to be sufficient representation. The Council will review this aspect periodically. The Committee have appointed an independent investment advisor who attends all Committees.
	b. That where lay members sit on the main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the Committee have full voting rights and equal access to information, training, etc.
C – Selection and Role of Lay Members	**a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.**	Yes	Nationally customised training is available to all members and this is supplemented by locally provided induction sessions for new members of the Committee. In addition, the Committee agrees an annual training plan with specific topics covered on set dates.
	b. That at the start of any meeting, committee members are invites to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	The declaration of member's interests is a standard item on the agenda of the Pensions Committee.
D - Voting	**a. That the policy of individual administering authorities on voting**	Yes	Full voting rights are given to all members of the Committee.

	rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.		
E – Training/Facility Time/Expenses	**a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.**	Yes	See C a. above. All expenses incurred by members of the Pensions Committee are either met by the body they represent or directly by the Fund itself.
	b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	All members are treated equally in every respect.
	c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	The Committee agrees an annual training plan with specific topics covered on set dates. All training undertaken by members of the Pensions Committee is recorded and additional training opportunities are regularly brought to the attention of the Committee, either in monthly update letters or in reports taken to Committee.
F – Meetings - Frequency	**a. That an administering authority's main committee meet at least quarterly.**	Yes	See Compliance Policy Statement above.
	b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised	Not Relevant	As discussed above, no such forum has been established as yet.

	with the dates when the main committee sits.		
	c. That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not Relevant	Three added members exist and have equal rights with all mainstream members in all respects.
G – Access	**a. That, subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.**	Yes	All members are treated equally in every respect.
H – Scope	**a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.**	Partial	The terms of reference of the Pensions Committee were changed a few years ago to include benefit related matters which up until that time had been dealt with elsewhere within the governance arrangements of the Council. At present the Council does not believe there is a strong argument in favour of appointing an independent professional observer on administration/governance issues in addition to the independent advisor already in place in respect of investment matters.
I - Publicity	**a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way**	Yes	The County Council publishes the many governance documents and communicates regularly with employers and scheme members.

	in which the scheme is governed, can express an interest in wanting to be part of those arrangements.		

COMMUNICATION POLICY STATEMENT

LINCOLNSHIRE COUNTY COUNCIL

LOCAL GOVERNMENT PENSION SCHEME

Lincolnshire County Council, as administering authority for the Local Government Pension Scheme, is required by statute to publish a communications policy statement. The Fund communicates with over 180 employers and over 65,000 scheme members, in addition to a large number of other interested parties.

The Regulations governing the Local Government Pension Scheme are laid before parliament by the Department of Communities and Local Government. One of the key requirements they make on all Administering Authorities is to prepare, maintain and publish a written statement setting out the information below:-

a) The Fund must now prepare, maintain and publish a written statement setting out its policy concerning communications with

- members;
- representatives of members;
- prospective members; and
- employing authorities.

b) In particular, the statement must set out the Fund's policy on

i. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities (including non-Scheme Employers);
ii. the format, frequency and method of distributing such information or publicity; and
iii. the promotion of the Scheme to prospective members and their employing authorities.

The day-to-day administration of the Local Government Pension Scheme is carried out on behalf of the County Council by West Yorkshire Pension Fund (WYPF), in a shared service arrangement. Communication material is produced by WYPF in collaboration with the Pensions Team in Lincolnshire. All arrangements for forums, workshops and meetings covered within this statement are made in partnership with WYPF.

The Fund communicates with all stakeholders, as defined in specific legislation, and listed above.

Communication is increasingly distributed via electronic means, with all documents available on a dedicated Pensions website (www.wypf.org.uk).

WYPF provide a dedicated enquiry phone number (01274 434999) and email address (wypf@bradford.gov.uk) for pension related enquiries. The appropriately qualified staff from the County Council, WYPF or external advisers will deliver presentations to groups of stakeholders and conduct individual meetings.

The Fund's objective in respect of communication is to comply with relevant legislation and ensure relevant individuals and employers receive accurate and timely information about their pension arrangements. Methods of communication are set out in the table below.

Communications events 2015 – 2016 - Scheme Members

Communication	**Format**	**Frequency**	**Method of Distribution**
LGPS pensioner members (including representatives of retired members)	Newsletter	2 per year	Mail
	Annual meeting	1 per year	Meeting
	www.wypf.org.uk	Constant	Web
	Contact centre	8.45 to 4.30 Monday to Friday	Telephone E-mail
	County Offices	8.00 to 5.00 Monday to Friday	Face to face
	Pension advice	As and when net pension varies by 25p or more	Mail
	P60	1 per year	Mail
	Social media	Constant	Web
LGPS deferred members (including representatives of deferred members)	Newsletter	1 per year	Mail
	Annual benefit statement	1 per year	Mail
	Annual meeting	1 per year	Meeting
	www.wypf.org.uk	Constant	Web
	Contact Centre	8.45 to 4.30 Monday to Friday	Telephone E-mail
	County Offices	8.00 to 5.00 Monday to Friday	Face to face
	Social media	Constant	Web
LGPS pensioner members (including representatives of retired members)	Newsletter	2 per year	Mail
	Annual meeting	1 per year	Meeting
	www.wypf.org.uk	Constant	Web
	Contact centre	8.45 to 4.30 Monday to Friday	Face to face Telephone E-mail

	County Offices	8.00 to 5.00 Monday to Friday	Face to face
	Pension advice	As and when net pension varies by 25p or more	Mail
	P60	1 per year	Mail
	Social media	Constant	Web

Communications events 2015 – 2016 - Councillors

Communication	Format	Frequency	Method of Distribution
Councillor active members (including representatives of active members & prospective members)	Newsletter	2 per year	Mail
	Annual meeting	1 per year	Meeting
	www.wypf.org.uk	Constant	Web
	Contact centre	8.45 to 4.30 Monday to Friday	Telephone E-mail
	County Offices	8.00 to 5.00 Monday to Friday	Face to face
	Pension advice	As and when net pension varies by 25p or more	Mail
	P60	1 per year	Mail
	Social media	Constant	Web

Communications events 2015 – 2016 - Employers

Communication	Format	Frequency	Method of Distribution
Employer s	Pension Fund Representatives	8.30 to 4.30 Monday to Friday	Face to face Telephone E-mail
	Website	Constant	Web
	Fact card	1 per year	Mail
	Fact sheets	Constant	Web
	Employer guide	Constant	Web/electronic document

	Ad hoc training	As and when required	Face to face
	Update sessions	2 per year	Meeting
	Annual meeting	1 per year	Meeting
	Manuals/toolkits	Constant	Web/electronic document
	Pension Matters and Xtra	12 per year and as and when required	E-mail
	Social media	Constant	Web
	Ad hoc meetings	As and when required	Face to face
	Workshops	10 per year	Face to face

Reviewed 16th July 2015 by the Pensions Committee

Lincolnshire Pension Fund
Stewardship Code Statement

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Lincolnshire Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum.

Voting is carried out at Fund level, rather than by appointed managers, using a third party voting agency, Manifest. A voting template has been agreed by the Pensions Committee, and voting is carried out globally.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. These are discussed prior to the appointment of a manager, and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, Pensions Committee members are required to make declarations of interest prior to committee meetings.

Principle 3 - Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing our externally managed equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. Reports on voting and engagement activity are received by the Pensions Committee on a quarterly basis.

In addition, the Fund receives an 'Alerts' service from the Local Authority Pension Fund Forum, which highlights corporate governance issues of concern at investee companies.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.

However, on occasion, the Fund may itself choose to escalate activity, principally through engagement activity through the Local Authority Pension Fund Forum.

The Fund participates in shareholder litigation through its contract with Pension Vault, using the services of IPS (Institutional Protection Services).

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

Responsibility for the exercise of voting rights is maintained at Fund level, and not delegated to the Fund's appointed asset managers. The Fund exercises all votes for its UK, developed Europe, US, Canada and Japanese equity holdings. Votes are cast in accordance with a template that represents best practice corporate governance standards, that is agreed by the Pensions Committee. Advice on best practice is supplied by the voting agency Manifest. This includes consideration of company explanations of compliance with the Corporate Governance Code. Reports are presented to the Pensions Committee on a quarterly basis on how votes have been cast, and controversial issues are often discussed at committee meetings.

The Fund participates in stock lending through its Custodian, JPMorgan. Stock is not recalled ahead of company meetings to allow voting on the holdings participating in the stock lending programme.

The quarterly reports that include high level voting activity are available on the Council's website, alongside all committee reports.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports annually on stewardship activity through a specific section on voting and engagement activity undertaken during the year, in the Pension Fund Report and Accounts. This includes details of activity undertaken through the Local Authority Pension Fund Forum. Quarterly reports that are taken to the Pensions Committee include high level voting activity and are available on the Council’s website, alongside all committee reports.

As voting is not delegated to managers, they are not asked to obtain an independent report on their voting and engagement processes.

Reviewed 16th July 2015 by the Pensions Committee

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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:	**16 July 2015**
Subject:	**Pension Fund Risk Register**

Summary:

This report presents the Pension Fund Risk Register to the Committee for annual review.

Recommendation(s):

That the Committee agree the risk register.

Background

1 Introduction

1.1 Committee members will understand the importance of looking at risk as part of the normal Member training that the Council provides. Given the size and importance of the Pension Fund, it is best practice to have a separate risk register considering the various risks and how they can be mitigated, if at all possible.

1.2 The risk register is reviewed annually at this Committee, and any additional changes or updates are reported in the quarterly Fund Update report.

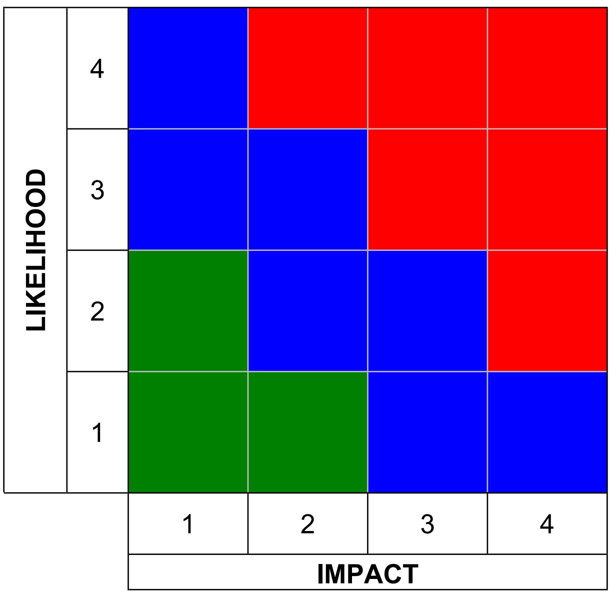
1.3 Appendix A is the current Pension Fund risk register. 20 risks have been identified, along with the controls in place to mitigate them.

1.4 The latest additions to the register are in relation to the ending of the contract with Mouchel and the transition to the new pensions administration provider, West Yorkshire Pension Fund. The pensions administration change in service provider is one stream of the FDSS (Future Delivery of Support Services) programme, and has its own risk register as part of the project documentation, and is reviewed regularly by the Project Board.

1.5 The risk register follows the standard format of the Council's risk registers. To assist in understanding the risk register, the first risk on the register and the associated columns are described below:

- ID – an identifying number
- Linked to objective – the Fund's objectives are detailed at the top of the register
- Source – what the risk is
- Consequences – the potential outcomes
- Risk owner – person responsible overall
- Existing controls – what is already in place to reduce either the impact or the likelihood
- Status – the effect that the controls in place have, either good, fair or poor
- Owner – who is responsible for the controls
- Current Risk score – L – Likelihood and I – Impact (explained in the table below)
- Overall current risk score – explained in the table below

1.6 The risk scores are calculated using the risk matrix below:



For the **likelihood**, there are four possible scores:

1 **HARDLY EVER**	2 **POSSIBLE**	3 **PROBABLE**	4 **ALMOST CERTAIN**
Has never happened No more than once in ten years Extremely unlikely to ever happen	Has happened a couple of times in last 10 years Has happened in last 3 years Could happen again in next year	Has happened numerous times in last 10 years Has happened in last year Is likely to happen again in next year	Has happened often in last 10 years Has happened more than once in last year Is expected to happen again in next year

For the **impact**, there are four possible scores, but considered across four areas:

	SERVICE DELIVERY Core business, Objectives, Targets	**FINANCE** Funding streams, Financial loss, Cost	**REPUTATION** Statutory duty, Publicity, Embarrassment	**PEOPLE** Loss of life, Physical injury, Emotional distress
4 **CRITICAL** Disastrous impact, Catastrophic failure	Prolonged interruption to core service. Failure of key strategic project.	Severe costs incurred Budgetary impact on whole Council Impact on other services Statutory intervention triggered	National media interest seriously affecting public opinion	Loss of life Multiple casualties
3 **MAJOR** Significant impact, Disruption to core services	Key targets missed. Some services compromised	Significant costs incurred Re-jig of budgets required Service level budgets exceeded	Local media interest Comment from external inspection agencies Noticeable impact on public opinion	Serious injuries Traumatic / stressful experience Exposure to dangerous conditions

2 **MINOR** Minor impact, Some degradation of non-core services	Management action required to overcome short-term difficulties	Some costs incurred Minor impact on budgets Handled within management responsibilities	Limited local publicity Mainly within local government community Causes staff concern	Minor injuries or discomfort Feelings of unease.
1 **NEGLIGIBLE** No noticeable impact	Handled within normal day-to-day routines	Little loss anticipated	Little or no publicity Little staff comment	

1.7 Once the likelihood and the impact are assessed, this produces the overall risk score e.g. likelihood = 3, impact = 2 then the risk score is 6. This means that it would fall into the blue area of the matrix, and is a higher concern than if it were in the green area. The Committee would need to be satisfied that they were comfortable with this level of risk, and that no further controls were required. There will always be some risks that cannot be fully mitigated.

Conclusion

1.8 It is considered best practice to have identified the high level risks associated with managing a Pension Fund and to have put appropriate controls in place. The risk register is brought annually before the Pensions Committee for review and approval.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Pension Fund Risk Register

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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ENTER SUBJECT HERE

RISK REGISTER

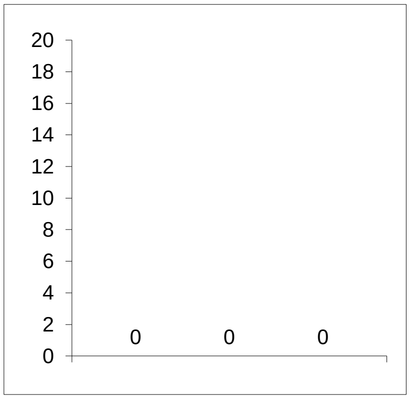
EXECUTIVE SUMMARY

ENTER DATE HERE

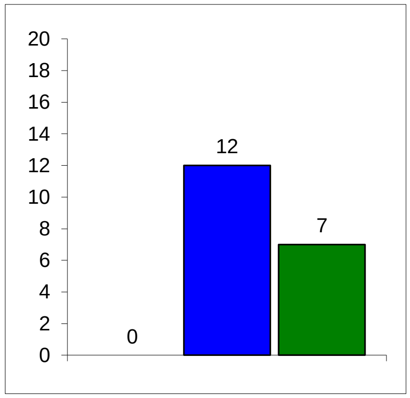
ENTER OWNER HERE

Draw Charts

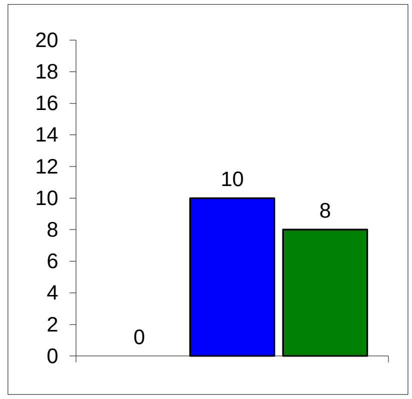
INHERENT EXPOSURE (NO. OF RISKS)



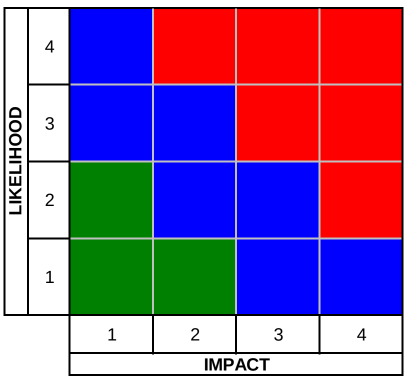
CURRENT EXPOSURE (NO. OF RISKS)



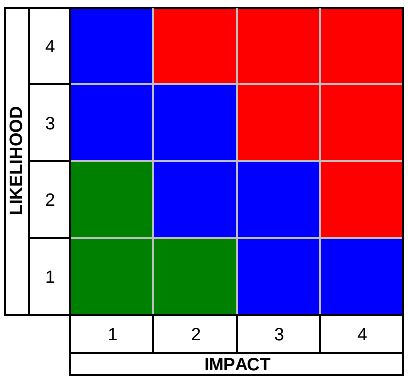
TARGET EXPOSURE (NO. OF RISKS)



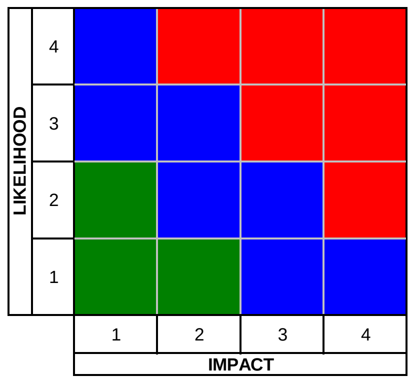
INHERENT EXPOSURE (RISK ID)



CURRENT EXPOSURE (RISK ID)



TARGET EXPOSURE (RISK ID)



KEY SOURCES OF RISK
1

PRIORITY ACTIONS REQUIRED	OWNER
1	

Lincolnshire COUNTY COUNCIL

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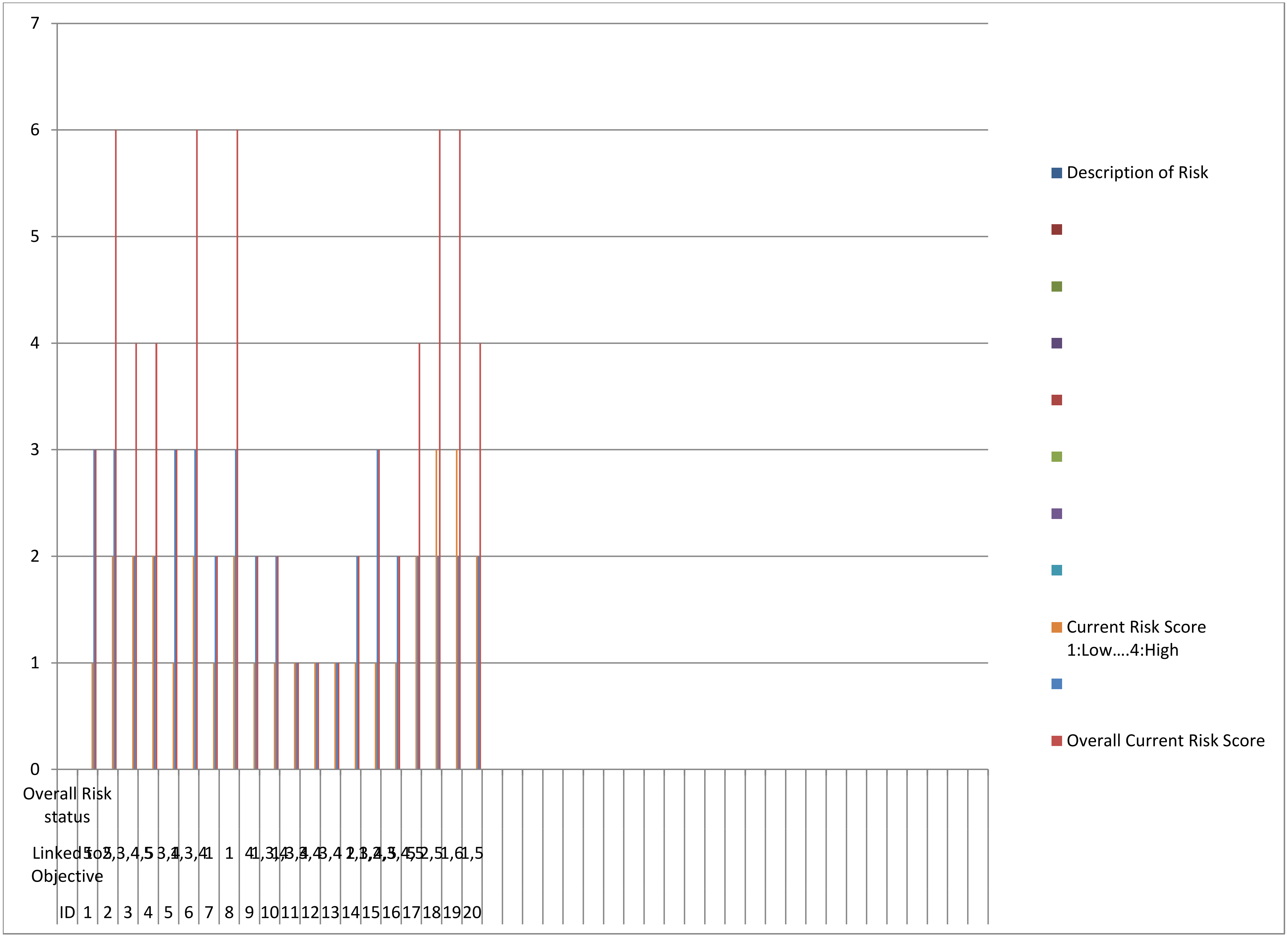
Investments

RISK REGISTER: CHANGE LOG

No	Date	Author	Risk Ref	Item
1	01/09/2008	Debbie Voakes	all	all
2	27/10/2008	Debbie Voakes	all	all

Changes	Comments
Risk workshop and new risks identified	Some further work needed to transfer old risks onto new register
Risk review and finalisated wording / ownership	All wording agreed and review in Jan as part of service plan process



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Description of Risk
Current Risk Score 1:Low....4:High
Overall Current Risk Score
Overall Risk status
Linked
Objective
ID 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

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Pension Fund
RISK REGISTER
Jo Ray

Areas covered

- **Pension Fund Governance & Strategy**
- **Pensions Administration**
- **Investments (Internally and externally managed)**

Service Objectives

1. **Ensure there are enough assets to cover liabilities in the long term**
2. **To prepare the final accounts for the Pension Fund to the agreed timetable**
3. **To manage the internal portfolios to produce returns within the targeted risk and return levels**
4. **To monitor the external managers to ensure they are acting within the IMA**
5. **To work in partnership with West Yorkshire Pension Fund to ensure an effective and efficient Pensions Administration Service is provided**
6. **To ensure that there is sufficient liquidity available to pay drawdowns on the Funds commitments and pensions due**

Sort by Risk ID

Sort by Current Overall Risk Score

ID	Linked to Objective	Overall Risk status	Description of Risk: Source (Lack of….Failure to ….)	Description of Risk: Consequences (Results in ….Leads to ….)	Risk Owner	Existing Controls	Status	Owner	Current Risk Score 1:Low….4:High: L	Current Risk Score 1:Low….4:High: I	Overall Current Risk Score
1	5		Contributions of payments of pensions ● Non-collection ● Miscoding ● Non-payment	● If it doesn't get discovered it effects employers FRS17/IAS19 & Valuation,final accounts cashflow in pension fund	Jo Ray	● Employer contribution monitoring ● Additional monitoring at specific times ● Improved employer contribution forms ● Annual year end checks ● Altair employer module ● Ongoing employer training	Good	Jo Ray	1	3	3
2	5		Inability to deliver the administration service either resource or finance in accordance with the agreement	● Members of the pension scheme not serviced ● Statutory deadlines not met	Jo Ray	● Performance Indicators ● General management indicators ● Regular meetings with WYPF managers ● Horizon Scanning ● Internal Audit ● Service Level Agreement ● Response to Audit Reports in the form of ● action plans ● Benchmarking & performance data, Task ● management ● Complaint reporting ● Customer Surveys	Good	Jo Ray	2	3	6
3	2,3,4,5		Loss of key staff both LCC & WYPF and loss of knowledge & skills	● Inability to deliver service ● Damaged reputation ● Pensioners not paid	Jo Ray	● Diversified staff / team ● Look at other authorities with best practices to ensure LCC positions still desirable ● Attendance at pensions user group (WYPF) ● Procedural notes which includes new systems as and when (LCC & WYPF) ● Section meetings / appraisals (LCC & ● WYPF) ● Regular team building (LCC & WYPF)	Fair	Jo Ray	2	2	4

ID	Linked to Objective	Overall Risk status	Description of Risk Source (Lack of….Failure to ….)	Consequences (Results in ….Leads to ….)	Risk Owner	Existing Controls	Status	Owner	Current Risk Score 1:Low….4:High L	I	Overall Current Risk Score
4	5		Paying Pensions correctly	• Damaged reputation • Financial loss	Jo Ray	• Internal control through audit process • Constant monitoring / checking • Robust error logs • Task management • Vitacleansing • Tracing Bureau • Data Cleansing	Good	Jo Ray	2	2	4
5	3,4		Custodian bank (J P Morgan) goes bust	• Inability to trade internal & external • No reconciliation or accounting service • Losses to cash account	Jo Ray	• Service level agreement with termination clause • Regular Meetings • Regular reports SAS 70/AAF0106 • Other Custodian options - review markets	Good	Jo Ray	1	3	3
6	1,3,4		Poor investment performance from managers	• Lower funding level • Increase in employer contributions	Jo Ray	• Performance measurement • Managers report monthly • Reporting to pensions committee • Diversification across managers	Good	Jo Ray	2	3	6
7	1		Assets not enough to meet liabilities	• Lower funding level • Increase in employer contributions		• Valuation • Asset Liability Study • Quarterly reporting of funding level • Investment Consultant		Jo Ray	1	2	2
8	1		Required returns not met due to poor strategic allocation	• Damaged reputation • Increase in employer contribution	Jo Ray	• Consultant • Triennual review • Performance monitoring • Monthly Members letter • Reporting to Pensions Committee	Good	Jo Ray	2	3	6
9	4		Non complience of external managers	• Damaged reputation • Financial loss	Jo Ray	• FSA regulated • Manager due diligence • Investment Management Agreement • Manager monitoring • Report quarterly to team • Review every 3 years • Qualified officers (internal & external Fund Managers) • Additional managers meetings • Termination clause	Good	Jo Ray	1	2	2
10	1,3,4		Financial regulations (e.g LCC / CIPFA) not adheared to / legal guidelines not followed	• LCC may incur penalties • Damaged reputation	Jo Ray	• Regulation of Fund Managers AAF 01/06 & SAS 70 & equivalents • Contracts in place setting out parameters Internal staff are appropriately qualified • and aware of policies and procedures Pension Fund managed in line with • regulations Membership of CIPFA Pensions Network, • NAPF etc.	Good	Jo Ray	1	2	2
11	1,3,4		Financial decisions cannot be proven	• Unable to explain decisions made in the event of challenge	Jo Ray	• Performance monitoring and reporting • Monthly and quarterly reporting	Good	Jo Ray	1	1	1

			Description of Risk						Current Risk Score 1:Low….4:High		
ID	Linked to Objective	Overall Risk status	Source (Lack of….Failure to ….)	Consequences (Results in ….Leads to ….)	Risk Owner	Existing Controls	Status	Owner	L	I	Overall Current Risk Score
12	3,4		Personal gain (internal or external) through: ● Personal dealing ● Fraud or misappropriation of funds ● Manipulating share price	● Financial loss ● Damaged reputation	Jo Ray	● Protocol regarding personal dealing ● Declaration of interests ● Investment Management Agreements with Fund Managers ● Vetting of new Fund Managers through tender process ● Access restricted regarding transfer of funds - authorised signatories required ● Regulation of Fund Managers ● Insurance arrangements ● Code of Conduct ● Separation of duties	Good	Jo Ray	1	1	1
13	3,4		Deal brokered is incorrect	● Actual trade value differ to those expected	Jo Ray	● Access to real time information ● Broker used - confirmation of price ● Contract Note received	Good	Jo Ray	1	1	1
14	2		Financial Statements of Pension Fund incorrect or late	● Damaged reputation ● Qualified accounts	Jo Ray	● Agreed timetable ● Externally audited ● Qualified and trained staff ● Closedown procedures	Good	Jo Ray	1	2	2
15	1,3,4,5		Fraud risk not managed	● Financial loss ● Damaged reputation	Jo Ray	● Separation of duties ● Internal & external audit ● Monthly reporting ● Reconcilliation procedures	Good	Jo Ray	1	3	3
16	1,2,3,4,5		Governance	● Financial loss ● Damaged reputation ● Legal issues	Jo Ray	● Governance compliance statement ● Pension Committee reporting ● Monthly member letter ● Statement of Investment Principles ● Funding Strategy Statement ● Trained Committee members and officers ● Pension Board	Good	Jo Ray	1	2	2
17	5		Scheme - communication	● Damaged reputation ● Incorrect payments/receipts ● Maladministration	Jo Ray	● Employer forum ● Annual employers meeting ● Pensions website ● PFR posts	Good	Jo Ray	2	2	4
18	2,5		Increase in admitted bodies/academies	● Increased workload ● Incorrect rates paid ● Employer covenants	Jo Ray	● Admission agreements ● Bonds ● Contribution monitoring ● Early communication	Good	Jo Ray	3	2	6
19	1,6		Maturing Fund	● Cashflow issues ● Increasing employer rates ● Illiquid investments	Jo Ray	● Investment strategy ● Cashflow monitoring ● Discourage opt outs ● New scheme 50/50 option ● Communication	Fair	Jo Ray	3	2	6
20	1,5		New Pension Freedom and Choice rules	● impact on cashflow ● Process not followed ● Reduction in funding level	Jo Ray	● Information on website ● Cashflow monitoring ● Information sent to members requesting CETV quotes	Good	Jo Ray	2	2	4
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			Description of Risk						Current Risk Score 1:Low….4:High		
ID	Linked to Objective	Overall Risk status	Source (Lack of….Failure to ….)	Consequences (Results in ….Leads to ….)	Risk Owner	Existing Controls	Status	Owner	L	I	Overall Current Risk Score
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Likelihood & Impact

1 Hardly Ever
2 Possible

ID	Linked to Objective	Overall Risk status	Description of Risk: Source (Lack of….Failure to ….)	Description of Risk: Consequences (Results in ….Leads to ….)	Risk Owner	Existing Controls	Status	Owner	Current Risk Score 1:Low….4:High: L	Current Risk Score 1:Low….4:High: I	Overall Current Risk Score

3 Probable
4 Almost certain

Control Status

★ Good

● Fair

▲ Poor

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ENTER SUBJECT HERE
OPPORTUNITY REGISTER
ENTER DATE HERE
ENTER OWNER HERE

Lincolnshire COUNTY COUNCIL

Opportunity ID	Description	How can we make this happen?	Owner	Review Date
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Opportunity ID	Description	How can we make this happen?	Owner	Review Date
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