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County Offices
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LN1 1YL

30 September 2015

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 8 October 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
District Councillor J Summers, District Councils Representative

PENSIONS COMMITTEE AGENDA
THURSDAY, 8 OCTOBER 2015

11	**Performance Measurement Annual Report** *To receive a report by Nick Rouse (Investment Manager), which sets out the Pension Fund's longer term investment performance, for the period ending 31st March 2015*	(Pages 113 - 122)
12	**CONSIDERATION OF EXEMPT INFORMATION** **In accordance with Section 100(A)(4) of the Local Government Act 1972, the following agenda item has not been circulated to the press and public on the grounds that it is considered to contain exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended. The press and public may be excluded from the meeting for the consideration of this item of business.**	
13	**Report on Overpayments** *To receive a report by Jo Ray (Pensions and Treasury Manager), which provides details on the pension overpayments that were found as part of the transition to WYPF, and updates the Committee on the current position*	(Pages 123 - 126)

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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

PENSIONS COMMITTEE
16 JULY 2015

PRESENT: COUNCILLOR M G ALLAN (CHAIRMAN)

Councillors 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) and District Councillor J Summers (District Councils Representative).

Officers in attendance:- Yunus Gajra (Pensions Administrator, West Yorkshire Pension Fund), Jo Ray (Pensions and Treasury Manager), Nick Rouse (Investment Manager), Catherine Wilman (Democratic Services Officer).

Also in attendance:- Peter Jones (Independent Advisor).

5 APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS

Apologies were received from Mr J Grant (Small Scheduled Body Representative).

6 DECLARATIONS OF MEMBERS' INTERESTS

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 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.

7 MINUTES OF PREVIOUS MEETINGS OF THE PENSIONS COMMITTEE HELD ON 9 APRIL AND 15 MAY 2015

RESOLVED

That the minutes of the meetings held on 9 April and 15 May 2015, be approved by the Committee and signed by the Chairman as a correct record.

8 INDEPENDENT ADVISOR'S REPORT

A report by the Committee's Independent Advisor was considered which provided a market commentary on the current state of global investment markets.

The main topic at the present time was the situation in Greece, however this had not had as much of an effect on the Eurozone as originally expected.

The IMF forecast across the world was normally above 5% per annum, however the forecast for this year was 3.3%. It was likely that the remainder of the decade would see low growth and low inflation.

RESOLVED

That the report be noted.

9 PENSION FUND UPDATE REPORT

Consideration was given to a report which updated the Committee on Fund matters over the quarter ending 31 March 2015.

It was noted that the recommendation be revised to defer the approval of the revised strategic benchmark until the October meeting.

Over the period covered by the report, the Fund rose in value to £1,751.7m on 31 March 2015.

Councillor N I Jackson updated the Committee on the work of the Local Authority Pension Fund Forum (LAPFF). The LAPFF had continued to grow in a positive way and voting had been supported by other shareholders. There had been a good discussion on climate change and energy provision.

An update on asset allocation was received and it was noted that a new consultation would be released later this year by DCLG. If funds did not meet certain, as yet unknown, criteria, they could be forced to use Government approved investment vehicles. If the criteria was based on size, then potentially the Fund would be required to pool investment if it was below a certain figure. Having discussed the issue with Hymans Robertson, it appears the Fund is in a good position, despite not knowing the criteria. There were concerns that this was a tool for the Government to acquire money from pension funds.

It was reported that the Lincolnshire Pension Board had been setup, with training and an inaugural meeting organised, ahead of many other authorities. Following a consultation requesting applications, the membership of the Board was selected by the Executive Director for Finance and Public Protection. The Board membership would be as follows:

- 1 Independent Chair;
- 2 Scheme Member Representatives;
- 2 Employer Representatives.

As the biggest employer in the Fund, Lincolnshire County Council was given one of the employer positions.

The Pensions and Treasury Manager would provide information (but not advice) to the Board and Democratic Services would provide administrative support.

The Committee requested that a report be brought to the next Committee meeting on the Board and how it would operate going forward, in particular the relationship between the Board and the Committee.

Any costs incurred by the Board would be borne by the Fund, however any external advice costs would have to be approved by the Executive Director of Finance and Public Protection.

The Board's purpose was not to scrutinise the Committee, but to ensure the decisions made by them followed approved policies, and that the relevant governance requirements were in place. The relationship between the two would not be confrontational, but more of an assisting role.

This report had asked the Committee to approve the amendment to the objective of the Fund to outperform the strategic benchmark by 0.75%, over the long term. The Committee requested that they needed more information on this, before they could make a decision. Hymans Robertson would be present at the next Committee meeting in October 2015 to provide further information.

RESOLVED

1. That the report be noted;

2. That the agreement of the revised strategic benchmark be deferred to the October meeting of the Committee pending further information.

10 <u>INVESTMENT MANAGEMENT REPORT</u>

The Committee considered a report which covered the management of the Lincolnshire Pension Fund assets over the period from 1 January to 31 March 2015. The Investment Manager summarised the report.

There had been no changes to manager ratings since the previous committee.

The Fund's client representative from Neptune was due to change and Officers had set up a meeting with the manager in August 2015 to discuss this. There had been a number of structure changes within the investment and research team at Neptune, which Officers felt was a positive to future performance.

Hymans Robertson currently had Schroders "on watch" and would be meeting representatives from Schroders in September 2015.

RESOLVED

That the report be noted.

11 PENSION ADMINISTRATION REPORT

The Committee considered a report by the Pensions Administrator at West Yorkshire Pension Fund (WYPF), which provided an update of the management of the Lincolnshire Pension Fund administration service, over the period from 1 January to 31 March 2015.

The transition period had gone well, however there had been a number of issues which had impacted on performance and extended the transfer period.

As part of their ISO 9000 accreditation, WYPF were responsible for logging all faults and complaints and ensuring all corrective and preventative action was taken. Two complaints had been received regarding the payslips issued by WYPF, the information on which was not as detailed as ones previously issued by Lincolnshire's Fund. However, WYPF believed that their payslips were easier to understand without too much detailed information on them.

An additional two complaints had been received from people who had struggled to get through to the call centre. This issue had now been rectified with the addition of two extra phone lines.

During the transfer the priority had been to ensure pensioners felt the least impact.

As part of the transition to WYPF, a number of over-payments and under-payments had been referred to the Pensions and Treasury Manager, and these had been addressed. Any new errors found would be dealt with within the normal WYPF processes.

Data cleansing had been ongoing since the transfer, addressing any issues with the data from Lincolnshire Pension Fund.

WYPF had held an annual general meeting for its members, which had been well attended. Discussion took place on whether to hold a similar event in Lincolnshire. The Committee asked the Pensions and Treasury Manager to investigate this with associated costs and present findings at the next meeting.

RESOLVED

1. That the report be noted;

2. That the Pensions and Treasury Manager investigate the costs associated with holding an annual general meeting for its members and present the findings at the next meeting.

12 UK EQUITY PORTFOLIO ANNUAL REPORT

The Committee considered the annual report for the year ended 31 March 2015 which covered the performance of the UK Equity index-tracking portfolio, managed internally.

The objective of the portfolio was to deliver the total return of the MSCI UK IMI index +/-0.5% per annum.

RESOLVED

That the report be noted.

13 ANNUAL REPORT ON THE FUND'S PROPERTY INVESTMENT

The Committee considered a report which outlined the performance of the Fund's property and related investments for the year ended 31 March 2015.

The Fund had a strategic allocation of 11.5% in property. This was higher than most other authorities.

The UK Commercial Property Investment returns to 31 March 2015 showed that Standard Life had performed the best of all the Fund's property managers.

Overall, the Fund's investment in property and infrastructure generated a good return of 13.06% which was behind the benchmark return of +13.64%.

RESOLVED

That the report be noted.

14 PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS

The Committee considered the draft Annual Report and Accounts for the Pension Fund. The Committee was required to approve them before being presented to the Audit Committee at its meeting in September 2015.

It was noted that on page 3 of the report, the *Management Arrangements* section read *Benefits Administration – Mouchel.* This was discussed and it was agreed that a note would be added detailing the move to WYPF from 1 April 2015.

External auditors had reviewed the Fund's accounts, and the main point which had arisen was the issue of over-payments and they were satisfied that changes made would prevent it from occurring again.

Once the report and accounts had been approved by the external auditors and the Audit Committee, it would be uploaded onto the Fund's website.

RESOLVED

That the draft Pension Fund Report and Accounts be approved, subject to an amendment to detail the move from 1 April 2015 to West Yorkshire Pension Board as the Fund's Pensions Administrator.

15 PENSION FUND POLICIES REVIEW

Consideration was given to a report which brought to the Committee the main policies of the Pension Fund for review.

- The Lincolnshire Pension Fund Statement of Investment Principles had been amended to show the West Yorkshire Pension Fund as the pensions administrator;

- The Lincolnshire Pension Fund Governance Policy and Compliance Statement had been amended to include details of the Lincolnshire Pensions Board;

- Principle E, within the Compliance Statement, related to collective training as a committee. The Pensions and Treasury Manager requested that all members of the Committee inform her of any training they undertook so that it could be logged.

RESOLVED

That the policies be agreed and the report be noted.

16 PENSION FUND RISK REGISTER

The Committee considered a report which brought the Pension Fund Risk Register for annual review.

It was reported there had not been much change to the register over the year, except for the addition of the over-payment of pensions. Mouchel had failed to pick up this issue over the years. However, the systems in place at WYPS were much more robust and transparent, and Officers were confident it could not happen again.

Following a question, it was confirmed there had been no fraud in relation to the Fund during the time of the current Pensions and Treasury Manager.

RESOLVED

That the risk register be agreed.

The meeting closed at 12.30 pm.

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:	**08 October 2015**
Subject:	**Independent Advisor's Report**

Summary:

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

Recommendation(s):

That the Committee note the report.

Background

INVESTMENT COMMENTARY

October 2015

China – the key to future global growth?

Global equity markets fell sharply in August, as members will recall. Admittedly, thin markets at the peak of the holiday season exacerbated the fall, which extended to over 10% at one stage late in the month. What "spooked" markets was a crisis of confidence about China's rate of economic growth. Overlaid on top of this was anxiety surrounding market expectations that the US Federal Reserve would raise short term US interest rates at its September meeting.

China's economic evolution.

China's significance to economic events around the world for the past twenty years or so has been based on several things: its sheer size (a population of about 1.4 billion – the US by comparison is about 325 million and the EU about 500 million) and its high rate of economic growth, over 10% per annum at one stage. Together with Russia, India and Brazil (thus forming the "BRICS"), it was responsible for boosting global economic growth to well over 5% per annum and materially increasing levels of international trade. China became the export "power house" of the world, responsible for producing many of the everyday items that we, in the

West, consume in our everyday lives. It thus exerted a significant influence both over global economic events and over global stock markets because of the economic linkages. Think of the importance of China to companies like Microsoft, Apple, McDonalds, Mercedes Benz, Airbus, Bayer and many more.

So what has changed? The key is population growth, which has now ceased. This is a direct result of the “one child” policy introduced by the Chinese authorities over thirty years’ ago. The population has peaked and will now slowly decline. At the same time, China’s enormous concentration on infrastructure spending (roads, railways, power stations, new cities etc) is peaking, thus reducing demand for raw materials (and hence raw material prices such as copper and iron ore) from places like Australia and South Africa. The huge movement of population from the rural areas into the cities and into manufacturing employment will continue but at a slowing rate.

Markets well understood what this process entailed. The Chinese economic growth which, according to official figures, was running in 2014 at around 7% per annum was likely to fall each year to around, say, 4% in the early 2020’s. Most commentators are convinced that the Chinese authorities manipulate their economic statistics; the figures are amazingly smooth compared to comparatives in other countries. Observers of the data usually track other statistics which are more reliable, e.g. electricity consumption or railway passenger miles, to deduce what they believe is a more accurate estimate. Some such estimates suggest growth of the Chinese economy in 2015 is already as low as 4%. That seems to me unlikely. All economies, as they expand and grow wealthier, increase their consumption of services as a proportion of the total; services are more difficult to measure accurately. The true growth rate is almost certainly less than 7% but more than 4% this year.

What is not in doubt, however, is that the Chinese economic growth rate is currently falling (but positive), led down by a contraction in manufacturing output and hence exports.

Implications for global economic growth.

Underlying the anxieties surrounding the Chinese economy are deep seated fears about the health of the other emerging economies – principally Asia (excluding China) and South America but not forgetting Africa. Their economies are also suffering; what differentiates them from China is demographics. Their populations continue to grow at rates much higher than in Europe and the USA, both of which are largely dependent on immigration to increase numbers.

So global economic growth in 2015 will probably fall to around 3%. Partly this is due to economic certainty in many of these countries, especially South America, about the likely rise in US interest rates and the continued strengthening of the US dollar.

Is this reduction to 3% per annum permanent? Hopefully not, but world growth will not return to the high levels seen in the mid 2000’s, when Chinese growth was around 10% per annum. It is not easy at present (absent population growth) to see what will get world growth back to say 5% and hence give a significant upwards impetus to global trade – which would certainly increase stock market confidence.

End of the bull market in equities?

Hopefully not. Global markets have risen a long way since the low points following the "Lehman" crisis of 2008/9. They have had setbacks, notably in 2011. Markets never rise without suffering any reversals. The setback in August this year of say 10% from peak levels is not untypical. Global growth remains strongly positive and the US, the UK and Europe are growing in 2015, the first two at rates above 2%. So, I doubt the bull market is over.

The Federal Reserves' decision not to increase US interest rates at its meeting on17th September was, by innuendo, blamed on the uncertainty about the health of the Chinese economy, notwithstanding that a rise was warranted by purely domestic US considerations. Stock markets do not like such uncertainty – will the Federal Reserve increase interest rates in December – or wait until 2016? So, is a strong rebound in equities likely? Probably not.

Peter Jones
24th September 2015

Consultation

a) Policy Proofing Actions Required

n/a

Background Papers

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

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

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Report Reference:
Regulatory and Other Committee

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

Report to:	**Pension Committee**
Date:	**08 October 2015**
Subject:	**Pension Administration Report**

Summary:

This is the quartely report by the pension administrator WYPF.

Yunus Gajra, the Business Development Manager, will update the committee on current administration issues.

Recommendation(s):

That the committee note the report.

Background

1.0 Performance and Benchmarking

1.1 WYPF uses workflow processes developed internally to organise their daily work with target dates and performance measures built into the system. The performance measures ensure tasks are prioritised on a daily basis, however Team Managers have the flexibility to re-schedule work should time pressure demand.

1.2 The table below shows the performance against key areas of work for the period 1 July 2015 to 31 August 2015 as measured against both the local indicators and the national CIPFA benchmarks.

Worktype	Total Cases	Target Days	Target Met Cases	Minimum Target	Target Met
				%	%
New starter set up	27	5	24	85	88.89
Transfer In Quote	61	10	54	85	88.52

Transfer In Payment Received	3	10	3	85	100.00
Deferred Benefits Set Up on Leaving	1705	10	1151	85	67.51
Refund Quote	437	10	386	85	88.33
Refund Payment	213	5	196	85	92.02
Transfer Out Quote	125	10	94	85	75.20
Transfer Out Payment	5	10	2	85	40.00
Pension Estimate	544	10	271	85	49.82
Pension Set Up – Payment of Lump Sum	513	3	495	85	96.49
Deferred Benefits Into Payment – Payment of Lump Sum	274	3	259	85	94.53
Death in Service – Payment of Death Grant	5	5	3	85	60.00
Death of a Pensioner – Payment of Death Grant	11	5	10	85	90.91
Payment of Beneficiary Pension	147	5	142	85	96.60
Potential Spouse Pension Enquiry	7	20	7	85	100.00
Initial letter acknowledging death of active/deferred/pensioner member	356	5	336	85	94.38

1.3 It was reported at the last Pensions Committee that performance was affected for a number of reasons, namely:

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 process's.
e) Resources focused on ensuring pensioners got paid.

1.4 Comparing performance from the beginning of the contract 1 April 2015 to 31 August (table below) demonstrates that performance has improved over the last few months, although some areas are still below their target levels.

Worktype	Total Cases	Target Days	Target Met Cases	Minimum Target	Target Met
				%	%
New starter set up	67	5	49	85	73.13
Transfer In Quote	165	10	119	85	72.12
Transfer In Payment Received	31	10	8	85	25.81
Divorce Quote	84	40	82	85	97.62
Divorce Settlement. Pensions	1	80	1	100	100

Share order Implemented					
Deferred Benefits Set Up on Leaving	3191	10	1467	85	45.97
Refund Quote	1565	10	1124	85	71.82
Refund Payment	469	5	419	85	89.34
Transfer Out Quote	218	10	126	85	57.80
Transfer Out Payment	22	10	8	85	36.36
Pension Estimate	2019	10	678	85	33.58
Pension Set Up – Payment of Lump Sum	1241	3	1178	85	95.42
Deferred Benefits Into Payment – Payment of Lump Sum	678	3	631	85	93.07
Death in Service – Payment of Death Grant	11	5	8	85	72.73
Death of a Pensioner – Payment of Death Grant	26	5	21	85	80.77
Payment of Beneficiary Pension	291	5	274	85	94.16
Potential Spouse Pension Enquiry	28	20	24	85	85.71
Initial letter acknowledging death of active/deferred/pensioner member	927	5	848	85	91.48

1.5 Some cases have again exceeded the target days as expected and warned in the previous report to the committee, primarily as a result of the continued ripple effect of the new scheme regulations. This has been particularly true of the Transfer In and Deferred procedures.

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

Membership numbers as @ 24/09/2015 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	22,735	28,020	1,043	17,948	1,657
Councillors	25	26	-	31	-
Totals no.s	22,760	28,046	1,043	17,979	1,657

2.0 Praise and Complaints

2.1 As part of the continued monitoring of the sections overall performance, WYPF sent out customer surveys to a sample of LPF members.

Over the quarter April to June we received **1** online customer responses.

Over the quarter April to June **59** Lincolnshire member's sample survey letters were sent out and 23 **(39%)** returned:

Overall Customer Satisfaction Score: **78.34%**

Appendix A shows full responses.

3.0 Administration Update

3.1 By 31 August 2015 WYPF had sent out 90% of pension statements for West Yorkshire Pension Fund members and 37% for Lincolnshire Pension Fund members. The low percentage for LPF reflected the late annual returns from Employers.

3.2 LPF pay advices sent out one day late. Raised with supplier, who admitted responsibility and blamed sheer volume of work.

3.3 WYPF have started receiving monthly returns from LPF Employers.

4.0 Current Issues

Freedom and Choice – Additional Voluntary Contributions (AVC's)

4.1 Draft legislation from the Communities and Local Government (DCLG) outlining how the Freedom and Choice changes will impact on the LGPS in-house AVC plans is expected shortly.

Annual Allowance Changes

4.2 The Government is restricting the Annual Allowance for pension savers with incomes over £150,000. The change will have effect from April 2016.

4.3 The Annual Allowance is the maximum amount of tax-reliefed pension savings that you can make in one year. Currently it is £40,000.

4.4 For some individuals, their pension year for tax purposes (known as the Pension Input period) is different from the tax year. In order to make it easier to workout pension savings over a tax year, Pension Input Periods will be aligned with the tax year.

5.0 Finance

5.1 In July 2014 our shared service cost was estimated at £15.55 per member, for 2015/16. In January 2015, this figure was revised to £15.88 to take account of additional work that emerged during implementation and further work from new legislation. The latest forecast for the year is £15.77. This takes account of all the additional work carried out for 2014/15 year-end returns, data cleansing work and extra system work that were not specified in shared service requirements.

LPF	Members	Charge	Vs April 2014	Vs Orig 15/16
Members	66,695			
Estimated price April 2014	£15.55	£1,037,107		
Original Estimate January 2015	£15.88	£1,059,117	a.) £22,009	
Period 6 Forecast September 2015	£15.78	£1,052,447	b.) £15,340	c.) -£6,670

a.) £1,059k less £1,037k = £22k
b.) £1,052k less £1,037k= £15k
c.) £1,052k less £1,059k =£6k

5.2 The table above demonstrates that cost has not changed much and we are funding all service improvements required for LPF out of shared services efficiencies. However, as we continue to deal with data and service issues for LPF we may have to bring in extra resources to deal with improvements and there may be the need to make specific charges to LPF.

5.3 WYPF have completed all year-end work for all LPF employers that provided year end data.

6.0 News

6.1 The winners of the Professional Pension Scheme of the Year Awards were announced on 30 June 2015 and WYPF won the 'Best use of IT and Technology' Award. The trophy was presented on 24th September at a winners award dinner in London.

6.2 WYPF was also shortlisted in the following categories:

- Best Administration
- Trustee Development
- DB Communications(Public Sector)
- Best DB Scheme Innovation
- Public Sector Scheme of the Year

The awards celebrate excellence within the UK workplace pension funds and aim to recognise the country's best schemes and Managers.

Conclusion

WYPF and LPF continue to work closely as shared service partners to provide an efficient and effective service to all stakeholders within the Lincolnshire Pension Fund.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Survey Results April - June 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 Yunus Gajra, who can be contacted on 01274 432343 or yunus.gajra@wypf.org.uk.

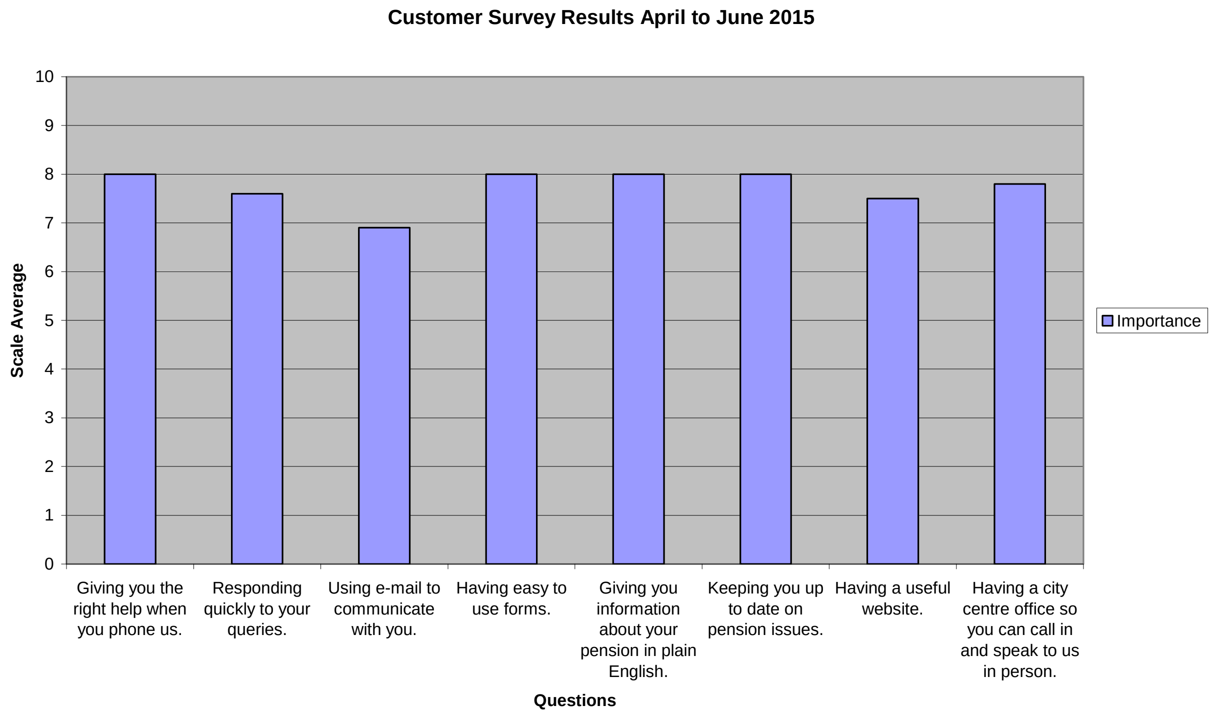
Customer Survey Results - Lincolnshire Members
(1st April to 30th June 2015)

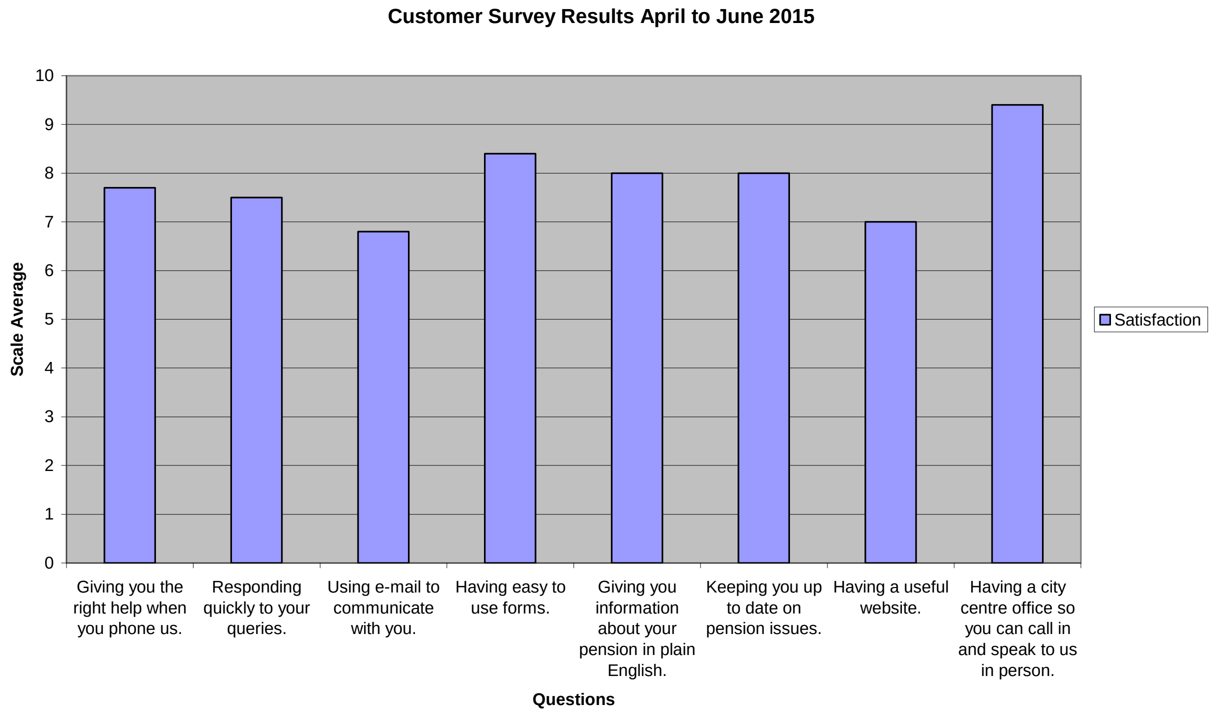
Over the quarter April to June we received **1** online customer responses.

Over the quarter April to June **59** Lincolnshire member's sample survey letters were sent out and 23 **(39%)** returned:

Overall Customer Satisfaction Score: **78.34%**

The charts below give a picture of the customers overall views about our services;





Sample of positive comments:

Member Number	Comments
901YW6341011	Teething problems with it being a new provider, hopefully it will get better. Big thank you to Kayleigh Smith at Lincoln Office for chasing SERCO.
901WA8433411	The customer service was excellent. Sure other companies could learn from you.
901YX4968361	Just that I am satisfied with the level of service given, that I worked for Lincol and you have recently taken over.
901we7609761	My last query was by email. Would have been more efficient to have had response by email not by post.
901WL5368752	Quick and efficient service. I'd like to thank you for how quickly you sorted my pension out. I'm very impressed on how quick this was carried out. Communication was excellent.

Complaints:

Member Number	Comments	Corrective/ Preventive Actions
None		

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 7

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Report Reference:
Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**08 October 2015**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Committee on Fund matters over the quarter ending 30th June 2015 and any current issues.

Recommendation(s):

1) That the Committee note this report.

2) That the Committee decide whether they wish to provide a meeting for scheme members.

Background

1 Fund Summary

1.1 Over the period covered by this report, the value of the Fund fell in value by £37.7m (2.2%) to £1,714m on 30th June 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 30th June. All asset classes are within the agreed tolerances. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 0.4%

UK Equities at weight

Global Equities overweight by 0.4%

Underweight Alternatives by 0.2%

Property at weight

Underweight Bonds by 0.5%

Overweight Cash by 0.3%

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

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

1.4 Appendix C shows the market returns over the three and twelve months to 30th June 2015.

1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 30th June, accounting for 9.1% of the Fund, which compares with 9.4% last quarter. Equity holdings in the Fund are now shown on the Pensions website, and updated on a quarterly basis.

	Company	**Total Value £M**	**% of Fund**
1	ROYAL DUTCH SHELL	19.9	1.2
2	HSBC	19.9	1.2
3	BRITISH AMERICAN TOBACCO	19.0	1.1
4	APPLE	17.7	1.0
5	RECKITT BENCKISER	13.8	0.8
6	UNILEVER	13.6	0.8
7	BP	13.4	0.8
8	DIAGEO	13.0	0.8
9	VODAFONE	12.6	0.7
10	NESTLE	12.3	0.7
	TOTAL	**155.3**	**9.1**

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 523 company events and cast votes in respect of 8,314 resolutions. Of these resolutions, the Fund voted 'For' 6,064, 'Against' 2,042 and abstained on 42 and withheld votes on 166.

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:

- Shareholder resolutions on strategic resilience to the BP and Shell AGMs achieved unprecedented levels of support, with votes in favour of over 98% at BP and nearly 99% at Shell. The success of these resolutions reflects the positive nature of the collaborative 'Aiming for A' group but also LAPFF's own long-term engagement with the companies culminating in twelve funds co-filing and 31 funds pre-declaring support for the resolutions. The resolutions included a request for an assessment of the companies' asset portfolio resilience against the range of IEA scenarios, which includes remaining within 2°C limits, and the role exploration, disposals and cash distributions to investors will play in the nearer term.

- A voting alert was issued for a similar resolution to the Statoil AGM, which received a correspondingly high level of support. LAPFF continued to highlight these issues with a related voting alert on cash distributions to investors for the Chevron AGM, on demand management strategy at Anadarko and supporting carbon emission targets at ExxonMobil.

- A meeting with the chairman of Barclays followed LAPFF's publicly expressed dissatisfaction with Sir John Sunderland presiding over a full year as remuneration committee chairman. The LAPFF chair also raised concerns with the accounts due to the accounting standards being applied.

- A number of LAPFF funds co-filed a shareholder resolution to the National Express AGM, requesting an independent assessment of labour relations at the Company's US subsidiary, Durham School Services. Cllr Greening of the LAPFF executive spoke to the motion and almost a quarter of independent shareholders failed to back National Express over labour rights at the AGM, the highest level of support for a shareholder resolution on employee rights.

- LAPFF representatives attended and proposed motions or addressed the board at eight AGMs during the quarter. These included Rio Tinto, where Cllr Greening raised tax transparency and carbon management; British American Tobacco, where health objectives linked to executive incentives were raised; Carillion and Balfour Beatty, where blacklisting and labour supply chain issues were raised and Next on supply chain standards in Bangladesh.

- In late May, Tesco announced provisions to claw back bonuses from its CEO and Finance Director. This move came after senior executives, who were in place during Tesco's accounting scandal, left the Company with high payouts. LAPFF had written a letter to Tesco in February concerning a lack of malus provisions in executive remuneration contracts and was pleased with the claw back developments.

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 £6.1m. The invested cash has outperformed the benchmark from 1st April 2014 by 0.28%, annualised, as shown in the table below, and earned interest of £11.8k.

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

Pension Fund Balance – Year to end June 2015				
Pension Fund Average Balance £'000	**Interest Earned £'000**	**Cumulative Average Yield Annualised %**	**Cumulative Weighted Benchmark Annualised %**	**Performance %**
6,092.5	11.8	0.67	0.39	0.28

4 Pensions Administration – Annual member meeting

4.1 WYPF hold an annual member meeting to update members on Fund related issues and take questions from scheme members. At the July meeting of this Committee the question was asked as to whether this would be something that Lincolnshire would wish offer. Officers were asked to provide costs of hosting such an event.

4.2 Estimated costs for holding a 1 ½ hr session, with refreshments, followed by a buffet lunch, for 200 attendees, are around £1,600. Without lunch, the cost would be approximately £500.

4.3 The Committee is asked to consider whether they wish to progress this.

5 Risk Register Update

5.1 The risk register is a live document an updated as required. Any changes are reported quarterly, and the register is taken annually to Committee to be approved. Over the quarter the following changes have been made:

Deletions

Risk 17 and 18 – New Scheme communication and implementation - these have been removed as the scheme has been in place for over a year now

Risk 21 - Pensions administration contract end – this has been removed as the transition is complete

Risk 22 - Pensions administration service provider transition – this has been removed as the transition is complete

Additions

Risk 24 – LGPS Pooling – The current situation (which is explained in section 6) is leading to uncertainty over the future structure for the LGPS, and what decisions will lie with the Pension Committee going forwards. The controls in place are currently to participate in the national working group to submit options to the Government, to keep updated with current Government thinking and to keep the Committee informed.

Risk 25 – Employer Breaches – since 1st April 2015, we are required to report material breaches to the Pensions Regulator (TPR). This includes where employers do not fulfil their duties correctly or in a timely manner. The controls in place are ensuring employers are aware of their responsibilities through the Administration Strategy and employer training. The current situation with Serco is causing breaches of the requirements laid down by TPR. This is being managed by discussion with LCC and TPR.

5.2 The full risk register is available from officers should any member of the Committee wish to see it.

6 LGPS Pooling

6.1 Officers updated the Committee in July with news from the Summer Budget that the Government had announced that Local Authorities should put forward proposals to "pool investments to significantly reduce costs, while maintaining overall investment performance". Since this, Government has been having informal dialogue with Local Authorities, Fund Managers and other interested parties to share and inform its thinking.

6.2 Hymans Robertson have prepared a briefing note (attached at appendix E) to update on the current thinking. The Fund's consultant, Paul Potter, will brief the Committee with what this may mean.

6.3 Lincolnshire has joined a joint working group, facilitated by Hymans Robertson, to explore proposals and to put a limited number of options to Government early in the new year, as to how pooling could work. There are a number for Funds working on this project, covering all sections of the LGPS. In addition, there are a number of other collaborations being explored across the country.

6.4 The timescale for this is very challenging, with the Government wanting to include savings from the pooling in the next budget, and to implement the final outcome within this Parliament.

7 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. Given the move to asset pooling, it is suggested that the Fund continues to put any changes on hold until there is greater clarity on the asset pooling question.

7 Local Pension Board

7.1 The Lincolnshire Pension Board had its inaugural meeting on 30th July 2015. At this meeting the Terms of Reference were agreed, and also a Conflicts of Interest Policy, Knowledge and Training Policy and Reporting Breaches Policy. All information and documents relating to the Pension Board are published on the shared pensions website at www.wypf.org.uk.

7.2 The next meeting of the Pension Board is Wednesday 7th October, and will be cover the requirements of the Pensions Regulator, and compare how Lincolnshire complies with them.

7.3 The Pension Board have been invited to attend the Pensions Committee training on Thursday 1st October.

7.4 At the July Pensions Committee meeting, a question was raised about whether there was a conflict of interest in the Pensions & Treasury Manager being the lead officer for the Board, as well as for the Committee. This question was raised with the Fund's consultant, Hymans Robertson, who agreed that there was no conflict, and that this was standard practice across all Funds for the same officer to advise both the Committee and Board. The Pensions Committee training on Thursday 1st October will provide an update and introduction to the Pension Board.

Conclusion

8.1 This reporting period saw the value of the Fund fall, decreasing by £37.7m to close at £1,714m. At the end of the period the asset allocation, compared to the strategic allocation, was;

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

8.2 The Government are looking to move the LGPS into large asset pools and asking for proposals from Funds as to how this might work. Lincolnshire is involved in the joint working group to provide workable options for the Government to consider.

8.3 It is suggested that any asset allocation changes are put on hold until there is clarity around the LGPS pooling proposals.

8.4 The Lincolnshire Pension Board held its first meeting at the end of July.

8.5. The Committee are asked to consider whether they wish to provide an annual meeting for scheme members.

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
Appendix E	Hymans Robertson Briefing Note on LGPS Pooling

Background Papers

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

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

APPENDIX A

DISTRIBUTION OF INVESTMENTS

INVESTMENT	30 June 2015			31 March 2015			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
UK Index Tracker	342,172,813	33.0	20.0	348,079,334	32.4	18.9	20.0	+/- 1.5%
TOTAL UK EQUITIES	**342,172,813**		**20.0**	**348,079,334**		**18.9**	**20.0**	
GLOBAL EQUITIES								
Invesco	344,469,542	33.3	20.1	363,555,873	33.9	20.8	20.0	+/- 1.5%
Threadneedle	88,102,935	8.5	5.1	91,378,618	8.5	5.2	5.0	+/- 1%
Schroder	85,441,059	8.3	5.0	90,450,362	8.4	5.2	5.0	+/- 1%
Neptune	89,662,366	8.7	5.2	91,900,199	8.6	5.2	5.0	+/- 1%
Morgan Stanley	85,570,518	8.3	5.0	88,445,435	8.2	5.0	5.0	+/- 1%
TOTAL GLOBAL EQUITIES	**693,246,420**		**40.4**	**725,730,487**		**41.4**	**40.0**	
TOTAL EQUITIES	**1,035,419,233**	**100**	**60.4**	**1,073,809,821**	**100**	**61.3**	**60.0**	**+/- 5%**
ALTERNATIVES	**253,564,057**		**14.8**	**248,174,024**		**14.2**	**15.0**	**+/- 1.5%**
PROPERTY	**197,346,351**		**11.5**	**193,527,831**		**11.0**	**11.5**	**+/- 1%**
FIXED INTEREST								
Goodhart F & C	111,368,676	50.1	6.5	112,371,266	49.2	6.4	6.75	+/- 1%
Blackrock	111,067,712	49.9	6.5	116,177,245	50.8	6.6	6.75	+/- 1%
TOTAL FIXED INTEREST	**222,436,389**	**100**	**13.0**	**228,548,511**	**100**	**13.0**	**13.5**	**+/- 1.5%**
TOTAL UNALLOCATED CASH	**5,219,985**		**0.3**	**7,642,357**		**0.4**	**0.0**	**+ 0.5%**
TOTAL FUND	**1,713,986,015**		**100**	**1,751,702,544**		**100**	**100**	

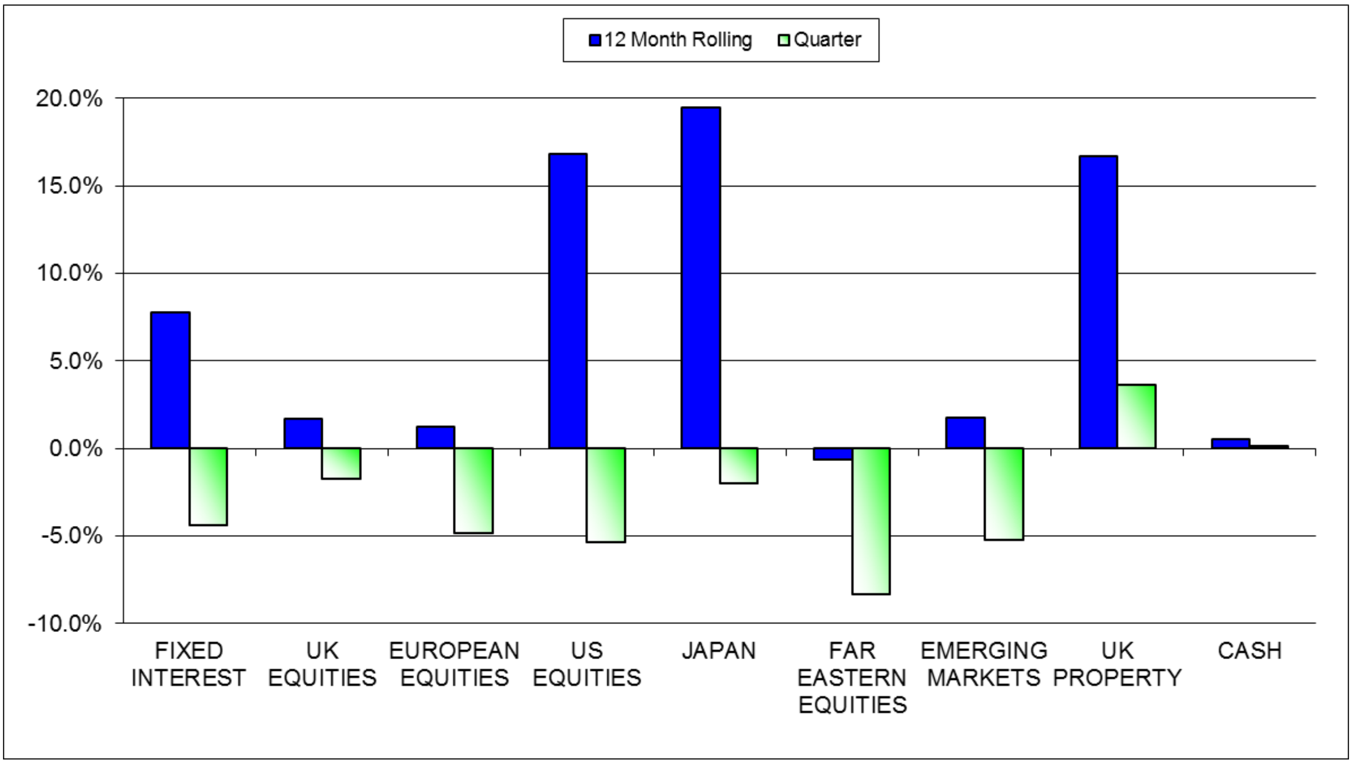
PURCHASES AND SALES OF INVESTMENTS – QTR ENDED 30TH JUNE 2015

Investment	Purchases £000's	Sales £000's	Net Investment £000's
UK Equities			
In House	0	35	(35)
Global Equities			
Invesco	49,230	44,719	4,511
Threadneedle	9,315	10,444	(1,129)
Schroders	11,560	10,791	769
Neptune	7,094	5,590	1,504
Morgan Stanley Global Brands	0	0	0
Total Equities	**77,199**	**71,579**	**5,620**
Alternatives			
Morgan Stanley	0	0	0
Total Alternatives	**0**	**0**	**0**
Property	**255**	**2,224**	**(1,969)**
Fixed Interest			
BlackRock	0	0	0
Goodhart F & C	0	0	0
Total FI	**0**	**0**	**0**
TOTAL FUND	**77,454**	**73,803**	**3,651**

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

APPENDIX C

MARKET RETURNS TO 30TH JUNE 2015



INDEX RETURNS	12 Months to June '15	Apr-June '15
	%	%
FIXED INTEREST	7.8	(4.4)
UK EQUITIES	1.7	(1.7)
EUROPEAN EQUITIES	1.3	(4.8)
US EQUITIES	16.8	(5.3)
JAPANESE EQUITIES	19.5	(2.0)
FAR EASTERN EQUITIES	(0.6)	(8.3)
EMERGING MARKETS	1.7	(5.2)
UK PROPERTY	16.7	3.6
CASH	0.5	0.1

Votes Summarised by Votes Cast

Report Period: 01 Apr 2015 to 30 Jun 2015

Management Group Name	Resolutions			
Voting Guideline Code	**For**	**Abstain**	**Against**	**Total**
Lincolnshire County Council				
All Employee Share Schemes	21	0	16	37
Alternate Auditor	1	0	0	1
Annual Incentive Plan Metrics	20	0	0	20
Anti-Takeover Provisions	1	1	0	2
Any Other Business	1	2	4	7
Appoint Audit Committee Member	3	0	0	3
Appoint Chairman	12	0	1	13
Appoint Control Committee Member (Norway)	5	0	0	5
Appoint Corporate Assembly (Norway)	19	0	0	19
Appoint Independent Proxy	12	0	0	12
Appoint Meeting Scrutineers	1	0	0	1
Appoint Nom Committee Member	4	0	0	4
Appoint Nomination Committee	7	0	0	7
Appoint Rem Committee Member	37	0	0	37
Approval of Executive's Remuneration Package	21	0	0	21
Approve Agreement	14	0	0	14
Approve CSR Report	1	0	0	1
Approve Majority Vote Standard for Directors	2	0	0	2
Audit Committee Report	1	0	0	1
Auditor - Appointment	411	0	52	463
Auditor - Discharge	3	0	0	3
Auditor - Remuneration	124	0	67	191
Auth Board to Issue Shares	180	0	29	209
Auth Board to Issue Shares w/o Pre-emption	139	0	71	210
Authorise Option Grants/Dilution	8	0	0	8
Authorise Political Donations & Expenditure	71	0	3	74
Authorised Capital	0	0	0	0
Authorised Capital [DE/CH/AT]	5	0	0	5
Board Alternate	15	0	0	15
Board Rem - Allow Board to Set	1	0	0	1
Board Rem - Approve Amounts Actually Paid	4	0	0	4
Board Rem - Approve Bonuses	19	0	0	19
Board Rem - Special/Retirement Bonuses	3	0	0	3
Board Size for Year	15	0	0	15
Board Size Range	2	0	0	2
'Bons Bretons' Warrants	1	0	0	1
Cancel Class of Capital	4	0	0	4
Cancel Treasury Shares	30	0	4	34
Chairs Corporate Responsibility Committee	2	0	0	2
Change Board Structure	1	0	0	1
Change of Name	9	0	0	9
Conditional Capital [DE/CH/AT]	5	0	0	5
Convert to Società Europea	2	0	0	2
Corporate Governance Policy	3	0	0	3

Debt - Borrowing Powers	1	0	0	1
De-classify the Board	2	0	0	2
Delegate Powers	9	0	0	9
Director - Discharge from Liability	196	0	0	196
Director - Postpone/Refuse Discharge	1	0	0	1
Director Election - All Directors [Single]	3,544	19	1475	5,038
Director Election - Chairman	102	0	305	407
Director Election - Chairs Audit Committee	320	0	53	373
Director Election - Chairs Nomination Com	221	0	134	355
Director Election - Chairs Remuneration Com	284	19	58	361
Director Election - Chairs Risk Com	43	0	8	51
Director Election - Executives	565	0	657	1,222
Director Election - Lead Ind. Director/DepCH	199	4	42	245
Director Election - Non-executive/Sup Board	2,923	19	754	3,696
Director Election - Sits on Audit Committee	1,054	8	177	1,239
Director Election - Sits on Nomination Com	1,125	9	200	1,334
Director Election - Sits on Risk Com	191	0	26	217
Director Election - Slate	13	0	0	13
Director Election - Sts on Remuneration Com	993	0	187	1,180
Directors liability insurance	1	0	0	1
Directors' Pensions	5	0	0	5
Distribute/Appropriate Profits/Reserves	134	0	7	141
Dividend - Approve Policy	1	0	0	1
Dividends - Ordinary	242	0	19	261
Dividends - Scrip	11	0	1	12
EGM Notice Periods	131	0	0	131
Elect Member Audit & Supervisory Board (JP)	127	0	0	127
Elect Supervisors (China)	3	0	0	3
Financial Statements	190	0	94	284
Financial Statements - Environmental Issues	178	0	91	269
Greenshoe Option	9	0	0	9
Individual Share Award	2	0	0	2
Individual Share Option Grant	0	0	3	3
Individual Total Remuneration - Past Year Approval	59	0	0	59
Issue Bonds (Other)	4	0	0	4
Issue Bonds with warrants	3	0	0	3
Issue Convertible Bonds	11	0	2	13
Issue Warrants to Directors/Employees	5	0	0	5
Long-term Deferral Systems	1	0	1	2
Long-term Incentive Plans	0	0	102	102
LTI: Discretionary Share Option Plan	5	0	0	5
LTI: Performance Share Plan	0	0	1	1
LTIP Performance Measures	3	0	0	3
Meeting Formalities	69	0	0	69
NED Remuneration - Fee Rate/Ceiling	33	0	0	33
NED Remuneration - Fees actually paid	8	0	0	8
NED Remuneration - Fees proposed for year	34	0	1	35
NED Remuneration - Policy	9	0	0	9
Other Capital Structure Proposal	3	0	0	3

Other Changes to Governance Arrangements	138	0	8	146
Other Meeting Procedures	14	0	0	14
Other Payments to Directors/Corp Auditors	2	0	0	2
Permit Holding of Treasury Shares	1	0	0	1
Poison Pills - NOLs	1	0	0	1
Procedure on Nom Com Appointment	1	0	0	1
Profit Sharing Schemes	1	0	0	1
Proportional Takeover Provisions	1	0	0	1
Provision of Financial Assistance	1	0	0	1
Ratify Co-option to Board	8	0	1	9
Reduce Nominal Value	1	0	0	1
Reissue (Use) Treasury Shares	12	0	11	23
Related Party Transaction - Approve Report on	18	0	0	18
Related Party Transaction - Specific Transaction	0	0	0	0
Remove Multiple Voting Rights	7	0	0	7
Remove Supermajority Provisions	6	0	0	6
Remove Voting Rights Ceiling	1	0	0	1
Remuneration Policy	30	0	15	45
Remuneration Report	140	0	265	405
Research Pending	0	0	0	0
Resolution Issues	1	0	0	1
Return of Capital	0	0	1	1
Right to Nominate Directors - 'Proxy Access'	1	0	0	1
Say-on-pay Frequency	1	2	0	3
Scheme of Arrangement	0	0	0	0
Service Contract	3	0	0	3
Set Exclusive Jurisdiction	3	0	0	3
SH: Adopt Diversity & Equality Policies	0	0	0	0
SH: Adopt sustainable sourcing policies	4	0	0	4
SH: Adopt/amend Human Rights Policy	0	0	0	0
SH: AGM Date	1	0	0	1
SH: Animal Welfare Policy & Disclosure	0	0	0	0
SH: Approve Cumulative Voting for Directors	2	0	0	2
SH: Approve Majority Vote Standard for Directors	4	0	0	4
SH: Charitable Donations - Improve Disclosure	1	0	0	1
SH: De-classify the Board	1	0	0	1
SH: Director Shareholding Requirement / Policy	6	0	0	6
SH: Director with Environmental Expertise	0	0	0	0
SH: Diversity & Equality Policies	7	0	0	7
SH: Establish Corp Responsibility Committee	1	0	0	1
SH: Establish Other Board Committee	4	0	0	4
SH: Fracking	0	0	0	0
SH: Improve CSR Disclosure	0	0	0	0
SH: Independent Chairman	37	0	0	37
SH: Lobbying - Improve Disclosure	28	0	0	28
SH: Methane Emissions	3	0	0	3
SH: Other Board-related Proposals	4	0	0	4
SH: Other Executive Pay Proposal	2	0	0	2
SH: Other Natural Resource Management Issue	0	0	0	0

SH: Pay Disparity	2	0	0	2
SH: Performance Conditions - Add ESG Metrics	1	0	0	1
SH: Performance Conditions - Disclose	2	0	0	2
SH: Performance Conditions - Introduce	1	0	0	1
SH: Performance Conditions - Strengthen	1	0	2	3
SH: Pharmaceutical Pricing	0	0	0	0
SH: Political Spending - Amend Policy	1	0	0	1
SH: Political Spending - Improve Disclosure	14	0	3	17
SH: Political Spending - Say On	1	0	0	1
SH: Prohibit Tax Gross-Ups	1	0	0	1
SH: Recycling Reporting	0	0	0	0
SH: Remove Director [Officers]	0	0	0	0
SH: Remove Multiple Voting Rights	10	0	0	10
SH: Remove Supermajority Provisions	1	0	0	1
SH: Report on Climate Change Risks	0	0	0	0
SH: Report on Employee Health & Safety	1	0	0	1
SH: Report on Human Rights Issues	0	0	0	0
SH: Report on Labour Standards	0	0	0	0
SH: Request CSR/Sustainability Report	10	0	0	10
SH: Request Improved Board Diversity	1	0	0	1
SH: Request Say on Dividend	1	0	0	1
SH: Require Clawbacks	7	0	0	7
SH: Restrict Accelerated Vesting of LTIP Awards	15	0	1	16
SH: Restrict Number of Directorships	1	0	0	1
SH: Right to Nominate Directors - 'Proxy Access'	30	0	0	30
SH: Separate Chairman & CEO	2	0	0	2
SH: Setting GHG reduction goals	0	0	0	0
SH: Shareholder Action by Written Consent	27	0	0	27
SH: Shareholder Resolution - Disclosure	12	0	0	12
SH: Shareholder Resolution - Other	0	0	0	0
SH: Shareholder Resolution - Strategy	1	0	0	1
SH: Special Meetings - Introduce Right	5	0	0	5
SH: Special Meetings - Lower Threshold	7	0	0	7
SH: Supplemental Executive Retirement Plans	1	0	0	1
SH: Supply Chain Reporting	0	0	2	2
SH: Tobacco	0	0	0	0
SH: Voting Procedures	6	0	0	6
Share Buy-back Authority (inc Tender Offer)	177	0	68	245
Share Consolidation	1	0	0	1
Share Issue - Consideration for Offer	4	0	0	4
Share Issue - Contributions in Kind	11	0	0	11
Share Issue - Employees - Discr Opt/Shares	4	0	0	4
Share Issue - Employees - Free Shares	12	0	0	12
Share Issue - Employees - Savings Plans	17	0	0	17
Share Issue - Other	15	0	1	16
Share Issue - Overall Ceiling	5	0	0	5
Share Issue - Preferred Shares	3	0	2	5
Share Issue w/o Pre-emption set Issue Price	3	0	0	3
Share Issue w/o Pre-emption w Priority Per	2	0	0	2

Share Split	3	0	0	3
Shareholder Action by Written Consent	0	0	1	1
Significant Transactions	0	0	0	0
Sits on Corporate Responsibility Committee	4	0	1	5
Special Meetings - Introduce Right	3	0	0	3
Substitute Member Audit & Sup Board (JP)	10	0	0	10
Termination Provisions (Contract clauses)	10	0	0	10
Treasury Shares - Set Re-issue Price Range	2	0	1	3
Unclassified	4	0	1	5
Voting Procedures	1	0	0	1
Waive Mandatory Takeover Requirement	2	0	4	6
	15,259	**83**	**5033**	**20,375**

HYMANS ROBERTSON

briefing note

LGPS Pooling Update

September 2015

LGPS investment pooling: responding to government

John Wright
Head of LGPS

Linda Selman
Head of LGPS Investment

“There will be no exemptions – all funds must participate in pools”

In the Summer 2015 budget, the government announced that local authorities should put forward proposals to “*pool investments to significantly reduce costs, while maintaining overall investment performance*”.

At the time, no more details were given but since July the government has been sharing its thinking through an informal dialogue with local authorities, fund managers and other interested parties. This two way exchange has included a series of “round-tables” and other meetings involving the DCLG and HMT teams responsible for the LGPS. We understand that an event aimed at elected members is likely to be held in October.

The purpose of this briefing note is to update you on emerging government thinking and how we are helping local authorities to respond.

What criteria will be used to assess pooling proposals?

While government is continuing its informal consultation through dialogue with interested parties, based on what has been said so far, the primary criteria used to assess pooling proposals are likely to be:

(i) **scale** (circa £30bn plus has been suggested as an illustrative figure although some flexibility around the exact figure is expected);

(ii) **savings** (no figure has been put forward by government but we expect that this must be in the region of several hundreds of millions of pounds annually); and

(iii) **governance** (for example, government wishes to stop manager hire and fire decisions being made locally, in the expectation that this will reduce the frequency and therefore the costs of manager change. However it accepts that investment strategy and asset allocation decisions should continue to be made locally).

There may be secondary criteria including:

a) **simplicity** - for example, the government might take the view that regional pooling looks simpler than other models for pooling. Anything that appears at first sight more complex would have to score more highly against other criteria, for example, by delivering greater savings; and

b) **speed of delivery** – any approach that can deliver savings faster may be attractive. As an example, for some asset types (such as passive listed securities) it will be worthwhile exploring whether procurement without going through a Collective Investment Vehicle (CIV) could deliver the same savings faster and with less set up and running cost.

Inevitably whatever other criteria are used to assess pooling proposals, there may be **political factors** which will be factored into government thinking.

What else do we know so far?

Other points emerging from the informal consultation so far include:

- **There will be no exemptions** – All funds must participate in pools;
- **Role of internal management** – Internal management already covers more than £30bn of LGPS assets across around 15 funds. If there are no exemptions from pooling, it may be that the internally managed funds will be asked to show how they collaborate in some way to meet the requirement for pooling;
- **Procurement instead of CIVs?** – "virtual" pooling using procurement or procurement frameworks may be acceptable for some asset types where this can deliver the same savings faster and with lower cost and complexity than "physical" pooling using CIVs. However, work is needed to show how this can be done in a way that squares with the government preference that choice of fund manager should no longer be a local decision;
- **Flexibility to invest some money outside of pools** – The government may be open to local authorities making the case for allowing freedom to invest some money outside of pools. This might be useful for local investment or for special situations needing investments not catered for through pools ;
- **Individual funds will continue to decide their own investment strategy** – The government has confirmed that investment strategy and asset allocation decisions can remain with individual funds but it needs input on the details of exactly which decisions should remain local and which should be made at pool level;
- **Timing** – We understand that proposals will need to be submitted to government early in 2016 to help inform a further statement in the next budget. Government is aiming to see new pooling arrangements in place and money invested within this parliament. It accepts that it may take longer for all of the savings to emerge; and
- **Quantification of savings** – The government wants to see quantification of expected savings from proposals submitted. After pooling arrangements are implemented, it will monitor actual savings emerging.

What pooling models might be considered?

The government has not proposed any specific pooling model so far. Pooling options might include:

1 **a regional model**: government considers regional pools to be a simple starting point against which other pooling proposals should be measured;

2 **a regional "plus" model**: regional pools complemented by some LGPS wide pools for particular asset classes (for example, infrastructure investment may be accessed more efficiently via a LGPS wide pool);

3 pools based on **asset types**; and

4 **mixed approaches** (including regional, asset type pools, internally managed pool(s), physically pooling via CIVs and virtual pooling by procurement where CIVs add unnecessary cost and complexity).

Helping government to see the big picture

We expect government will receive proposals on a variety of specific initiatives (regional CIVs, procurement initiatives, internal management, etc). These will be useful, but the government will have difficulty assessing any of these in isolation without understanding how they fit together and whether there are overlaps or gaps. It might also be difficult to identify whether claimed savings have been quantified in a consistent way and whether there is any double counting of savings across proposals.

Hymans Robertson has therefore offered to support a group of local authorities who will collaborate in preparing a joined up report which will narrow down the range of potential pooling options to a small number (expected to be circa 2 or 3 and including regional and mixed approaches) and assess these against government criteria. It will also cover matters such as the role of internal management in a pooling framework, and explain how procurement may be an appropriate way of achieving pooling for some asset classes.

The participating funds will draft the report and agree the conclusions. Hymans Robertson will support the work in a number of ways including data analysis and quantification of savings.

The group of participating funds represents a broad church in terms of preferred approach, local interests and expertise including:

- Counties, and Mets

- internally and externally managed funds

- experts in responsible investment, procurement frameworks and setting up CIVs

Some of the participants are also working separately on specific initiatives (including ideas for regional pools, pooling by procurement and internally managed pools). We believe the report will complement the work of those groups.

The timetable is challenging. The group's plan is for a draft report to government to be ready by Christmas. To help spread the workload the funds participating in the project would welcome support from others who have expertise and experience in some of the matters that need to be examined.

Conclusion

Government requirements are becoming clearer. There are some things that the government is unlikely to move on. For example,

- there will be no exemptions from pooling, and
- all local decision making on manager selection will come to an end.

However, there is much that is undecided and where the government is open to ideas. For example,

- whether pools should simply be regional, or
- whether other approaches could have greater benefits.

What is clear is that anyone still holding on to the hope of status quo is likely to be disappointed. In the short time that is available, it is important that funds work on constructive proposals to help shape the outcome. However it would potentially be premature to get to the stage of sinking a significant level of cost into a new initiative before the government has had a chance to review all of the proposals submitted and deliberate on the best way forward.

We will be supporting local authorities to help deliver an authoritative, evidence based proposal to help the government to see the big picture and make the best decisions for the long term future of the Scheme.

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:	**08 October 2015**
Subject:	**Investment Management Report**

Summary:

This report covers the management of the Lincolnshire Pension Fund assets, over the period from 1st April to 30th June 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 30th June 2015, for the Fund.

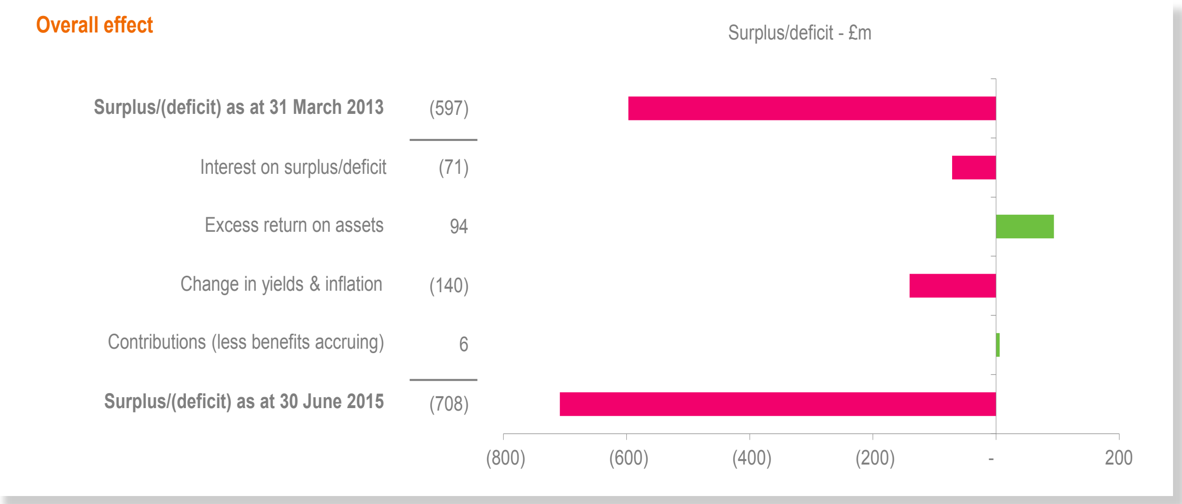
1.2 As the graph below shows, the funding level at the latest formal valuation was 71.5%. As at 30th June 2015 the funding level has decreased to 71%.

1.3

Change in funding level since last valuation

1.4 As shown below, the deficit in real money has increased from £597m to £708m 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 exacerbated by an increase in inflation.

What's happened since last valuation?



1.5 In the period since 31st March 2015, the funding level has risen from 70.5% to 71% as a result of good investment performance.

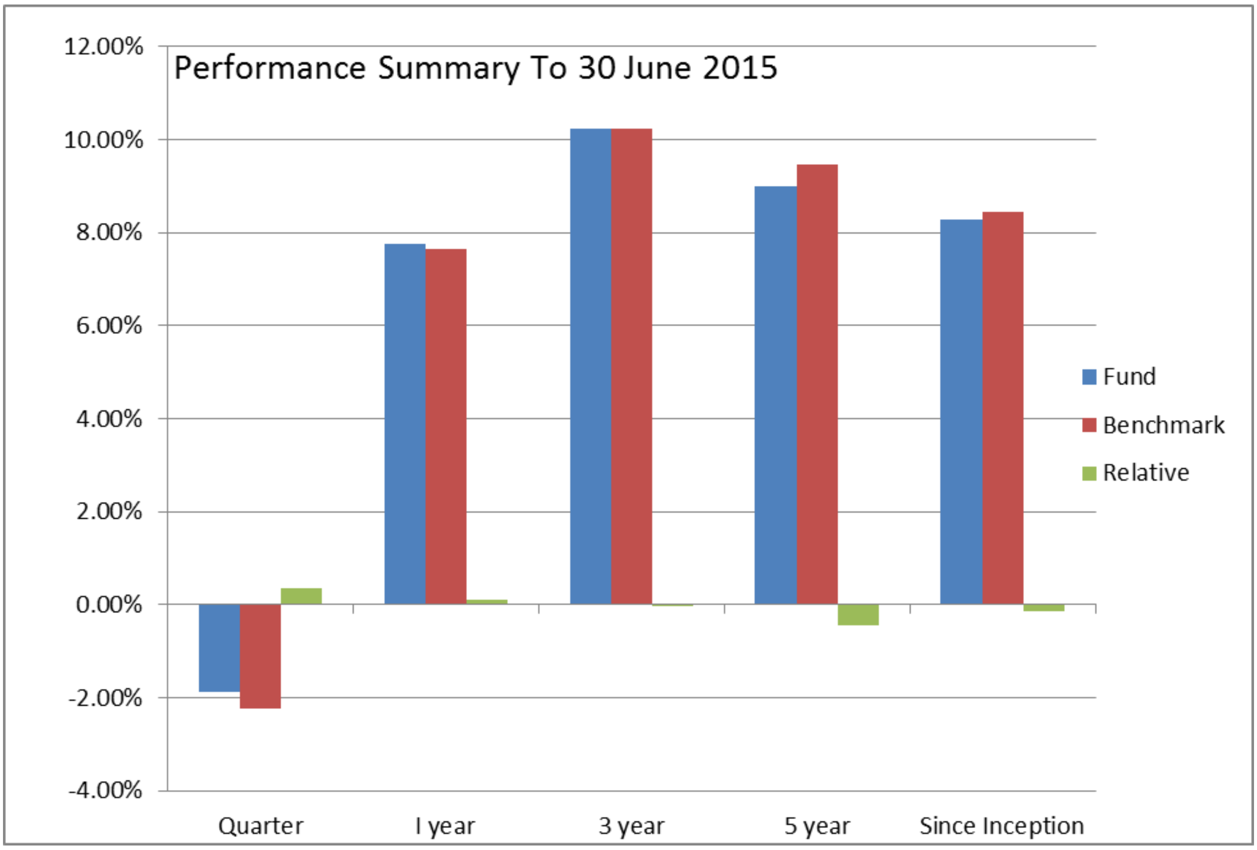
2. Fund Performance & Asset Allocation

2.1 The Fund decreased in value by £37.7m during the quarter from £1,751.7m to £1,714m, as the chart below shows. The Fund was overweight to cash and global equities and underweight fixed interest and alternatives.

Asset Class	Q2 2015 £	Q1 2015 £	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	342.2	348.1	20.0	20.0	0.0
Global Equities	693.2	725.7	40.4	40.0	0.4
Alternatives	253.6	248.2	14.8	15.0	(0.2)
Property	197.4	193.5	11.5	11.5	0.0
Fixed Interest	222.4	228.6	13.0	13.5	(0.5)
Cash	5.2	7.6	0.3	0.0	0.3
Total	**1,714.0**	**1,751.7**	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. This target will be discussed in the Performance Measurement paper.

2.3 Over the quarter, the Fund produced a negative return of -1.88% but outperformed the benchmark which returned -2.22%. The Fund is ahead of the benchmark over one year but behind in 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

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	

3.3 Paul Potter will explain the process which Hymans Robertson follow when rating a manager.

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 poor quarter for the Fund with all managers producing a negative absolute return. Over the quarter, six managers outperformed their benchmark, with Schroder's slightly underperforming by 0.3% and Morgan Stanley Alternatives and F&C underperforming by 1.7% and 1.6%. Over the 12 month period only F&C and Morgan Stanley Alternatives have failed to produce a positive absolute return. Against their target, the performance has been mixed with four managers failing to match their target. The in-house team and Blackrock matched their target and Schroders and Neptune beat their target, Neptune by 2.9%.

	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	(1.7)	(1.7)	0.1	1.4	1.7	(0.3)	+/- 0.5
Invesco (Global Equities (ex UK))	(6.0)	(6.3)	0.3	11.2	10.4	0.7	+1.0
Threadneedle (Global Equities)	(3.6)	(5.1)	1.6	13.1	10.1	2.7	+2.0
Neptune (Global Equities)	(2.3)	(5.1)	3.0	17.7	10.1	6.9	+4.0
Schroder's (Global Equities)	(5.6)	(5.3)	(0.3)	10.4	9.5	0.8	+3.0
Morgan Stanley Global Brands	(3.3)	(5.3)	2.2	11.8	10.3	1.4	n/a
Blackrock (Fixed Interest)	(4.4)	(4.4)	0.0	8.1	7.8	0.3	Match Index
F&C (Fixed Interest)	(0.9)	0.8	(1.6)	(3.6)	3.1	(6.5)	3M LIBOR + 3%
Morgan Stanley (Alternative Investments)	(0.6)	1.2	(1.7)	(1.8)	4.7	(6.2)	3M LIBOR + 4%

Lincolnshire Pension Fund
UK Equities – In House (Passive UK)
Quarterly Report June 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 31.03.15	Value at 30.06.15
£348,079,334	£342,172,813

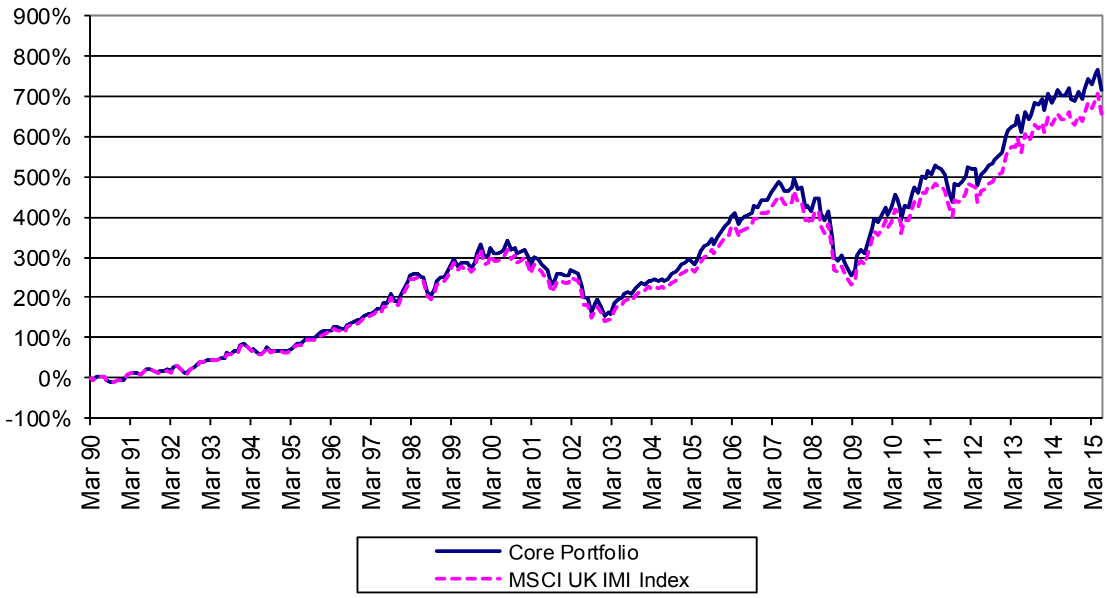
Performance

During the quarter the portfolio produced a negative return of 1.7% which slightly lagged the benchmark by 0.1%. The underperformance was due to the underweight position in consumer discretionary which delivered a positive 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.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
UK Equities – In House	(1.7)	1.4	10.4	10.6	8.5
MSCI UK IMI	(1.7)	1.7	10.4	10.6	8.2
Relative Performance	(0.1)	(0.3)	(0.1)	0.1	0.3

* annualised, inception date 01/10/1989

UK Equities In House Portfolio Performance Since Inception



Turnover

Holdings at 31.03.15	Holdings at 30.06.15	Turnover in Quarter %	Turnover in Previous Quarter %
256	255	0.0	3.7

Purchases and Sales

During the quarter the manager made no purchases or sales.

Largest Overweights

Babcock	0.13%
South32 Ltd	0.09%
XL Group	0.08%
Tui AG	0.08%
Royal Dutch Shell	0.07%

Largest Underweights

AA PLC	(0.11%)
London Stock Exchange	(0.11%)
Glencore	(0.08%)
Crest Nicholson	(0.07%)
GW Pharmaceuticals	(0.07%)

* Measured against MSCI UK IMI

Top 10 Holdings

1	Royal Dutch Shell	£19,933,013
2	HSBC Holdings	£19,110,865
3	BP	£13,420,111
4	GlaxoSmithkline	£11,323,923
5	British American Tobacco	£11,202,667

6	Vodafone Group	£10,841,358
7	Astrazeneca	£8,796,385
8	Lloyds Banking Group	£8,349,014
9	Diageo	£7,966,081
10	Barclays	£7,403,204

Risk Control

The portfolio has a tracking error limit of 0.5%. At the end of June 2015 the tracking error was 0.29%.

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

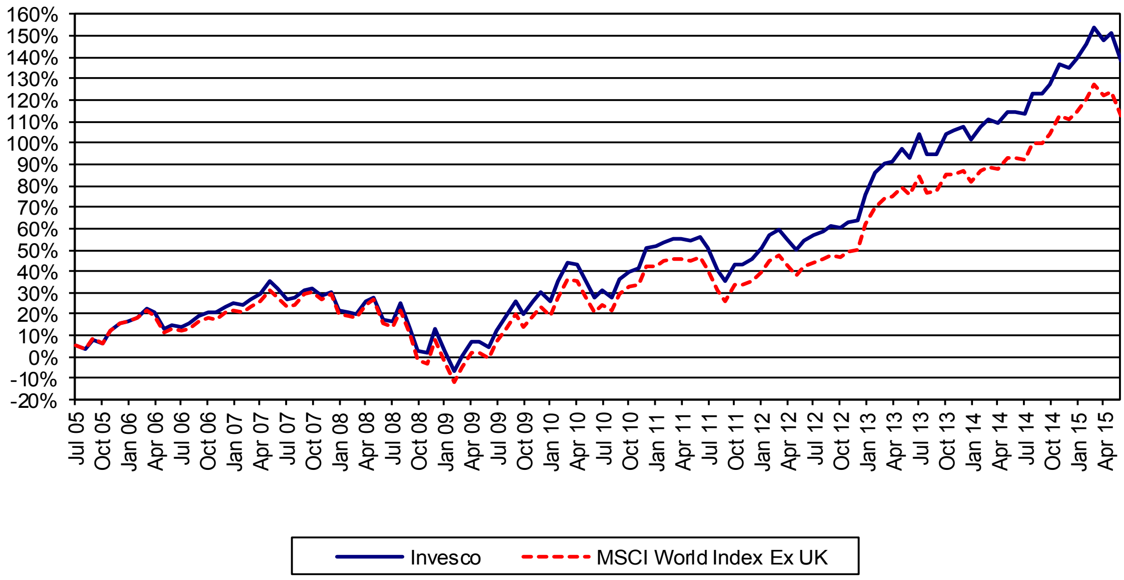
Portfolio Valuation

Value at 31.03.15	Value at 30.06.15
£363,555,873	£344,469,542

Performance

During the quarter Invesco's strategy outperformed its benchmark. Stock Selection had the largest positive impact on relative performance, as the contribution from their overweighted assets were positive. In addition, overweights in stocks with high scores in their Earnings Exceptions and Value concepts helped performance. Over 12 months Invesco have outperformed their benchmark but fallen short of their target. Over all other periods they are ahead of both the benchmark and the target.

Invesco Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Invesco	(6.0)	11.2	18.9	12.0	9.1
MSCI World ex UK	(6.3)	10.4	15.5	17.5	7.8
Relative Performance	0.3	0.7	1.0	1.2	1.1

* annualised, inception date 1st July 2005

Turnover

Holdings at 31.03.15	Holdings at 30.06.15	Turnover in Quarter %	Turnover in Previous Quarter %
419	438	11.4	11.5

Purchases and Sales

During the quarter Invesco made a number of stock adjustments to the portfolio as a result of their stock selection process. Invesco added Visa and increased positions in Verizon, Bunge, Gilead Sciences and Health Net. These were funded by selling out of Lockhead Martin, PPG Industries and Partnerre. Invesco also reduced positions in Exxon Mobil and Ameriprise Financial.

Largest Overweights

Pfizer	1.00%
Citigroup	0.85%
Nippom	0.85%
JPMorgan Chase	0.82%
Archer Daniels	0.76%

Largest Underweights

Chevron	(0.58%)
Exxon Mobil	(0.56%)
Amazon	(0.55%)
Google	(0.52%)
Walt Disney	(0.50%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple Inc	£10,255,619
2	Pfizer Inc	£5,684,789
3	JPMorgan Chase	£5,583,834
4	Microsoft Corp	£5,283,290
5	Citigroup Inc	£4,754,110

6	Johnson & Johnson	£4,409,990
7	Intel Corp	£4,048,995
8	General Electric Co	£3,389,407
9	Nippon Tel & Tel	£3,199,745
10	Gilead Sciences Inc	£3,149,302

Hymans Robertson View

In May Invesco announced that Karl Georg Bayer was 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 slightly increased to 1.07% (actual target 1%).

Lincolnshire Pension Fund
Global Equities – Neptune
Quarterly Report June 2015

Investment Process

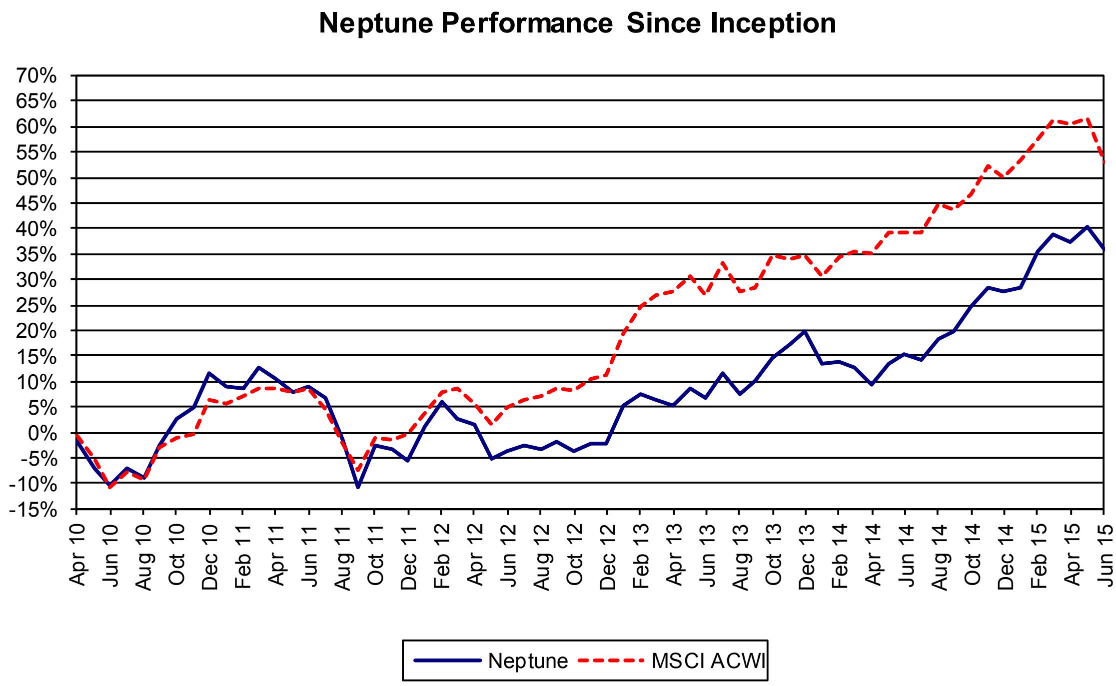
This portfolio is mandated to outperform the MSCI All Countries World Index by 2% to 4% over rolling three year periods, net of fees. This is achieved through generating capital growth from a concentrated portfolio of global securities, selected from across world equity markets. The investment process 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 31.03.15	Value at 30.06.15
£91,900,198	£89,662,366

Performance

During the quarter Neptune produced a negative return of 2.3% but outperformed the benchmark by 2.9%. The Fund's strong performance for the quarter was driven by Neptune's Japanese portfolio, particularly industrials and consumer holdings. Neptune's view on further Yen weakness, contributed to performance as the Yen depreciated versus sterling. The Indian market sold off in April, which impacted on performance, however Neptune are still firm believers in the Modi reform story and expect stronger performance in the second half of 2015.



	Quarter %	1 Year %	3 Year %	5 Year %	Inception* %
Neptune	(2.3)	17.7	12.1	8.6	6.0
MSCI ACWI**	(5.1)	10.1	13.5	11.4	8.5
Relative Performance	2.9	6.9	(1.3)	(2.5)	(2.3)

* annualised, inception date 16/04/2010

Turnover

Holdings at 31.03.15	Holdings at 30.06.15	Turnover in Quarter %	Turnover in Previous Quarter %
54	55	5.9	17.4

Purchases and Sales

Neptune made limited changes during the quarter following the previous period's higher turnover (which added to the US consumer and healthcare exposure). They did increase and diversify their holdings of Japanese financials into banks and insurers; this was funded by taking some profits from the US.

Top 5 Contributions to Return

Dai-Ichi Life Ins	0.2%
Gilead Sciences Inc	0.2%
Amazon.com	0.2%
Starbucks Corp	0.1%
Daiwa House Industry	0.1%

Bottom 5 Contributions to Return

Oriental Land Co	(0.4%)
Mitsubishi Estate Co	(0.4%)
Fanuc Ltd	(0.5%)
Whole Foods Market	(0.6%)
LinkedIn Corp	(0.7%)

Top 10 Holdings

1	Apple Inc	£3,189,928
2	Sumitomo Realty	£2,786,533
3	Dai-ichi Life Ins Co	£2,745,378
4	Mitsubishi Estate	£2,731,192
5	Icici Bank	£2,687,531

6	Fanuc Corp	£2,606,480
7	Google Inc	£2,575,332
8	Mitsui Fudosan Co	£2,574,601
9	Tencent Holdings	£2,526,157
10	CME Group Inc	£2,365,613

Hymans Robertson View

Hymans view has not changed following their meeting with Neptune in early 2015 and still retain their "on watch" rating. A further review of the rating will take place in the last quarter of 2015.

Risk Control

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

Lincolnshire Pension Fund
Global Equities – Schroders
Quarterly Report June 2015

Investment Process

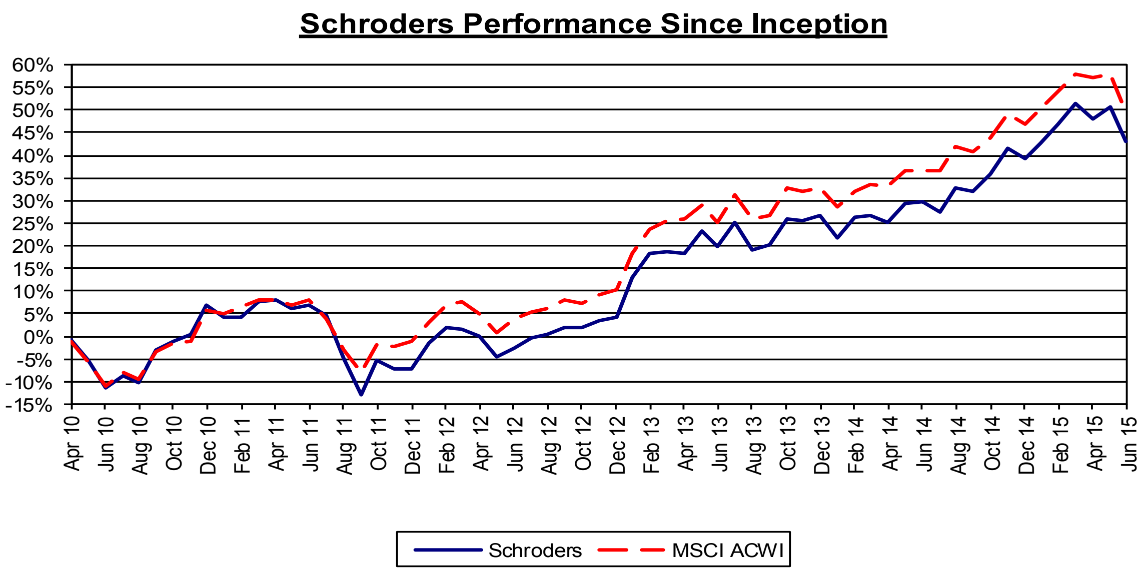
This portfolio is mandated to outperform the MSCI All Countries World Daily Net Index by 2% to 4% over rolling three year periods, gross of fees. This is achieved through an investment approach that is designed to add value relative to the benchmark through both stock selection and asset allocation decisions. 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 31.03.15	Value at 30.06.15
£90,450,362	£85,441,059

Performance

Schroders underperformed the benchmark over the period as holdings in healthcare and consumer discretionary detracted the most, although gains were made from stock selection in consumer staples, financials, energy and telecoms. Over one and three years Schroders have outperformed the benchmark but underperformed over five years and since inception. They are behind their target in all periods.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Schroders	(5.6)	10.4	13.7	10.1	7.1
MSCI ACWI (Net)	(5.3)	9.5	12.9	11.0	8.0
Relative Performance	(0.3)	0.8	0.7	(0.8)	(0.9)

*annualised since Inception April 16 2010

Turnover

Holdings at 31.03.15	Holdings at 30.06.15	Turnover in Quarter %	Turnover in Previous Quarter %
66	69	10.8	19.4

Purchases and Sales

During the quarter Schroders increased their exposure to the financial sector with new purchases in Lloyds Banking Group and Deutsche Bank. New positions were also taken in medical supplier, Fresenius and Japanese air conditioning manufacturer Daikin. Sales during the quarter included Walmart and Astellas as Schroders have concerns about the operating profit outlook.

Top 5 Contributions to Return

Raia Drogasil	0.4%
Sumitomo Mitsui	0.3%
Vodafone	0.2%
Capita	0.2%
JPMorgan Chase	0.2%

Bottom 5 Contributions to Return

Kasikornbank	(0.3%)
Astellas Pharma	(0.2%)
Jardine Strategic	(0.2%)
Sprouts Farmers Mkt	(0.2%)
Wal-Mart Stores	(0.2%)

Top 10 Holdings

1	Citigroup Inc	£2,357,849
2	Taiwan Semiconductor	£2,178,049
3	Pfizer Inc	£2,114,388
4	Google Inc	£2,051,681
5	SMC Corp	£1,991,983

6	JPMorgan Chase & Co	£1,930,516
7	Apple Inc	£1,908,454
8	BBVA	£1,873,428
9	Sumitomo Mitsui Fin	£1,870,579
10	Comcast Corp	£1,811,539

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 June 2015

Investment Process

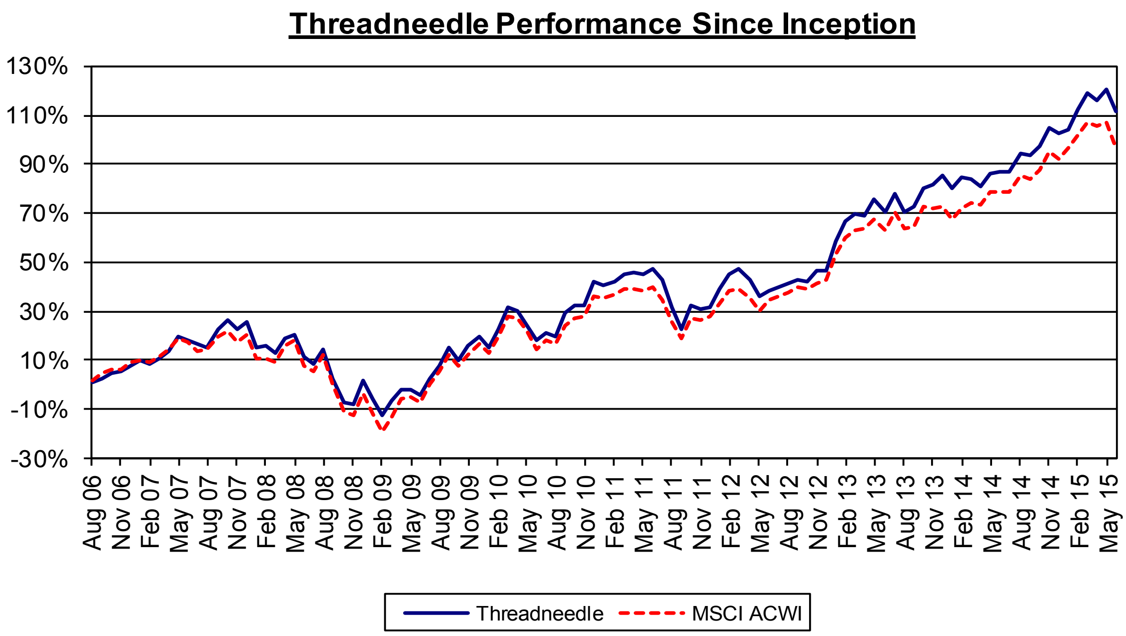
This portfolio is mandated to outperform the MSCI All Countries World Index by 2% per annum, gross of fees over rolling three year periods. This is achieved through investment managers who can draw on their own knowledge and that of other parts of the organisation to implement a thematic approach to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

Portfolio Valuation

Value at 31.03.15	Value at 30.06.15
£91,378,618	£88,102,935

Performance

Threadneedle outperformed its benchmark in the quarter. Regional allocation added value as developed Asia, where they are underweight, underperformed. Threadneedle also benefitted from their overweight position in Japan. Stock selection also drove returns with their holdings in financials, healthcare energy proving supportive.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Threadneedle	(3.6)	13.1	15.2	12.4	9.0
MSCI ACWI	(5.1)	10.1	3.5	11.4	8.1
Relative Performance	1.6	2.8	1.5	0.9	0.9

* annualised, inception date 01/08/2006

Turnover

Holdings at 31.03.15	Holdings at 30.06.15	Turnover in Quarter %	Turnover in Previous Quarter %
86	83	9.3	15.0

Purchases and Sales

Threadneedle took advantage of recent weakness to buy a position in ASML, a market leader in technology, for producing microchips and also opened a position in dental solutions business Align Technology. Threadneedle exited their position in biopharmaceutical giant Amgen.

Top 5 Contributions to Return

BG Group	0.3%
Gilead Sciences	0.3%
Ping An Ins group	0.2%
Shimadzu Corp	0.2%
UBS Group	0.2%

Bottom 5 Contributions to Return

PT Bank Rakyat Ind	(0.4%)
Sumco Corp	(0.3%)
Union Pacific Corp	(0.3%)
Samsung Electronics	(0.2%)
Tower Watson & Co	(0.2%)

Top 10 Holdings

1	Gilead Sciences	£2,563,964
2	Apple Inc	£2,328,568
3	Walt Disney Co	£2,079,112
4	UBS AG	£1,946,687
5	Comcast Corp	£1,911,931

6	Facebook Inc	£1,881,681
7	Aon PLC	£1,832,364
8	Wolseley PLC	£1,767,405
9	Amphenol Corp	£1,759,798
10	Japan Exchange Grp	£1,695,740

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. Subsequently the performance has been encouragingly positive year to date.

Risk Control

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

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

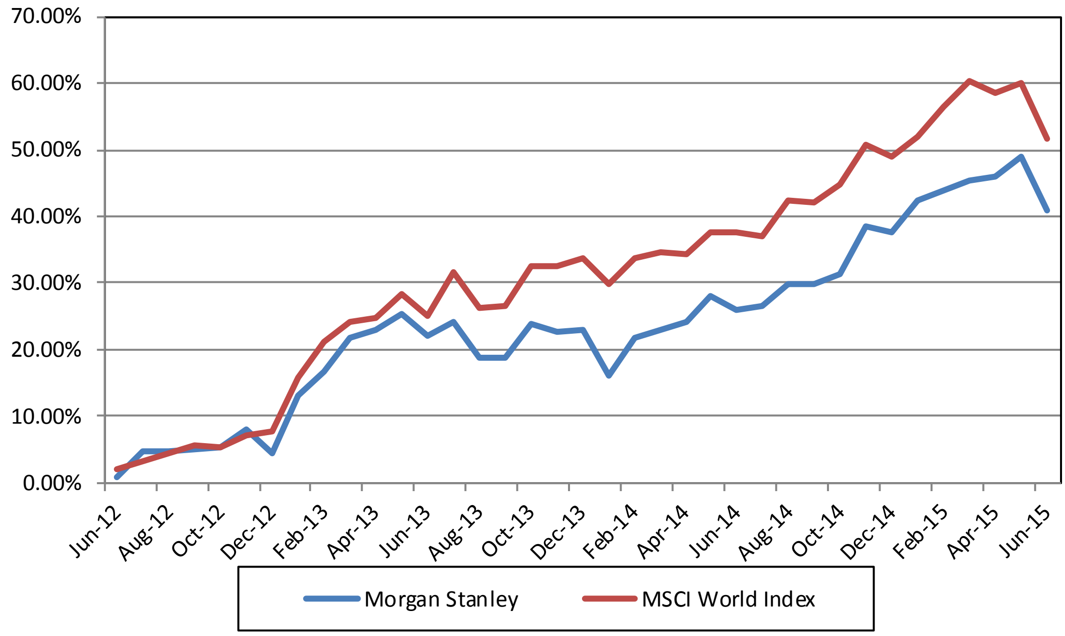
Portfolio Valuation

Value at 31.03.15	Value at 30.06.15
£88,445,435	£85,570,518

Performance

During the quarter Morgan Stanley Global Brands returned -3.25% outperforming its benchmark by 2.2%, which returned -5.32%. The outperformance for the quarter was mainly due to their stock selection in consumer staples and information technology. Morgan Stanley's underweight position in Financials and Healthcare detracted from performance.

Morgan Stanley Global Brands Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley Global Brands	(3.3)	11.8	11.8	N/A	12.8
MSCI World Index	(5.3)	10.3	14.2	N/A	15.8
Relative Performance	2.2	1.4	(2.1)	N/A	(2.6)

*annualised, inception date 18/06/2012

Purchases and Sales

During the quarter Morgan Stanley added to some of their Media names and reduced some of their positions in Consumer Staples, Pharma and Luxury Goods on relative valuation grounds.

Top 3 Contributions to Return

Mondelez Intl	0.3%
Microsoft	0.1%
Japan Tobacco	0.1%

Bottom 3 Contribution to Return

Nestle	(0.7%)
Procter & Gamble	(0.4%)
Reckitt Benckiser	(0.3%)

Top Ten Holdings

Company	Industry	% Weighting
British American Tobacco	Tobacco	9.1
Nestle	Food Products	9.0
Unilever	Personal Products	6.9
Reckitt Benckiser	Household Products	6.9
Microsoft	Software	6.6
Time Warner	Media	4.8
Accenture	IT Services	4.7
Procter & Gamble	Household Products	4.3
Visa	IT Services	4.1
Mondelez	Food Products	4.1

Hymans Robertson View

In July, Morgan Stanley has announced two new experienced hires for the International Equity team that manages the Global Brands / Franchise strategy. Yiwen Li left the team at the end of March 2015. The manager has since made two new hires, Nic Sochovsky (ex-Credit Suisse) and Richard Perrott (ex-Autonomous Research / Brenberg Bank). We do not know these individuals from their previous employment but we are encouraged to see the team being strengthened.

Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report June 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 30th June 2015

Portfolio	**31.03.15 £**	**30.06.15 £**
Corporate Bond All Stocks Index Fund	58,331,925	56,102,690
Over 5 Years UK Index-Linked Gilt Index Fund	34,465,335	33,332,957
Overseas Bond Index Fund	23,380,074	21,632,164
Total	**116,177,344**	**111,067,811**

Performance

Over all periods the portfolio has slightly outperformed the benchmark.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	(4.4)	8.1	5.1	n/a	6.7
Composite Benchmark	(4.4)	7.8	5.0	n/a	6.7
Relative Performance	0.0	0.3	0.1	n/a	0.1

*annualised since inception 28/07/10

Hymans Robertson View

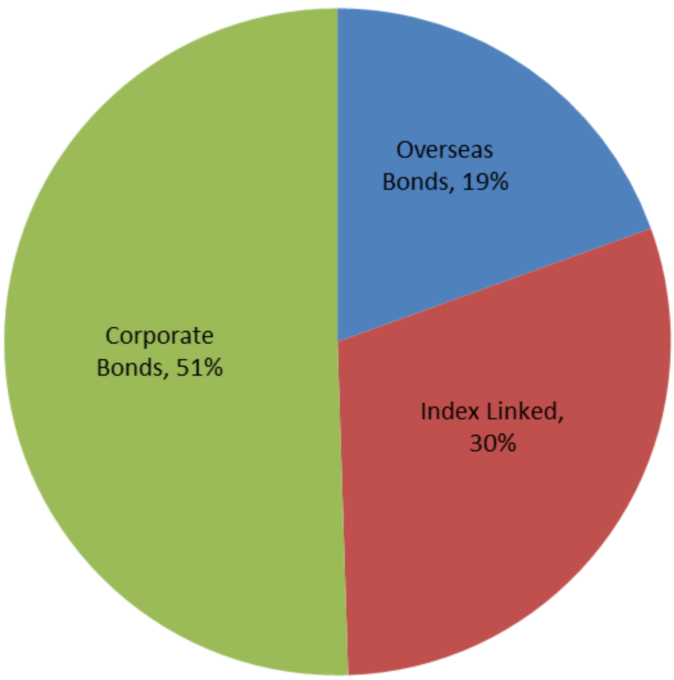
There were no significant developments within the Index Fixed Income team over the quarter; as such Hymans continue to rate Blackrock as one of their preferred passive fixed income managers.

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 30th June 2015



Lincolnshire Pension Fund
Absolute Return Bonds – F&C
Quarterly Report June 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 31.03.15	Value at 30.06.15
£112,371,266	£111,368,676

Performance

F&C produced a negative return of 0.9% during the quarter which was 1.6% below target. The most important contributor to F&C's return this quarter was the negative return from Concerto, who have had a tough twelve months. Concerto has been affected by the continued volatility in the US high yield market after the massive collapse in oil prices last year; however F&C maintain their conviction in the strategy and feel that future prospects are good. Broadly speaking, Chenavari and Threadneedle cancelled each other out over the period.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
F&C	(0.9)	(3.6)	1.6	n/a	1.7
3 Month LIBOR + 3%	0.8	3.1	3.1	n/a	3.4
Relative Performance	(1.6)	(6.5)	(1.4)	n/a	(1.7)

* 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:

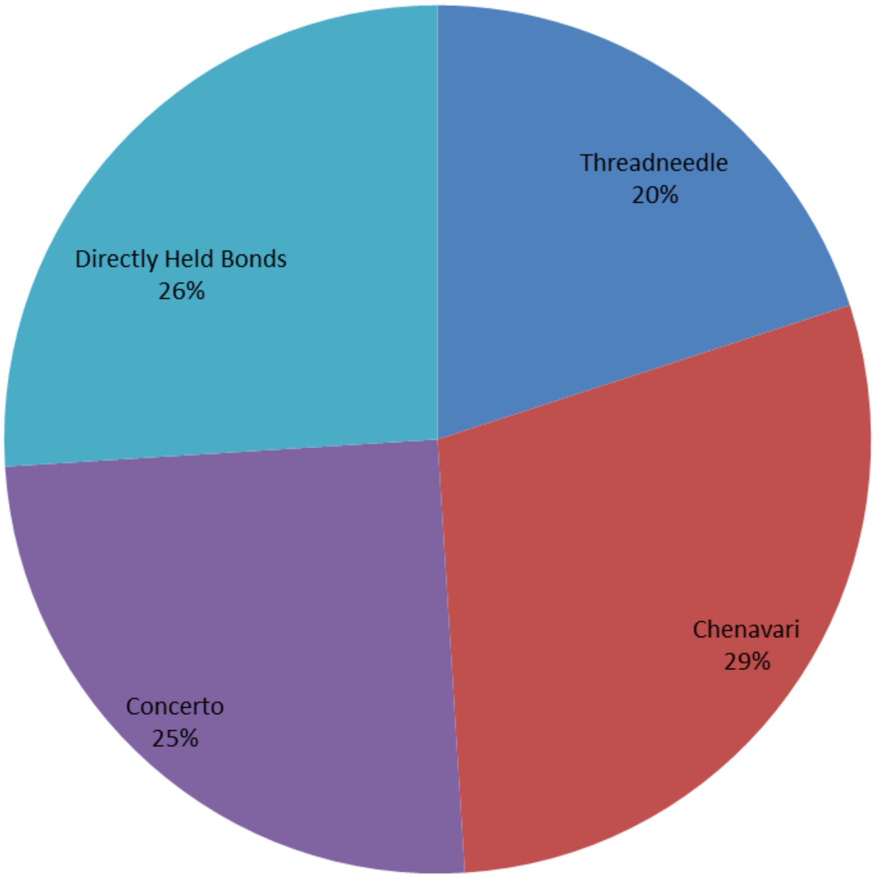
Threadneedle	Interest rates, currency
Chenavari	Credit
Concerto	Credit

Hymans Robertson View

Hymans continue to rate F&C Absolute Return Bond fund a “4 – retain”. There have been no significant developments within the Fixed Income team over the quarter to end June 2015 and we continue to be encouraged by the firm’s strong focus on growing its multi strategy business. Under BMO ownership further investors into the

Fund are being actively sought however there have been no new investors in Q2 2015 and Lincolnshire remains the largest investor.

The pie chart below shows the allocation as at 30th June 2015



Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report June 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 31.03.15	Value at 30.06.15
£171,685,176	£178,878,880

Performance

The portfolio returned -0.67% during the second quarter. Global macro, which was the worst performing hedge fund strategy, was the largest detractor. Real estate, due to weakness in the asset class, and high yield, also weighed heavily on returns. In contrast, senior loans and frontier equity were the largest contributors, where both our positioning and manager selection were additive.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley	(0.6)	(1.8)	4.4	n/a	4.5
3 Month LIBOR + 4%	1.2	4.7	4.7	n/a	4.7
Relative Performance	(1.7)	(6.2)	(0.2)	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;

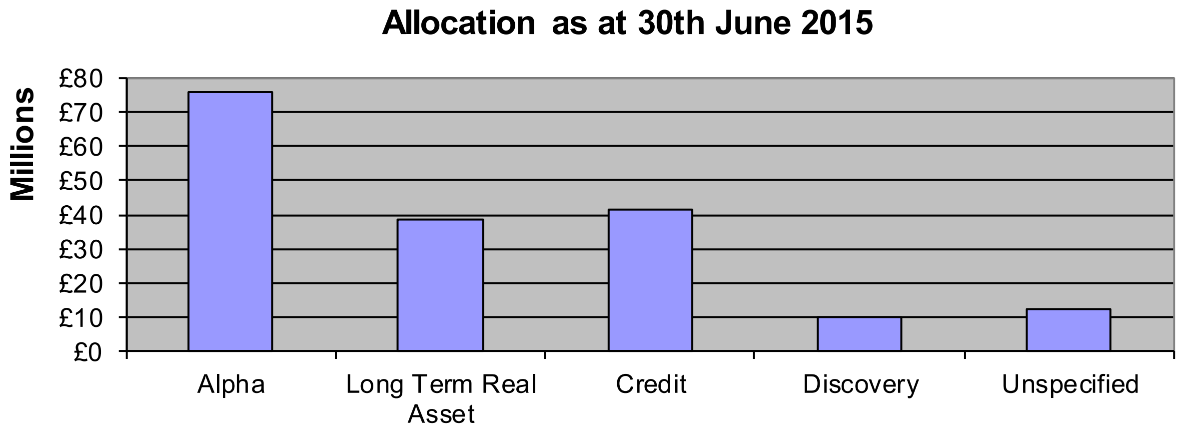
Alpha – These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.

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 the slowdown of the U.S. equity beta rally, Morgan Stanley have positioned the portfolio with an emphasis on alpha generating strategies (hedge funds) at the expense of credit strategies and commodities. This quarter, within alpha strategies, they increased their exposure to hedge funds, particularly co-investments and other opportunistic investments, while modestly reducing their macro allocation. Morgan Stanley decreased their credit exposure through reductions in high yield and convertibles. Within credit strategies, they favour less interest rate-sensitive strategies, such as senior loans, given extremely low yields and potential capital losses associated with rising interest rates. They are prudently positioned in EM debt, where they have a preference for USD (as opposed to local currency) and corporate exposure, as the relative strength of the U.S. economy versus other major developed and EM economies will likely continue to support the USD. Furthermore, local EM economies struggling with low future growth expectations will likely weaken their respective currencies. In addition, they restructured their high yield allocation to include high yield energy given that the sharp decline in oil prices has created some dislocations in the U.S. high yield markets and short term improvements in oil and cost cutting measures by energy companies should allow for high yield spread compression. Within real assets, the first commitments to Morgan Stanley's global infrastructure manager are being drawn. They continue to build out the private markets portfolio, which is expected to cause a drag on short-term performance, but deliver meaningful upside in the medium and long-term. On the liquid side, they have a preference for listed private equity over listed infrastructure and REITS since the latter are more exposed to interest rate sensitivity. In addition, they redeemed out of the EM inflation fund. Morgan Stanley continue to have a positive view on catastrophe risk as they enter the U.S. hurricane season, which should offer relatively high premiums throughout the second half of the year.

Hymans Robertson View

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

Hedge Funds have always been a core strategic allocation within the portfolio due to what Morgan Stanley believes to be their attractive characteristics. However, the group has recently launched a liquid alternatives strategy which seeks to replicate some of the returns of hedge fund strategies but in a more liquid and transparent approach, and also with lower fees. Going forward Morgan Stanley will re-balance some of the hedge fund investments into this strategy.

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 negative return of -1.88% which is slightly ahead of the benchmark.

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.

Report Reference:
Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**08 October 2015**
Subject:	**Pension Fund External Audit ISA 260 Report**

Summary:

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

Recommendation(s):

That the Committee note the ISA 260 Report.

Background

1. The Pension Fund Annual Report and Accounts for the year ended 31st March 2015 have been completed and were approved by this Committee in July. These have now been independently audited by the Council's external auditors, KPMG. A report to those charged with governance (ISA 260) for the Pension Fund has been prepared by KPMG, and was taken to the Audit Committee on 21st September for approval. It has been brought before the Pensions Committee for information.

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

- Section Two – Headlines (page 3):
    - The External Auditor is pleased to report that their audit of the Fund's statements did not identify any material adjustments.
    - The External Auditor states that the Council has good processes in place for the production of the Fund's financial statements and good quality supporting working papers.
    - The External Auditor identified a key audit risk in their 2014/15 external audit plan. The risk was that from 1st April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme.

They feel that there is a risk the pension administration systems may not have been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. External Audit have worked with officers throughout the year to discuss this key risk.

  - The Fund's organisational control environment is effective overall. However the External Auditor has identified a historical weakness in internal control relating to the lack of reconciliation between information held on Altair pension's administration system and SAP, the pension's payroll system. External Audit are satisfied that the Authority is taking the required action to rectify the issue.

- Section Three – Prior year recommendations (page 5) – The 2013/14 audit recommended management should review all foreign exchange rates applied to the valuation of an investment for accuracy and consistency. The External Auditor states that the 2014/15 audit work showed that management has sought to review all foreign exchange rates applied and there were no errors identified during this year's audit.

- Section Three – Significant risks and key areas (page 6) – As stated in the highlights the External Auditor felt there was a risk regarding LGPS 2014. They have reviewed the controls and processes that have been put in place to accurately capture the data required by LGPS 2014 and have confirmed that the correct version of the software used to calculate benefits is in use. The External Auditor has no specific additional issues following their audit work in relation to the significant risk.

- Appendix One – Key Issues and Recommendations (page 8) – The External Auditor has made one recommendation that the Pensions Committee should continue to receive update reports to ensure the under/over payment issues have been fully addressed.

2.1 No amendments were made to the core financial statements that were presented to this committee on 13 July 2015.

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

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

Conclusion

5. The Pension Fund Accounts for the year ended 31st March 2015 has received an unqualified audit opinion from the Council's external auditors, KPMG. Once the formal opinion has been received, a copy of the Pension Fund Annual Report and Accounts will be distributed to interested parties.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

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

Background Papers

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

This report was written by Nick Rouse, who can be contacted on 01522 553641 or nick.rouse@lincolnshire.gov.uk.

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cutting through complexity™

Report to those charged with governance (ISA 260) 2014/15

Lincolnshire Pension Fund

September 2015

Contents

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley the engagement lead to the CCG, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one

Introduction

This document summarises the key issues identified during our audit of the Lincolnshire Pension Fund's (the Fund's) financial statements for the year ended 31 March 2015.

Scope of this report

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

This report meets both these requirements. It summarises the key issues identified during our audit of the Fund's financial statements for the year ended 31 March 2015.

Financial statements

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

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

Our on site work for these took place during March 2015 (interim audit) and June and July 2015 (year end audit).

Some of our responsibilities under ISA 260 relate to the Authority as administering authority as a whole and are discharged through our separate ISA 260 Report and Annual Audit Letter for the Authority.

This specifically includes our work in the completion stage:

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

Structure of this report

This report is structured as follows:

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

Acknowledgements

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

Headlines

This table summarises the headline messages.

Sections three of this report provides further details on each area.

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Proposed audit opinion	We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2015. At the date of this report our audit of the Fund's financial statements is substantially complete. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund. We also need to complete our final checks on the content of the pension fund's annual report and issue our separate opinion on that report.
Audit adjustments	We are pleased to report that our audit of the Fund's financial statements did not identify any material adjustments. The Authority made a small number of non trivial adjustments, most of which were of a presentational nature.
Key financial statement audit risks	We review risks to the financial statements on an ongoing basis. We identified the following key financial statements audit risk in our 2014/15 External audit plan issued in March 2015. ▪ From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members.. We have worked with officers throughout the year to discuss this key risk and our detail findings are reported in section 3 of this report.
Accounts production and audit process	The Authority continues to have good processes in place for the production of the Fund's financial statements and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. We have worked with officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.
Control environment	The Fund's organisational control environment is effective overall. We have though highlighted one issue which emerged in the year relating to the lack of a reconciliation between information held on the Altair pensions administration system and the pensions payroll system. The Authority is taking the required action to rectify this issue.

Proposed opinion and audit differences

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

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 21 September 2015.

Audit differences

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

We did not identify any material misstatements. We identified a number of minor issues that have been adjusted by management and do not need to be reported you. This included a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (‘the Code’).

Completion

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

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

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

Annual Report

We have reviewed the draft Pension Fund Annual Report and confirmed that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the final Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts. The statutory deadline for publishing the document is 1 December 2015.

Accounts production and audit process

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

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

The Authority has implemented the recommendation made in our 2013/14 ISA 260 Report.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has good financial reporting arrangements over the Fund's financial statements in place. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 9 June 2015.
Quality of supporting working papers	Our *Accounts Audit Protocol* discussed with the Senior Pensions Accountant, set out our working paper requirements for the audit. The quality of the working papers provided met the standards specified in our *Accounts Audit Protocol*.
Critical accounting matters (key audit risks)	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.
Response to audit queries	Officers resolved audit queries in a reasonable time.

Prior year recommendations

In our 2013/14 ISA 260 Report we recommended that, given the non material error identified during the audit, management should review all foreign exchange rates applied to the valuation of an investment for accuracy and consistency. Our 2014//15 audit work showed that management has sought to review all foreign exchange rates applied to the valuation of an investment for accuracy and consistency. We did not identify any errors in these valuations during this year's audit.

Significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

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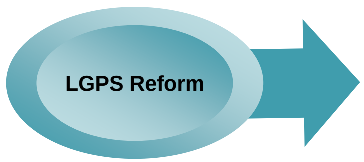
In our *External Audit Plan 2014/15*, presented to you in March 2015, we identified the significant risks affecting the Pension Fund's 2014/15 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings.

Significant audit risk	Issue	Findings
	**Risk** From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 2014/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected.	We have reviewed the controls and processes that the Pension Fund has put in place to accurately capture the data required by LGPS 2014. We have confirmed that the correct version of the software used to calculate benefits is in use. There are no specific additional issues arising from our audit work in relation to this significant audit risk that we need to raise in this report.

Other areas of audit focus

From 1 April 2015, the Pensions Regulator became responsible for regulating the governance and administration of public service pension schemes, which includes the Local Government Pension Scheme. Scheme managers and pension board members must comply with a number of legal requirements, such as the establishment of a pension board with an equal number of employer representatives and member representatives. Pension board members for a public service pension scheme must also meet certain legal requirements that relate to their knowledge and understanding.

We have discussed with managers the progress made in implementing these new arrangements, and noted that the required governance framework is in place. The Board had its first meeting in July 2015. There are no specific additional issues that we need to raise in relation to this area of audit focus in this report.

Control environment

Overall the controls over the Fund's key financial systems are effective.

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During March 2015 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational control environment

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

Most of the controls we look at do not just relate to the Fund but the Authority as a whole.

We concluded that the Fund's organisational control environment is effective overall. Managers had though highlighted a weakness in internal control which emerged in the year relating to the lack of a reconciliation between information held on the Altair pensions administration system and the pensions payroll system. Whilst this control has been implemented for 2015/16 through the move to the integrated system now provided by the West Yorkshire Pension Authority, discrepancies between the information on the two systems up to the date of the change resulted in under and over payments to pensioners. These amounts were not material and the Authority is taking the required action to rectify these under and over payments. Managers should consider providing the Pensions Committee with update reports to ensure the under/overpayment issues have been fully addressed. We have made a recommendation in this regard in Appendix 1.

ISAE 3402 reports

The Fund used a number of different fund managers during 2014/15. Most fund managers provide assurance reports under International Standard on Assurance Engagements (ISAE) 3402 or equivalents. ISAE 3402 reports provide assurance over the controls at a service organisation where these controls are likely to be relevant to user entities' internal control over financial reporting.

Assurance reports were available for all fund managers.

Work on behalf of admitted body auditors

The auditors of admitted bodies requested us to complete specific work on controls operated by the Fund on behalf of the admitted bodies over certain data provided to the actuaries in order to determine the pensions liabilities and related disclosures for the admitted bodies.

Our work did not identify any specific issues other than the incorrect calculation of the membership numbers for Lincolnshire County Council which have now been corrected by the Authority resulting in an updated IAS 19 report from the actuary. This issue had no bearing on the information included in the accounts of the Lincolnshire Pension Fund.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Lincolnshire Pension Fund for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Lincolnshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Authority for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Fund's 2014/15 financial statements.

Appendix 1: Key issues and recommendations

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

We will formally follow up on this recommendations next year.

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

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❸	**Statement of Investment Principles Asset Mix** Managers identified a weakness in internal control relating to the absence of a reconciliation between information held on the Altair pensions administration system and the pensions payroll system. Discrepancies between the information on the two systems system resulted in non-material under and over payments to pensioners. The Authority is taking the required action to address this issue. **Recommendation** The Pensions Committee should continue to receive update reports to ensure the under/overpayment issues have been fully addressed.	**Management Response** The underpayments were corrected upon discovery. The overpayments are being addressed. The Pensions Committee will continue to receive update reports to ensure the under/overpayment issues have been fully addressed. **Owner** Jo Ray, Pensions & Treasury Manage

cutting through complexity™

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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:	**08 October 2015**
Subject:	**Performance Measurement Annual Report**

Summary:

This report sets out the Pension Fund's longer term investment performance, for the period ending 31st March 2015.

Recommendation(s):

That the Committee note the report & consider the recommendation to revise the Fund performance target.

Background

1 INTRODUCTION

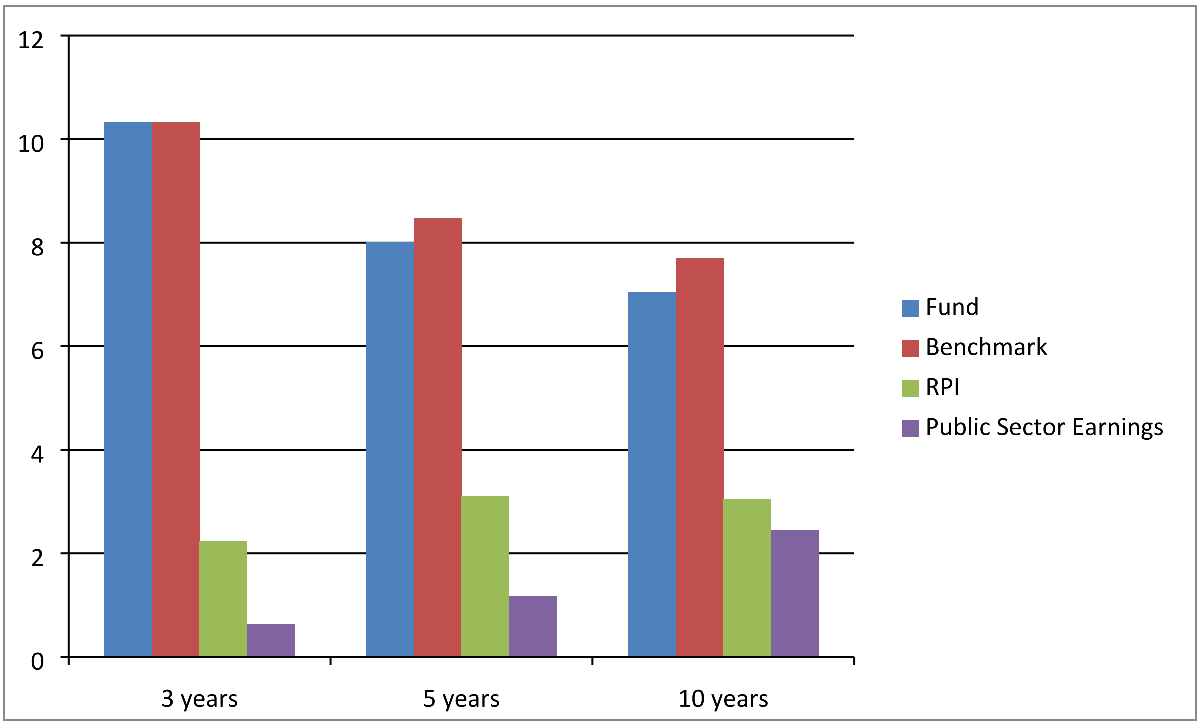
1.1 The Pension Fund uses two suppliers for the measurement of the Fund's performance. JPMorgan, the Fund's custodian, calculates the Fund's investment performance and compares it with the returns of the strategic asset allocation benchmark (i.e. the return achieved by the mix of assets as recommended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

2 LONGER TERM PERFORMANCE FOR YEARS ENDED 31 MARCH 2015

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

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

INFLATION INCREASES AND INVESTMENT RETURNS FOR UP TO 10 YEARS ENDED 31/3/2015



	3 years annualised %	5 years annualised %	10 years annualised %
Retail Prices Index increases	2.2	3.1	3.1
Public sector average Earnings increases	0.6	1.2	2.4
LCC Fund performance	**10.3**	**8.0**	**7.0**
LCC Benchmark Performance	**10.3**	**8.5**	**7.7**
Relative Performance	**0.0**	**(0.5)**	**(0.7)**

2.3 10 Year Returns

The Fund's performance over ten years, at 7%, is slightly behind the Fund's Benchmark return of 7.7%. This return is ahead of both inflation and average earnings over the last ten years, to which the scheme's liabilities are linked, which were 3.1% and 2.4% p.a. The Fund's performance reflects poor stock selection by the Fund's active asset managers over a number of years, as can be seen in the table at paragraph 3.4.

2.4 5 Year Returns

Five year returns of 8% per annum are ahead of both price and pay inflation. The Fund's actual performance is behind the strategic Benchmark return of 8.5%. This reflects the underperforming active managers over the period.

2.5 3 Year Returns

Three year returns, at 10.3%, are ahead of both inflation and average earnings, and match the strategic benchmark return.

3 ATTRIBUTION ANALYSIS

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

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

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

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

Long Term Performance Analysis

Year ended March	Fund %	Benchmark %	Relative Performance %	Attributed to Asset allocation %	Attributed to Stock Selection %
2006	24.4	24.1	**0.3**	0.7	(0.4)
2007	6.9	6.5	**0.3**	0.4	(0.1)
2008	(4.4)	(3.3)	**(1.1)**	0.1	(1.2)
2009	(18.6)	(20.0)	**1.7**	2.1	(0.4)
2010	29.7	36.7	**(5.1)**	(3.1)	(2.1)
2011	7.9	7.8	**0.1**	0.1	0.0
2012	1.5	2.4	**(0.8)**	(0.2)	(0.6)
2013	12.6	11.3	**1.2**	0.12	1.04
2014	6.3	6.2	**0.1**	0.15	(0.08)
2015	12.3	12.4	**(0.1)**	(0.09)	(0.07)

4 WM LOCAL AUTHORITY UNIVERSE

4.1 The WM Company (a wholly owned subsidiary of State Street) measures the performance of the Fund against the Local Authority Universe. The WM Local Authority (LA) Universe is an aggregation of 85 funds within the LGPS sector that are used for peer group comparisons.

4.2 The weighted average return for Local Authority Pension Funds in the WM Local Authority Universe over the year 2014/15 was 13.2%, slightly ahead of the Lincolnshire Fund return of 12.3%. The actual performance of the Fund ranked in the middle of the Local Authority funds, at the 68th percentile. Over the longer term, the Fund is in the 70th to 80th percentile.

4.3 The table below shows how the asset allocation for the Lincolnshire Fund compares with the average Local Authority Pension Fund in 2015 and 2014.

Asset Class	**Lincolnshire**	**LA Average**	
		2015	**2014**
Equities	60.0	62	63
Bonds	13.5	17	16
Property	11.5	8	8
Alternatives	15.0	10	10
Cash	0.0	3	3

4.4 Since the 1990's Funds have been using strategic benchmarks linked to their individual liability profiles, rather than a standard asset allocation. The asset allocation of the Fund was considered at the July 2014 meeting of this committee, and the high level growth/low risk asset allocations agreed.

4.5 Within the LA Universe, there has been an increase in bonds and a reduction in equities. Within equities, the move from UK to global equities has continued.

5 FUND PERFORMANCE TARGET

5.1 As requested at the July meeting of this committee a review of the Fund's objective to meet the strategic benchmark by 1% per annum, over the long term has been carried out by Hymans Robertson.

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

5.3 Paul Potter will present Hymans Robertson's paper and explain the reasoning behind the reduction from 1% to 0.75%

5.4 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

6.1 The Pension Fund's investment performance of 7% over the 10 year period ended 31st March 2015 was slightly behind the strategic benchmark of 7.7%. The Fund is seeking to outperform the Benchmark by 1% per annum over rolling three year periods. Annualised returns over three, five and ten year periods are ahead of inflation in pay and prices. At an absolute level, the ten year performance is comfortably ahead of the current actuarial assumption for return of around 4.6% per annum.

6.2 Looking at the individual years, there was a negative contribution from both asset allocation and stock selection in the year ended March 2015. In eight of the last ten years, stock selection has detracted from performance.

6.3 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	Hymans Robertson - Fund Performance Target Review

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.

Monitoring Total Fund performance

This paper is addressed to the Pensions Committee of the Lincolnshire Pension Fund (“the Fund”). It should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have especially accepted such liability in writing.

Background

Returns for the total Fund are currently monitored against the return on the Fund’s strategic benchmark and also against a target return, incorporating an outperformance target over the benchmark return.

Where the Fund employs a manager to manage a portfolio of equities or bonds against a specific market index, it is possible to define for each mandate a benchmark return (i.e. the return on the market index) and a separate outperformance target (which the manager has agreed to aim for in their mandate in order to justify their fees).

When all of a fund’s assets are managed in this way, these can be aggregated quite simply into a Total Fund benchmark return and outperformance target.

However, the position has become more complicated for many local authority funds as they have established new mandates which allow the manager to invest across a range of potential asset classes and have agreed a long term return target for the mandate expressed either as an absolute return or in terms of a margin over cash.

For example:

- Morgan Stanley invest for the Fund across a wide range of alternative asset classes in an attempt to produce a target return of Cash + 4% p.a. over the long term.
- F&C invest across a wide range of bond asset classes in an attempt to produce a target return of Cash + 3% p.a. over the long term.

It is not meaningful to try to split these target returns into a benchmark return (as there is no underlying market index) and a separate level of outperformance from the manager. We understand that the target returns for these mandates are incorporated into the calculation of the total Fund benchmark return with no additional outperformance target, which is consistent with the approach at many other funds.

Over 25% of the Fund’s assets are now invested in mandates of this type.

Considering target returns

In the table below, we have considered each of the Fund’s mandates and taken into account the additional level of outperformance expected from managers - in excess of the return used within the total Fund benchmark return.

This shows the extent to which the Fund would outperform if all of the investment managers delivered the returns which they have agreed to target.

Mandate	% of Fund	Outperformance Target % p.a.	Contribution to Total Fund % p.a.	Comments
UK equities – Internally managed	20	-	-	Passive
Global equities - Invesco	20	1	0.20	
Global equities - Neptune	5	3	0.15	
Global equities - Threadneedle	5	2	0.10	
Global equities - Schroder	5	3	0.15	
Global equities – Morgan Stanley	5	2	0.10	
Alternatives – Morgan Stanley	15	-	-	Target of cash + 4%
Bonds - Blackrock	6.75	-	-	Passive
Bonds F&C	6.75	-	-	Target of cash + 3%
UK Property funds	7.5	-	-	Peer group benchmark - market return after all fees and costs?
Specialist / overseas property and infrastructure investments	4	-	-	Target of 7%
Total			**0.70**	

The implied level of outperformance over benchmark is 0.70% p.a.

The outperformance targets for the global equity managers reflect the level of risk they will take in the portfolios. In practice, the level of outperformance that is likely to be delivered by the active managers can be debated – and the current targets do appear quite stretched. However, in our view, the aim of the outperformance target is to identify the level of return at which the Fund's appointed managers are – in aggregate – achieving the formal performance targets.

Impact on returns

It is important to note that changes to the total Fund outperformance target do not in any way impact on the returns likely to be achieved by the Fund. There are no proposed changes to the way that any individual manager runs their mandate nor are there any implied changes in asset allocation. The change in outperformance target reflects the increased use of absolute return mandates by the Fund, which have no separate identifiable outperformance element.

Conclusions

Based on the table above, we have recommended that the Fund should have a formal outperformance target of 0.75% p.a. This figure is based on outperformance targets gross of fees so should be compared with a gross Fund return or converted to a net basis if it is to be compared with a net of fees return.

However, we believe that the Fund returns should be assessed primarily on whether they are exceeding the benchmark return - with a separate focus on whether target returns from specific mandates are being achieved or likely to be achieved.

The focus also needs to be on medium / long term comparisons because the newer mandates from managers such as Morgan Stanley cannot be assessed on an annual basis in any meaningful way against a simple 'cash plus' benchmark. Their actual returns will deviate markedly from year to year from their target return – and these types of mandate now account for over a quarter of all the Fund's assets.

We look forward to discussing these issues further with the Committee.

Prepared by:-

Paul Potter, Partner
Claire Dougal, Investment Analyst

For and on behalf of Hymans Robertson LLP

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.
Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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By virtue of paragraph(s) 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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