

# Public Document Pack



County Offices  
Newland  
Lincoln  
LN1 1YL

30 March 2016

## **Pensions Committee**

A meeting of the Pensions Committee will be held on **Thursday, 7 April 2016** 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

A handwritten signature in black ink, appearing to be 'Tony McArdle', written over a horizontal line.

Tony McArdle  
Chief Executive

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

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

## **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, 7 APRIL 2016**

<b>Item</b>	<b>Title</b>	<b>Report Reference</b>
<b>1</b>	<b>Apologies for Absence/Replacement Members</b>	
<b>2</b>	<b>Declarations of Members' Interests</b>	
<b>3</b>	<b>Minutes of the previous meeting of the Pensions Committee held on 7 January 2016</b>	(Pages 5 - 10)
<b>4</b>	<b>Independent Advisors Report</b> <i>(To consider a report by Peter Jones (Independent Advisor), which provides a market commentary on the current state of global investment markets)</i>	(Pages 11 - 14)
<b>5</b>	<b>Pensions Administration Report</b> <i>(To receive a report by the Fund's pension administrator, West Yorkshire Pension Fund which updates the Committee on current administration issues)</i>	(Pages 15 - 32)
<b>6</b>	<b>Pension Fund Update Report</b> <i>(To receive a report by Jo Ray (Pension Fund Manager), which updates the Committee on Fund matters over the quarter ending 31st December 2015 and any current issues)</i>	(Pages 33 - 46)
<b>7</b>	<b>Investment Management Report</b> <i>(To receive a report by Nick Rouse (Investment Manager), which covers the management of the Lincolnshire Pension Fund assets over the period from 1 October to 31 December 2015)</i>	(Pages 47 - 72)
<b>8</b>	<b>Annual Pensions Committee Training Plan and Policy</b> <i>(To receive a report by Jo Ray (Pension Fund Manager), which sets out the training policy and the annual training plan for Pension Committee members for the meetings from May 2016 to April 2017)</i>	(Pages 73 - 86)
<b>9</b>	<b>LGPS Asset Pooling</b> <i>(To receive a report by Jo Ray (Pension Fund Manager), which updates the Committee on Lincolnshire's progress to meet the Government's requirements on pooling LGPS assets, following the publication of the pooling criteria and investment regulations consultation on 25 November 2015)</i>	(Pages 87 - 108)

### **Democratic Services Officer Contact Details**

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

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

Contact details set out above.

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[www.lincolnshire.gov.uk/committeerecords](http://www.lincolnshire.gov.uk/committeerecords)



## **PENSIONS COMMITTEE 7 JANUARY 2016**

### **PRESENT: COUNCILLOR M G ALLAN (CHAIRMAN)**

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

Co-Opted Members: Mr A N Antcliff (Employee Representative)

Also in attendance: Roger Buttery (LGPS Pensions Board), Peter Jones (Independent Advisor)

Officers in attendance:- Caroline Blackburn (Technical and Development Manager, West Yorkshire Pension Fund), David Forbes (County Finance Officer), Jo Ray (Pension Fund Manager), Nick Rouse (Investment Manager), Catherine Wilman (Democratic Services Officer)

### 37 APOLOGIES FOR ABSENCE

Apologies were received from Councillor Mrs Rawlins and Mr J Grant (Small Scheduled Body Representative).

### 38 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 as a member of the Upper Witham Internal Drainage Board and as a contributing member of the Pension Fund.

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

### 39 MINUTES OF THE PREVIOUS MEETING HELD ON 10 DECEMBER 2015

RESOLVED

That the minutes from the meeting held on 10 December 2015 be approved and signed by the Chairman as a correct record.

40 INDEPENDENT ADVISOR'S REPORT

Consideration was given to a report which provided a market commentary by the Committee's Independent Advisor on the current state of global investment markets and the following points were noted:

- Saudi Arabia had announced an austerity plan in the New Year which included the introduction of VAT;
- Economic growth rates could be rising to 4% into 2017;
- The Chinese market was jittery, however central bankers would continue to support it;
- Market expectations were that the Dollar would strengthen in the coming months.

## RESOLVED

That the report be noted.

41 PENSION ADMINISTRATION REPORT

The Committee considered the quarterly report from the pensions administrator, West Yorkshire Pension Fund (WYPF), which updated Members on current administration issues.

Caroline Blackburn, Technical and Development Manager at WYPF took the Committee through the report and the following points were noted:

- Performance figures against key areas of work for the period 1 July 2015 to 30 November 2015 were considered. Performance had been measured against both the local indicators and the national CIPFA benchmarks. Six out of 16 areas had not met the 85% minimum target, which had been caused by a ripple effect from taking over the admin of Lincolnshire pension administration from Mouchel;
- Of the six, 'Pension Estimates' had the lowest score by far, at 27% and Members questioned why this was. It was explained that as councils had been making more redundancies of late, there had been more requests for pension estimates than usual. This was coupled with the Fund's largest employer (LCC) not being forthcoming with information. Officers ensured Members that LCC's payroll provider Serco, had improved considerably in recent months and that the figure would improve;
- The issues with Serco were part of a wider problem. The Council's Executive was aware of it as well as the Value for Money and Audit Committees and the Recovery Board;
- 96% of annual benefits statements had been sent out. The remaining 4% were delayed due to late or missing information from employers;
- The cost per member may increase slightly as the backlog was cleared from the late supply of information from LCC. Efficiencies had already started to come through also.

In conclusion, it was noted that issues and initial problems were improving as the partnership progressed.

RESOLVED

That the presentation and report be noted.

**42**     PENSION FUND UPDATE REPORT

Consideration was given to a report which updated the Committee on Fund matters over the quarter ending 30 September 2015 and any current issues.

The Pension Fund Manager and Councillor N I Jackson had attended the Annual Local Authority Pension Fund Forum Conference (LAPFF) and the Committee was updated on the issues discussed.

There were several risks that needed to be added to the risk register during this busy period. The Pension Fund Manager would circulate an update on the risk register with the monthly letter. Any risk of a corporate nature would be picked up in the wider risk reporting.

RESOLVED

That the report be noted.

**43**     INVESTMENT MANAGEMENT REPORT

The Committee considered a report which covered the management of the Lincolnshire Pension Fund assets over the period from 1 July to 30 September 2015.

The funding level at the latest formal valuation was 71.5%. As at 30 September 2015, the funding level had decreased to 66.4%.

There had been one change to the Hymans Robertson manager ratings during the quarter with Schroders being moved from 'On Watch' to 'Retain'.

Neptune had presented to the Committee in December 2015 and had explained their poor performance during the quarter. The representatives from Neptune had pointed out that they had no style bias and had an unconstrained approach to stock selection. The Committee accepted that this approach might make them more volatile in performance. However, Hymans Robertson were reviewing the performance of Neptune and the Investment Manager would keep the Committee updated.

The Committee discussed F&C and whether they had the right selection of managers. This selection had not changed since the Committee had appointed them. F&C were currently on a 'retain' rating from Hymans, who would be reviewing them in the near future.

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In response to a question, it was confirmed that the performance of the Fund had no impact on individual pensioners.

RESOLVED

That the report be noted.

44 PENSION FUND POLICIES - CODE OF CONDUCT AND CONFLICT OF INTEREST POLICY AND REPORTING BREACHES PROCEDURE

Consideration was given to a report which presented two policies for the Committee to adopt. The two policies had originally been written for the LGPS Pension Board, who had adopted them at their first meeting and it was suggested that the Pensions Committee adopt them also.

Officers reported that the Code of Conduct Policy was similar to the Councillor Code of Conduct and Members of the Committee would be asked to sign a Code of Conduct Policy.

Negligence was included in the Reporting Breaches Policy however any known negligence ought to be reported to Officers as a matter of course.

Discussion took place about paragraph 1.3 in the Conflict of Interest Policy and whether Councillors were acting in the 'public interest' or in the interests of the Fund. Officers confirmed that in the context of the policy, 'public interest' was correct.

One Member, however, felt they would find it difficult to sign with this particular wording included and the recommendation to adopt the Lincolnshire Pension Fund Code of Conduct and Conflict of Interest Policy was put to a vote.

RESOLVED:

1. That the Pension Fund Code of Conduct and Conflict of Interest Policy be adopted;
2. That the Pension Fund Reporting Breaches Procedure be adopted.

45 TPR'S CODE OF PRACTICE

Consideration was given to a report which presented a checklist for The Pensions Regulator's Code of Practice and highlighted how the Lincolnshire Pension Fund met the requirements.

The Summary Dashboard in the checklist showed 3 areas where the RAG rating was red which were:



G8 – Maintaining Contributions – Is there a satisfactory process in place to assess the materiality of any payment failures and ensure that those which are material are reported to the Regulator within a reasonable period;

I8 – IDRPs – Does the administering authority regularly assess the effectiveness of its arrangements; and

I9 – IDRPs – Does the administering authority regularly assess the effectiveness where employers carry out a stage one process.

Officers discussed what was being done to improve these areas and ensured Members that The Pensions Regulator was not expecting the Fund to have perfect performance, but hoped that any issues would be rectified promptly.

The checklist would become a standard quarterly item on the agenda.

RESOLVED

That the report and checklist be noted.

#### 46     LGPS ASSET POOLING

Consideration was given to a report which updated the Committee on the Government's requirements on pooling LGPS assets following the publication of the Pooling Criteria and Investment Regulations consultation on 25 November 2015. In addition, the report provided details of the preferred pooling route for the Lincolnshire Pension Fund.

The pooling of LGPS assets had never been done before and therefore, this was a totally new concept.

During consideration of the item, the following points were noted:

- One of the criteria was to increase the capability and capacity to invest in infrastructure. The current allocation across the LGPS was 1-2%. The Committee felt that if there were good investment opportunities, funds would invest more;
- Once pooled, overseeing investment managers would no longer be a specific role for the Committee, but dealt with by the pool as a collective. This would include appointing and removing managers;
- There may be an option to keep some assets outside of the pool; for example direct property;
- Each pool would have a shareholder board made up of one representative from each Fund. That representative would be selected by the Fund's Committee;
- Officers would still be required to do the day to day management of the Pension Fund;
- It was essential that the Fund joined a pool that suited their principles and beliefs – a "like-minded" pool, before a pool was chosen for them;

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- Funds had begun to come together with neighbours or comparative funds to make pools. The Pension Funds Manager provided details of the current pooling options and which of the forming pools would be a suitable match for Lincolnshire;
- All members of the pool would have an equal voice within it;
- Internal investment management reduces investment costs. Any internal management would be done within the pool, rather than within an individual fund.

The Pensions Manager took the Committee through the potential pools (detailed in the report), which were already forming, that Lincolnshire could join. It was felt that the 'Border to Coast Pensions' pool was most suitable for our Fund. Existing pool members East Riding and South Yorkshire had successful internal management teams.

The Committee were in agreement that this was the best pool for the Fund to be in.

#### RESOLVED

1. That the report be noted;
2. That the principles for pooling, outlined in paragraph 1.7 of the report, be agreed;
3. That delegated authority be given to the Executive Director of Finance and Public Protection, in consultation with the Chair and Vice Chair of the Pensions Committee, to respond to the Government's consultation and pooling requirements;
4. That the Lincolnshire Pension Fund work with the Border to Coast Pensions pool be agreed.

The meeting closed at 12.30 pm

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## Regulatory and Other Committee

<b>Open Report on behalf of Executive Director of Finance and Public Protection</b>
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Report to:	<b>Pensions Committee</b>
Date:	<b>07 April 2016</b>
Subject:	<b>Independent Advisors Report</b>

**Summary:**

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

**Recommendation(s):**

That the Committee note the report.

### Background

#### INVESTMENT COMMENTARY

#### April 2016

#### Market panic over – or worse yet to come? Brexit a factor?

As members will be well aware, 2016 started off with the equity markets around the world falling sharply. The FTSE 100 Index fell over 10% from its year end value to its low point in mid-February and the US market almost as much. Why was this? The trigger point seemed to be growing anxiety about the state of the Chinese economy – though this was hardly a new thought. A consequence of weaker Chinese growth, the argument went, would inevitably be reduced demand – and hence prices – of commodities, such as oil, iron ore and copper. And there would an impact on global economic growth generally and anxiety about the financial health of some highly geared global companies such as mining and oil stocks. Some international banks also came under scrutiny. In the UK, the increasingly frantic “debate about Brexit” – Britain withdrawing from the European Union – was clearly also a negative factor.

And yet, in mid-February, equity markets turned on the proverbial sixpence and have recovered sharply. They are still down, year to date. But Wall Street, for example, is now down only about 3% for the year. The assault by banking regulators on global banks, especially their market making activities in equities and

bonds, has made prices of even the very largest stocks more volatile. Probably, the initial trigger for equity price weakness in early January was short selling by hedge funds, which was not matched by buying from long term “long only” funds. The fall then became self-feeding - as has the subsequent recovery. Some very large mining stocks have almost doubled since their low point. Commodity prices have also seen a significant recovery; oil, which was at \$27 per barrel at one stage, has recently been over \$40.

On the economic and financial front, the news has been mixed; but the US economy still seems to be growing as anticipated. Elsewhere around the world, the economic news has tended to disappoint. Central Bankers, with the exception of the US Federal Reserve, are thus likely to err on the side of caution and keep markets adequately supplied with liquidity. The European Central Bank, for example, recently announced another generous package of easing measures to help banks and boost the European economy. Global equity markets could well trade within quite narrow bands. It is doubtful that they can breach the high points of the first quarter of 2015, absent a flow of optimistic news; the sharp turnaround of equities in mid-February this year, is likely to provide a floor at that level. The major uncertainty that remains, especially for the UK markets, is around Brexit, the debate leading up to the June referendum, the result of the vote, and then (supposing the vote is to withdraw) the two years allowed for a renegotiation with the EU.

### **Brexit – some thoughts**

Recent opinion polls, taken after the conclusion of the Prime Minister’s renegotiations with the EU and the calling of the June referendum, point to a “neck and neck” outcome in the referendum, but with a large number of undecided voters. The betting market (which has a better track record than opinion polls, especially recently) puts the likelihood of UK withdrawal as low as 25%.

Any renegotiation following a no vote would centre around terms of trade. Interestingly, the UK is more important as an export market for the EU than the EU is to the UK (as a percentage of GDP). Germany has a particular bias towards the export of cars to the UK. The UK’s largest individual export market is the USA. So, the UK would have some negotiating strength. The biggest hurdle to UK exports would be agricultural products where the Common Agricultural Policy imposes high tariffs on EU imports. There is probably little leverage here.

Some commentators have advocated the adoption of one of the two existing trade models with the EU: that of Norway in the European Economic Area (“EEA”) and Switzerland in the European Free Trade Agreement (“EFTA”). Neither seems attractive. Both demand the payment of some contributions into EU budgets. They require adherence to many EU regulations whilst providing no part in influencing new ones. Crucially, free movement of labour is required – surely a line in the sand for the UK?

As to the impact on the UK’s rate of economic growth, were it to withdraw from the EU, there is no unanimity amongst economists. The range appears to be from minus 2% to plus 1% per annum, and heavily dependent on the exact outcome of

the negotiations over exit, during the two year period after the referendum outcome. What is clear is that uncertainty, both for equity and bond markets and for the £ sterling, would increase. This in itself must have negative consequences, at least for a year or two.

As to individual companies, the effect is very stock specific. Multinational companies with large interests in Europe obviously favour the status quo. Smaller companies, especially those whose business is entirely UK, are more like to consider exit.

The minds of voters, when they come to the ballot box, are likely to be focussed on immediate issues; the most important is likely to be immigration. What might well be absent from discussion are the long term prospects (ten years, say) of the EU on the one hand and the UK on the other. Some factors are probably enduring: the EU (especially southern Europe) has a population that is ageing more quickly than the UK and will result in its long term economic prospects being worse than the UK. The EU is less competitive and shows a greater reluctance to change and innovate. It is committed to a generous social security model, when the rest of the world is not. No less a personage than Angela Merkel has commented that the EU has 7% of the world's population, 25% of world current GDP (and falling) and around 50% of global social security payments. The potential for the UK to grow faster in the long term outside the EU (even though it is not in the euro currency) is probably indisputable. Is the decision to be purely decided on economic merits or on wider social factors? Every voter will have his or her own views.

How the balance of advantages of exit and disadvantages (for there are both) will work out in the coming years is impossible to judge at this stage. Unless the vote is to stay in, it will be many years before voters and stock markets can reach a definitive conclusion.

**Peter Jones**  
**12<sup>th</sup> March 2016.**

## **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](mailto:jo.ray@lincolnshire.gov.uk).

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## Regulatory and Other Committee

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

Report to:	<b>Pension Committee</b>
Date:	<b>07 April 2016</b>
Subject:	<b>Pension Administration Report</b>

#### Summary:

This is the quarterly report by the Fund's pension administrator, West Yorkshire Pension Fund.

Yunus Gajra, the Business Development Manager from WYPF, 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 November 2015 to 29 February 2016 as measured against both the local indicators and the national CIPFA benchmarks.

WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIMUM TARGET PERCENT	TARGET MET PERCENT
New starter set up*	16	5	8	85	50.00
Transfer In Quote	39	10	13	85	33.33
Transfer In Payment Received	31	10	29	85	93.55

Deferred Benefits Set Up on Leaving	503	10	224	85	44.53
Refund Quote	103	10	29	85	28.16
Refund Payment	32	5	23	85	71.88
Transfer Out Quote	90	10	3	85	3.33
Transfer Out Payment	11	10	9	85	81.82
Divorce Quote	32	40	32	85	100.00
Pension Estimate	317	10	252	85	79.50
Pension Set Up Payment of Lump Sum	73	3	68	85	93.15
Deferred Benefits Into Payment - Payment of Lump Sum	66	3	58	85	87.88
Death in Service Payment of Death Grant	1	5	0	85	0.00
Death of a Pensioner Payment of Death Grant	3	5	2	85	66.67
Payment of Beneficiary Pension	27	5	22	85	81.48
Potential Spouse Pension Enquiry	3	20	3	85	100.00
Initial letter acknowledging death of active/deferred/pensioner member	52	5	47	85	90.38

\* - currently only includes those manually input – report being amended to include those automatically done through the portal.

**1.5** Some cases have again exceeded the target days as expected and warned in the previous reports to the committee, primarily as a result of the continued ripple effect of the new scheme regulations, particularly where cases have had to be stockpiled awaiting GAD Guidance. This has been particularly true of the Transfer procedures.

## **2.0 Scheme Information**

**2.1 Membership numbers as @ 21/3/2016 were as follows:**

<b>Numbers</b>	<b>Active</b>	<b>Deferred</b>	<b>Undecided</b>	<b>Pensioner</b>
LGPS	24,301	27,616	1,635	18,235
Councillors	20	25	-	37
<b>Totals nos</b>	<b>24,321</b>	<b>27,641</b>	<b>1,635</b>	<b>18,272</b>
Change	+653	-322	0	-86

Membership numbers remain fairly stable.



## 2.2 Age Profile of the Scheme

STATUS	U20	B20 25	B26 30	B31 35	B36 40	B41 45	B46 50	B51 55	B56 60	B61 65	B66 70	O70	TOTAL
Active	462	1634	1659	2077	2478	3759	4197	3753	2746	1263	235	44	24307
Beneficiary Pensioner	90	32	1	1	7	13	40	71	148	190	271	1460	2324
Deferred	10	618	1689	2095	2271	3983	5611	6020	4283	957	35	12	27584
Deferred Ex Spouse	0	0	0	0	2	0	10	11	14	0	0	0	37
Pensioner	0	1	1	1	8	28	42	112	1136	4129	4681	5743	15882
Pensioner Deferred	0	0	0	0	0	0	1	0	3	0	0	0	4
Pensioner Ex Spouse	0	0	0	0	0	0	0	0	2	6	2	3	13
Preserved Refund	7	65	71	95	151	212	283	288	215	141	89	49	1666
Totals	569	2350	3421	4269	4917	7995	10184	10255	8547	6686	5313	7311	71817

## 2.3 Number of Employers

There were a total of 216 active Employers as at 29 February 2016. This included one new employer, Cherry Willingham Parish Council. There were no employers exiting the Fund.

## 3.0 Praise and Complaints

### 3.1 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 October to December we received **5** online customer responses.

Over the quarter October to December September **248** Lincolnshire member's sample survey letters were sent out and 27 (**33.87%**) returned:

Overall Customer Satisfaction Score for 2015

January to March	April to June	July to September	October to December
N/A	78.34%	83.94%	80.16%

Appendix A shows full responses.

## 4.0 Internal Disputes Resolution Procedures

### 4.1 Four appeals were received at stage 1, three against Employers and one against LPF.

4.2 During this period three decisions were made which were all turned down.

4.3 No appeals were received at stage 2 and no decisions were made.

## **5.0 Administration Update**

### **5.1 Life Certificates**

Work has started on issuing life certificates to all 18,000 pensioner members. The purpose is for members to confirm their continuing entitlement to a pension from LPF. The life certificates have started to go out on a weekly basis and will be scheduled to target everyone over the next twelve months.

### **5.2 Member Web**

WYPF are piloting member online access whereby members will be able to access their pension information online.

They will be able to:

- Look at their pension record
- Make changes to personal information (i.e. address, death grant nomination etc)
- Request pension information
- Access annual benefit statements, read newsletters
- Access payslips.

Members will be contacted and asked to register for secure access.

### **5.3 LCC Data Issues**

There are a number of issues that we have with the monthly data from Lincolnshire County Council:

- Monthly returns from LCC started coming in from January 2016, nine months late. Due to the quality of data received, each file is taking considerably longer to process than we would normally expect. We are currently processing November 2015 data.
- Timeliness of receiving the files has also been an issue - the January 2016 was not received until 3<sup>rd</sup> March, however it was due on 19<sup>th</sup> February.
- The quality of data we are getting is poor, we have received data for teachers / NHs staff etc and this is taking valuable process time to resolve.

- Our contacts at LCC / Serco have been very good and responsive, however the systems and resources they have to deal with pension queries is a concern. They are supportive, but they have a major uphill task as regards the system report and the quantity of errors on the report submitted.
- 5.4 In order to support with these late returns from LCC, we have made LCC the first priority our Finance Business Partners are working on. Any further delays would mean our other workloads will suffer as a result.
- 5.5 There are a number of data cleansing and validation checks that are carried out at each year end. These are detailed below along with the concerns that we have as a result of the LCC data submissions:
- Data verification checks for all our employers to ensure accurate posting of records and Annual Benefit Statement production. This takes about 2 weeks to 4 weeks for each employer. It may be impossible to conduct this for LCC, unless there is a considerable improvement in the data return activities.
  - As this is the first year of WYPF carrying out data returns for LPF, it is critical that all data is reconciled for the year end. This will require prompt submission of all data for 2015/16 from LCC.
  - As a valuation year, additional checks on cashflow need to be undertaken, comparing LPF records to summary reports on WYPF pension records. Again, this may be impossible. This may have an adverse impact on the valuation process, in terms of the volume of cashflow queries received from the Actuary.
  - This valuation is on the back of the low quality of data acquired from Mouchel. As minimum we need to check active member data, ensure that all deferred members are correctly identified and that the latest pay figures are correct on all members for LPF. Additional time taken in cleansing the LCC data submissions will impact the time available for all other checks.
- 5.6 We will continue to do our best to support and provide solutions, however we can only work to the speed and quality of records provided by Serco / LCC.

## **6.0 Current Issues**

### **6.1 Cessation of Contracting out from April 2016**

From 6 April 2016, the new single tier State Pension replaces the basic and additional State Pension for those who reach State Pension age after 5 April 2016, and the 'contracted-out' status for all LGPS members (not just those reaching State Pension age after 5 April 2016) will no longer exist. This means that they will no longer receive the National Insurance rebate and will pay a higher amount of National Insurance than in previous years (unless they are already over State Pension age or are one of the few members still paying the married woman's or widow's reduced rate of National Insurance).

6.2 Further information about the change is being communicated with an individual letter to be sent to all LGPS members with the Spring newsletter shortly. (Attached at Appendix B).

### **6.3 Changes to the Annual Allowance 2016**

In the Summer Budget on 8 July 2015, the government announced significant changes to pension savings which will take effect from 6 April 2016. In particular, there will be changes made to the Annual Allowance which mean that certain employees may pay more tax. The main changes are:

- Lifetime Allowance – the total value of all of the pension savings built up by retirement before having to pay an additional tax charge will go down to £1million, from £1.25 million, from 6 April 2016.
- Annual Allowance – the upper limit on how much pension benefit you can build up in any one year without having to pay an additional tax charge – set at £40,000, falling to £10,000 from 6 April 2016 for those with income of more than £150,000.
- Pension Input Periods – to put these changes into place, the government has had to make some changes to the Annual Allowance in the 2015/16 year. The time your pension saving is measured over, for testing against the Annual Allowance, will end on 5 April each year instead of 31 March. Therefore, for 2015/16 the year will be split into two parts, each with different allowance limits.

6.8 Further information about the change is being communicated in our Spring newsletter, advising anyone who may be impacted to seek independent financial advice. (Attached at Appendix C).

## **7.0 Valuation.**

7.1 Regulation 62 of the Local Government Pension Scheme Regulations 2013 requires the Administering Authority to obtain:

- An actuarial valuation of the assets and liabilities of each of its pension funds as at 31 March 2016 and on 31 March in every third year afterwards;
- A report by an actuary in respect of the valuation; and
- A rates and adjustments certificate prepared by an actuary.

7.2 The main aims of carrying out an actuarial valuation of the Fund are to:

- Review the financial position of the fund;
- Determine the employers contribution rates; and
- Ensure that the legal requirements in relation to the actuarial valuation are met.

7.3 Since the last valuation the scheme has moved from a final salary scheme to a career average scheme.

7.4 One additional requirement is that the Scheme Advisory Board has recommended that there be a requirement in the Regulations for the fund actuaries to calculate the funding level of the Fund as a whole, on a standardised basis, by 30 September in each valuation year.

7.5 An initial meeting was held in February with the Fund's actuary, West Yorkshire Pension Fund and Lincolnshire Pension Fund to discuss, among other things, the timetable of data submission to ensure all deadlines are met.

## **8.0 Finance**

8.1 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 2015/16 financial year is £15.25. This takes account of all the additional work carried out for 2014/15 year-end returns, data cleansing work and extra system work that was not specified in the shared service requirements. However, number of members has increased from 66,695 from estimates to 71,817 as at 21<sup>st</sup> March 2016. This means total charge will be going up to £1,095,209.25.

	Unit Price		
<b>Members Original Estimate</b>		66,695	
<b>Members Latest Count</b>			<b>71,817</b>
<b>Estimated price April 2014</b>	<b>£15.55</b>	£1,037,107	<b>£1,116,754.35</b>
<b>Original Estimate January 2015</b>	<b>£15.88</b>	£1,059,117	<b>£1,140,453.96</b>
<b>Period 6 Forecast September 2015</b>	<b>£15.78</b>	£1,052,447	<b>£1,133,272.26</b>
<b>Period 9 Forecast December 2015</b>	<b>£15.25</b>	£1,017,098	<b>£1,095,209.25</b>

8.2 The table above demonstrates that unit cost has reduced due to service scale and efficiencies and we are funding all service improvements required for LPF out of shared services efficiencies. However, as we continued 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.

## 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 - October to December 2015
Appendix B	Cessation of Contrating Out Letter
Appendix C	Draft Spring Newsletter

## 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](mailto:yunus.gajra@wypf.org.uk).

## Customer Survey Results - Lincolnshire Members (1<sup>st</sup> October to 31<sup>st</sup> December 2015)

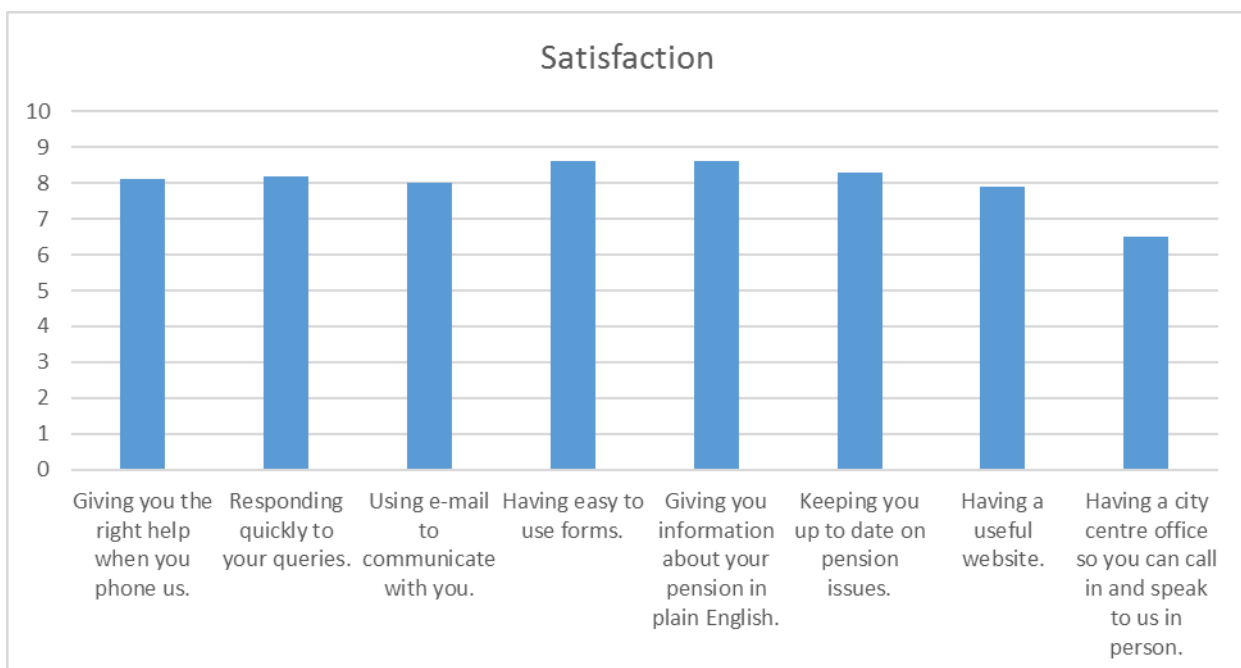
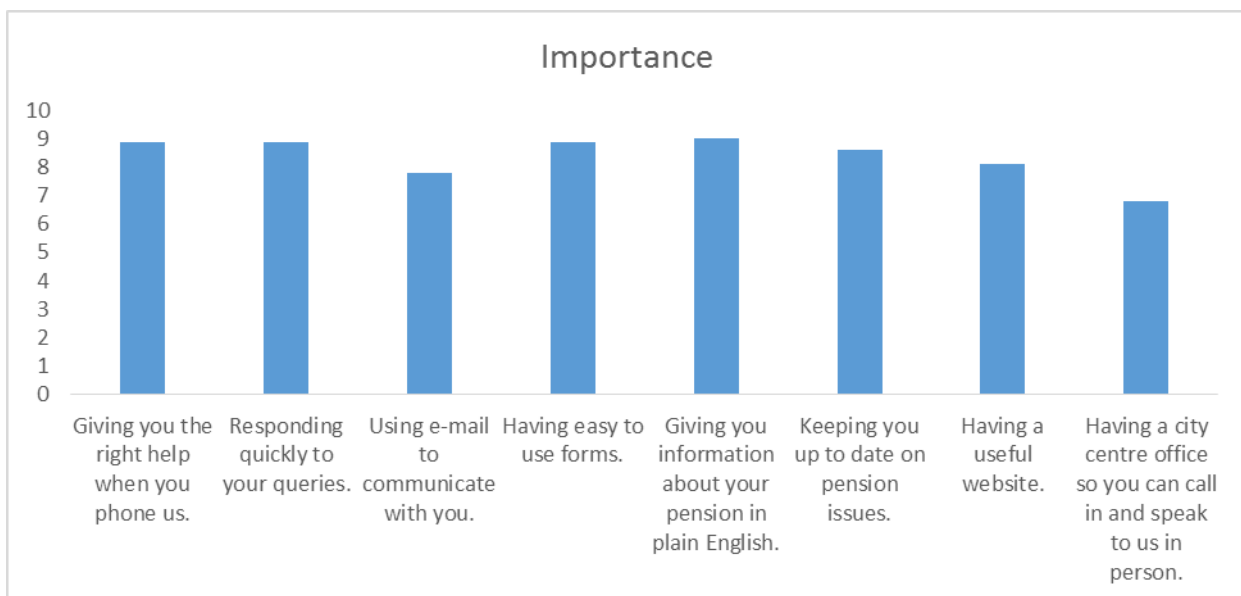
Over the quarter October to December we received **5** online customer responses.

Over the quarter October to December **248** Lincolnshire member's sample survey letters were sent out and **84 (33.87%)** returned:

Overall Customer Satisfaction Score for 2015

January to March	April to June	July to September	October to December
N/A	78.34%	83.94%	80.16%

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



**Sample of positive comments:**

<b>Member Number</b>	<b>Comments</b>
Vincent Elkington (Phone call)	The member called to request a P60 and wanted to pass on his comments regards our administration of the fund since the switchover from Lincoln. He was particularly impressed with the speed with which we answered calls and dealt with any queries he may have had in recent months. He asked that I pass this on as he felt in this day and age not many places offered such an efficient service.
8046487	Extremely good. Your departments chased up my problems and sorted them out wonderfully. No bad comment at all if it had not been for your staff standing my corner I would still be waiting to get my pension form from my employer.
8063616	Very organised and helpful, dealt efficiently with queries. My dealings with my pension are new and involved WYPF having to sort out figures with my employer. I think WYPF handled sorting things out very well as employer did not respond very quickly and accurately.
8062894	Very good service. Very pleased with everything. Spoke mostly on the phone and everyone was always very helpful and keen to sort out my problem. Now receive my pension and process has been very easy and simple to understand.
online 8037474	Once I notified you that I had contacted the LCC Pension Fund earlier in the year your response to my repeated enquiry was instantaneous and the lump sum was paid into my account within a few days and regular monthly payments are now being received.
online	I was a wee bit apprehensive when Lincolnshire told me my pension service was being transferred to Yorkshire but my fears were unfounded you have exceeded my expectations with an easy-to-use website and excellent services! I have been a pensioner for 17 years with no complaints about Lincolnshire and I now look forward to another 17 years with Yorkshire with hopefully the same results.

**Complaints/Suggestions:**

<b>Member Number</b>	<b>Comments</b>	<b>Corrective/ Preventive Actions</b>
8039941	Still waiting for my query to be sorted. WYPF doesn't know enough about my pension scary to give an answer. Not as friendly as LCC were not as helpful to far away.	Passed to Naheed.  An explanation letter was sent as appropriate.



8027800	Poor communication caused me great stress over a long period of time. The pension staff in Yorkshire did their best but were hampered by the total inefficiency at the Lincolnshire office. I retied in July but received my pension in October.	Passed to Kate Gee.
8001122	Very confusing. I had wanted to opt out of the pension. I received a letter of deferred until 2017. In the end I received my pension refund less tax. My place of work and yourself blamed each other for the delay. The only person it affected was myself. I took weeks to receive my refund.	Passed to Selma.  An explanation letter was sent as appropriate.
8029628	Not good. Service I received was not good. I had to wait till September to receive the forms for my pension when I left in the July. My employer rang and was told forms would arrive but not. When I received it got sorted but having to wait so long was not good enough.	Passed to Kate Gee.
8064143	Very slow. Was told I was at top of urgent list when enquiring about pension. Second phone call was told at that I was top of urgent list on red. I took 4 months to sort my pension out after I left work.	Passed to Dipika
8030272	Better than that provided by LOCC when they sub contacted to Mouchel. Very disappointed that initial notification of my pension / lump sum was later super ceded by a second figure which was several thousand pounds less. Not a good start.	Passed to Selma.  An explanation letter was sent as appropriate.
Online	I have contacted your office numerous times over the last 6 months and found your agents helpful but overall the service I require is appalling and my needs have not been met yet. Since you took over the administration of the Lincolnshire LGPS I have not been impressed. You have not acted upon information supplied by my new employer pension and I have had to repeatedly call to chase up the administration of my transfer to Cumbria. This is still unresolved after 6 months and my last call last week your agent was unable to explain why you could not complete the work or give me any anticipated timescales for completion. This is not acceptable.	Unable to contact as No Member no supplied.

<p>Online 8096751</p>	<p>An absolute disgrace!!The service I have received was appalling. For whatever reason as I have never been given an explanation my transfer request from a previous employer never went through when it should have. I filled out the forms and posted them on time and was told not to contact you as this process can take few months to go through. It was only when several months had past that I received my annual statement that it was apparent that my transfer hadn't gone through!! As you can imagine I was very shocked to receive this news and immediately phoned the Lincolnshire Pension Fund for an answer as to what had gone wrong. Lincolnshire Pension Fund advised me that now West Yorkshire Pension Fund was my pension administrator and that I need to speak to them to find out why the transfer hadn't taken place I was given a number to call almost as if Lincolnshire Pension Fund expected me to do all the calling around looking for answers. I wasn't happy about this so asked them to also and the answers and let me know what is happening. When I did call the West Yorkshire Pension Fund I was told that they will apply for the transfer again and told me not to worry as they didn't think it would affect the original transfer value I was quoted. As you can imagine being told that they didn't think it would affect the value wasn't very reassuring I wanted decisive and accurate answers as to whether my original transfer value would be honoured. Recently I have received a letter notifying me that finally 10 months later the transfer has gone through although it doesn't state on the letter whether the value in cash terms has been affected!! Overall I am very dissatisfied with the service I have received from both pension administrators. They both seemed to try and blame each other for the mess that had happened and I couldn't get a decisive answer on any question I had when calling. I would class both administrators as unfit for purpose.</p>	<p>Passed to Kate Gee</p>
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West Yorkshire Pension Fund

Administered by City of Bradford Metropolitan District Council

Lincolnshire  
Pension Fund



PO Box 67 Bradford BD1 1UP

lgps

www.wypf.org.uk



Dear Mr/Mrs

Local Government Pension Scheme (LGPS)

The new State Pension and the ending of 'contracting out'

The Government is introducing a new 'single-tier' State Pension for people who reach State Pension age on or after 6 April 2016. This will replace the existing basic and additional State Pension.

What does this mean for members of the Local Government Pension Scheme?

As a member of the LGPS you are currently 'contracted-out' of the additional State Pension. You receive a rebate on the National Insurance contributions you pay on any earnings between £5,824 and £40,040 per year (unless you are already over State Pension age or are one of the few members still paying the married woman's or widow's reduced rate of National Insurance). This means that whilst you are a member of the LGPS you are not building up much, if any, additional State Pension; you are building up pension benefits in the LGPS instead.

From 6 April 2016 the new single tier State Pension replaces the basic and additional State Pension for those who reach State Pension age after 5 April 2016 and the 'contracted-out' status for all LGPS members (not just those reaching State Pension age after 5 April 2016) will no longer exist. This means that you will no longer receive the National Insurance rebate and you will pay a higher amount of National Insurance than in previous years (unless you are already over State Pension age or are one of the few members still paying the married woman's or widow's reduced rate of National Insurance).

There are no plans to change the benefits the LGPS provides as a result of the introduction of the new State Pension.

Where can I get more information?

More information about these changes can be found in your enclosed newsletter, including information about the 50/50 section of the LGPS which allows you to pay half your normal pension contributions in return for building up half your normal pension, whilst retaining full life and ill health cover. The 50/50 section might be of interest to you if the rise in National Insurance contributions is likely to cause you financial difficulty and lead you to consider opting out of the LGPS. It offers a means to remain in the LGPS, at a cheaper rate, whilst retaining valuable benefits. Further information about the LGPS is available at [www.wypf.org.uk](http://www.wypf.org.uk).

What does this mean for my State Pension?

For information about the new State Pension please visit [www.gov.uk/yourstatepension](http://www.gov.uk/yourstatepension)

Yours sincerely



# Pension

## NEWSLETTER

### New State Pension brings National Insurance changes for LGPS members – Q&A

The letter this newsletter came with explains how the new single-tier flat-rate State Pension replaces the former basic and additional State Pension for anyone who reaches State Pension age after 5 April 2016.

Although this change doesn't make any difference to the Local Government Pension Scheme (LGPS) pension you're building up with us, the end of **contracting out** is an important change you need to know about that affects how much National Insurance you pay.

#### Why is the State Pension changing?

The government's aim is a simpler, fairer pension system that gives everyone a clearer idea about what pension the state provides and makes pension planning easier.

#### Who gets the new State Pension?

You'll get the new State Pension if you're

- a man born on or after 6 April 1951, or
- a woman born on or after 6 April 1953

and (normally) have at least 10 qualifying years on your National Insurance record.

Note that if you reached State Pension age **before** 6 April 2016, you got your State Pension under the scheme that was in operation before 6 April 2016 instead.

If you don't know what your State Pension age is, use the calculator at [www.gov.uk/state-pension-age](http://www.gov.uk/state-pension-age) to find out.



#### Why am I paying more National Insurance?

Before April 2016, the State Pension was made up of

- the basic State Pension, and
- the additional State Pension (called the State Second Pension, or SERPS).

The LGPS was **contracted out** of the additional State Pension and as an LGPS member you received a rebate on your National Insurance contributions so didn't build up much, if any, additional State Pension – **you built up pension benefits in the LGPS instead.**

The new State Pension replaces the basic and additional pensions with a single-tier flat-rate pension, ends contracting out and ends the rebate you got on your National Insurance contributions.

## How much more will I pay?

The National Insurance rebate was 1.4% of your pay (between certain thresholds). But from 6 April 2016 you'll pay the standard rate of National Insurance. How much more you'll pay depends on your earnings, but here are some examples to give you an idea. Your payslip will show the actual amounts.

These examples are for people over 21.

How much you earn	National Insurance before 6 April 2016	National Insurance from 6 April 2016	How much extra you'll pay
£15,000 per year (£1,250 a month)	£58.66 a month	£69.36 a month	+ £10.70 a month
£27,000 per year (£2,250 a month)	£164.66 a month	£189.36 a month	+ £24.70 a month
£45,000 per year (£3,750 a month)	£307.65 a month	£352.76 a month	+ £45.11 a month

## Will my LGPS pension benefits change because of this?

There are no plans to change the benefits the LGPS provides as a result of the introduction of the new State Pension.

## I can't afford to pay the extra National Insurance contributions – what can I do?

The new State Pension will only provide a basic level of income in retirement so the LGPS will remain an important part of your retirement planning. Remember, if you pay tax you'll continue to get tax relief on your pension contributions.

But when money's tight, one option is to join the **50/50 section** of the pension scheme. Do this and you pay half your normal contributions in return for building up half your normal pension, while still getting full life cover and ill health cover. This is designed to be a short-term option to help you stay in the scheme while still building up some pension.

See [wypf.org.uk](http://wypf.org.uk) for more information, and contact your employer if you want to join the 50/50 section.

## Will I qualify for the full new State Pension?

The new State Pension has a minimum qualifying period. If you have no National Insurance contributions record before 6 April 2016 you'll need 35 qualifying years to get the full new State Pension.

If you paid into the LGPS between 6 April 1978 and 5 April 2016 and reach State Pension age after 5 April 2016, the amount of new State Pension you receive will be reduced for this period because you and your employer paid a lower rate of National Insurance. If this applies to you, you're unlikely to get the full amount of the new State Pension

but it will depend on your own National Insurance record and how many qualifying years you have after April 2016.

However, in most cases, the pension you get from the LGPS will be at least as much as you would have received from the State Pension if you hadn't been contracted out. The government calls this the contracted out pension equivalent (COPE) amount and an estimate of this will be on your State Pension statement, including all the contracted-out pension benefits you've built up if you have paid into any other contracted-out pension schemes.

See [www.gov.uk/new-state-pension/overview](http://www.gov.uk/new-state-pension/overview) for more about the new State Pension.

## Will the new State Pension alone give me enough income in retirement?

The State Pension is intended to be only a part of your retirement income and would, on its own, provide a very basic standard of living in retirement. So the your LGPS pension will continue to be an important part of your retirement planning.

## Want more information?

Visit [www.gov.uk/yourstatepension](http://www.gov.uk/yourstatepension)

Or, if you're over age 55, request an estimate of your new State Pension at [www.gov.uk/state-pension-statement](http://www.gov.uk/state-pension-statement)

Watch a video about the new State Pension at [www.youtube.com/user/PensionTube](http://www.youtube.com/user/PensionTube)

# Taxing pension savings

## Changes for high earners from 6 April 2016

**Lifetime Allowance** – the total value of all of the pension savings you can build up by your retirement before having to pay an additional tax charge – will go down from £1.25million to £1million from 6 April 2016.

### How might this affect me?

If you expect to have total pension savings worth more than £1million at retirement you might be affected, but there are two new forms of HMRC protections you can use.

- **Fixed Protection 2016** – you retain a Lifetime Allowance of £1.25million, but you'll probably have to stop future pension savings after 5 April 2016.

- **Individual Protection 2016** – you get an individual Lifetime Allowance equal to the value of your rights on 5 April 2016, with a minimum of £1million and a maximum of £1.25million.

You'll be able to apply online from July, but if you're planning to take your pension before July 2016, apply to HMRC for interim protection.

**Annual Allowance** – the upper limit on how much pension benefit you can build up in any one year without having to pay an additional tax charge – falling to £10,000 from 6 April 2016 for those with income of more than £150,000.

### How might this affect me?

If you earn more than £210,000 and have high pension savings in one year, you could pay £13,500 in additional tax because of the fall in annual allowance. If you earn more than £150,000 but less than £210,000 the impact will be less significant, and if you earn less than £110,000 you probably won't be affected by this change.

Note that unused annual allowance from the previous three tax years can

sometimes be carried forward.

**Pension Input Periods** – to put these changes into place, the government has had to make some changes to the Annual Allowance in the 2015/16 year. The time your pension saving is measured over for testing against the Annual Allowance will end on 5 April each year instead of 31 March.

So for 2015/16 the year will be split into two parts, each with different allowance limits.

### How might this affect me?

You won't lose out from the change in input period.

We have more on this subject at [www.wypf.org.uk/allowances](http://www.wypf.org.uk/allowances)

Consider taking independent financial advice too.

## WYPF annual meeting 2015

We held our 2015 annual meeting on last November in Wakefield. Two hundred members joined us for our comprehensive yearly analysis of the fund's investment and administration performance over the year.

Councillor Andrew Thornton (chair of WYPF) chaired the meeting, and delegates heard presentations from director Rodney Barton and fund investment advisers Noel Mills and Mark Stevens. Our guest speaker was from West Yorkshire Police Authority.

Answers to audience questions are available at [www.wypf.org.uk/meeting](http://www.wypf.org.uk/meeting)



## Project POOL

At the Conservative Party conference in October 2015, chancellor George Osborne called for a merger of the assets of the 89 Local Government Pension Scheme funds in England and Wales into six wealth funds, each containing at least £25billion. Administering authorities like ours had until 19 February 2016 to come up with their proposals for this.

West Yorkshire Pension Fund is part of the **Northern Powerhouse** pool, covering Greater Manchester Pension Fund, Merseyside and West Yorkshire funds with a pool of around £40billion. Lincolnshire Pension Fund is part of the **Border to Coast** pool that covers East Riding, Cumbria and Lincolnshire.

Other proposed schemes include

- a £35bn pool of eight schemes across the Midlands
- the ACCESS group of eight central, eastern and southern counties
- a common investment vehicle being developed by the London boroughs
- a South West pool, one covering Welsh LGPS funds, and

The government wants the new pools in place by April 2018.

You can read more on our submission at [www.wypf.org.uk/pool](http://www.wypf.org.uk/pool)

## CARE pensions down by 0.1% in 2016

Pension you build up in the career average (CARE) scheme after 1 April 2014 is **revalued** every April, which means it's increased (or decreased) in line with the Treasury Department's Revaluation Order, set by the Consumer Price Index (CPI) for the September before the increase date. CPI was **minus 0.1%** in September 2015.

A negative revaluation figure means that the CARE pension you've built up since 1 April 2014 will be **reduced** this year by 0.1%. You'll see the effect of this on your next pension statement.

**This only applies to the CARE part of your pension.** If you also have final-salary pension from membership before April 2014 they're not affected by this at all.

# LGPS National Insurance Database – privacy notice

West Yorkshire and Lincolnshire Pension Funds comply with legal requirements by taking part in a data-sharing project with other UK LGPS pension funds.

When LGPS members die, we need to know if they have LGPS pensions elsewhere in the country so their dependants get the right benefits. Because the LGPS is run by many different UK pension funds, we need this national database to check for pensions in other pension funds.

## What data is shared?

- Your National Insurance number
- Your membership status
- The last calendar year your membership status changed, and
- A four digit reference number for the pension fund that holds your record.

## Where is the database kept?

The South Yorkshire Pensions Authority hosts the database.

## How will the data on the database be processed?

In line with the Data Protection Act 1998 and other relevant legislation.

## Who is data shared with?

It's shared with other LGPS pension funds and LGPS administering authorities.

Information in the database will also be shared from time to time with the Department for Work and Pensions (DWP) so that the LGPS can join the **Tell Us Once** service that makes sure an LGPS member's own pension fund is told when their death is registered. Their records can then be processed more quickly and accurately.

## How long will the data be shared?

For as long as

- the relevant regulatory requirements remain, and
- the LGPS takes part in **Tell Us Once**.

## Can I opt out of data sharing?

No. Data sharing is partly to comply with a legal requirement so you can't opt out.

## What I have further questions?

If you have any questions about this, please contact us.

## NEWS in BRIEF

### Your pension online soon

You'll soon be able to sign up to

- look at your pension record online whenever you like
- make changes to the personal information we hold about you, and
- request information about your pension
- securely access pension statements
- read newsletters online instead of getting them through the post.

We think this will be a popular new service so keep an eye out for more information soon on how to get your online account.

### 2016 pension statement

We'll produce these between 1 May and 31 August. If you don't get yours by 31 August, please contact your employer.

When you do receive your statement, please check that what's on it is right. You have seven years to dispute anything on the statement after which your pension record can't be changed.

### New retirement workshops

We're making a new service available to our members with **Affinity Connect**, a retirement specialist. It's a series of free workshops designed to raise awareness of key issues you will need to consider and decisions you will need to make as you approach retirement.

It'll be especially useful to you if you're thinking of retiring in the next couple of years, but also if you're not yet sure when you want to retire.

If you think this might be useful, have a look at [www.wyphf.org.uk/active-events](http://www.wyphf.org.uk/active-events) where you'll find dates and times.

## Products and marketing

We work with **Club Together**, an affinity group providing members with great deals from UK product and service providers. They research and review travel, financial, future planning or lifestyle products that may be of interest, and send members a free magazine twice a year with deals you can access online too. Your data's shared only with Club Together. We have strict legal agreements about how they use your data. The companies they are not given your personal details – Club Together mail all information on their behalf. You may also get information direct from us for other products and services.

## Contact us

**Phone** 01274 434999  
Monday to Friday  
8.45am to 4.30pm

**Email** [wyphf@bradford.gov.uk](mailto:wyphf@bradford.gov.uk)

**Postal Address** WYPF  
PO Box 67  
Bradford BD1 1UP

Or call in person to our offices at:

- **Aldermanbury House, 4 Godwin Street, Bradford BD1 2ST** weekdays 8.45am to 4.30pm.
- **County Offices, Newland, Lincoln, LN1 1YL** weekdays 8.00am to 5.15pm (4.45pm on Fridays). Ask for the pensions team at reception.

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## Regulatory and Other Committee

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

Report to:	<b>Pensions Committee</b>
Date:	<b>07 April 2016</b>
Subject:	<b>Pension Fund Update Report</b>

#### Summary:

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

#### Recommendation(s):

That the Committee note this report.

## Background

### 1 Fund Summary

1.1 Over the period covered by this report, the value of the Fund increased in value by £75.4m (4.5%) to £1,732.6m on 31<sup>st</sup> December 2015. Fund performance and individual manager returns are covered in the separate Investment Management report, item 7 on the agenda.

1.2 Appendix A shows the Fund's distribution as at 31<sup>st</sup> December. All asset classes are within the agreed tolerances. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 1.1%

UK Equities underweight by 0.5%

Global Equities overweight by 1.7%

Underweight Alternatives by 0.7%

Underweight Property by 0.1%

Underweight Bonds by 0.6%

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 31<sup>st</sup> December 2015.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 31<sup>st</sup> December, accounting for 9.0% of the Fund, the same as last quarter. Equity holdings in the Fund are now shown on the Pensions website, and updated on a quarterly basis.

	<b>Company</b>	<b>Total Value £M</b>	<b>% of Fund</b>
1	BRITISH AMERICAN TOBACCO	19.4	1.1
2	HSBC	19.3	1.1
3	ROYAL DUTCH SHELL	18.6	1.1
4	MICROSOFT	16.4	0.9
5	APPLE	15.9	0.9
6	RECKITT BENCKISER	15.8	0.9
8	UNILEVER	13.7	0.8
7	ALPHABET	13.1	0.8
9	VODAFONE	12.2	0.7
10	GLAXOSMITHKLINE	12.1	0.7
	<b>TOTAL</b>	<b>156.6</b>	<b>9.0</b>

- 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 80 company events and cast votes in respect of 682 resolutions. Of these resolutions, the Fund voted 'For' 549, 'Against' 123 and abstained on 4 and withheld votes on 6.
- 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 9<sup>th</sup> January 2014 meeting of this Committee, and effective from 1<sup>st</sup> 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](http://www.lapfforum.org). Some of the engagement highlights during the quarter included:

- Attended the BP SRI day, to hear about the positive impact that the strategic resilience resolution co-filed by LAPFF funds had had.
- Participated in two investor meetings with Shell about the impact of the strategic resilience resolution, the oil price, communicating climate change science and the proposed BG acquisition.
- Met with the CEO of SSE plc to understand the company's succession planning process and adoption of progressive tax and living wage policies.
- Met with Toyota to discuss issues ranging from the recent VW scandal and product recalls, to renewable energy and board diversity.
- Attended the Sky plc AGM in November, in order to ask the board about the concentration of 21st Century Fox representatives on the Sky board.
- Written to Sports Direct to follow upon concerns about the company's use of zero hour contracts.

- 2.4 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 £6.5m. The invested cash has outperformed the benchmark from 1<sup>st</sup> April 2015 by 0.28%, annualised, as shown in the table below, and earned interest of £42.7k.
- 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.

<b>Pension Fund Balance – Year to end December 2015</b>				
<b>Pension Fund Average Balance £'000</b>	<b>Interest Earned £'000</b>	<b>Cumulative Average Yield Annualised</b>	<b>Cumulative Weighted Benchmark Annualised</b>	<b>Performance</b>
		<b>%</b>	<b>%</b>	<b>%</b>
6,481.7	42.7	0.71	0.44	0.28

### 4 TPR Checklist Dashboard

- 4.1 The Pension Regulator's checklist for how Lincolnshire meets the code of practice 14 for public service pension schemes is attached at appendix E.
- 4.2 Changes made since the January Committee are:
- H1 – Annual Benefit Statements to actives in required timescales – moved from yellow to green – 97% sent out by 30<sup>th</sup> November.
- H3 – Benefit statement sent to all members who have requested one – moved from yellow to green.
- I5 – IDRPs – acknowledgement of application sent – moved from yellow to green.

18 – IDRП – effectiveness of arrangements – moved from red to green – arrangements reviewed.

19 – IDRП – effectiveness of employers' arrangements – moved from red to green – arrangements monitored.

K12 – SAB Guidance – Pension Board aware of LCC's FOI policy – moved from yellow to green – policy circulated to Board members.

4.3 The only remaining red area is on G8 - Maintaining Contributions, where the process for monitoring contributions is still being developed. This will be fully in place for 1<sup>st</sup> April 2016.

## 5 Risk Register Update

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

Risk 26	Consequences	Controls	Risk Score	
			L	I
Workloads and resources - additional work of asset pooling and a gresso issues, along with team changes, means resources will be very stretched for the coming months	Accounts not closed in time or correctly Assets not managed/monitored Contributions not monitored Valuation work not completed	Monthly meetings with County Finance Officer to raise issues Concerns reported to Pensions Committee and Pension Board	2	3

Risk 27	Consequences	Controls	Risk Score	
			L	I
Ongoing monthly data issues with LCC	Valuation data not submitted on time or accurately Statutory deadlines missed Contribution rates provided late to employers Incorrect contribution rate for LCC calculated	Monthly meetings with County Finance Officer to raise issues Concerns reported to Pensions Committee and Pension Board Concerns raised direct to employer	3	3

Risk 24 has been amended from red to blue, as progress has been made on the pooling proposal:

Risk 24	Consequences	Controls	Risk Score	
			L	I
Government consultation on asset pooling	Uncertainty and inability to make investment decisions	Pool decision made Cross pool working group Communicate to Committee regularly Chair and S151 meetings	2	3

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

## Conclusion

6.1 This reporting period saw the value of the Fund rise, increasing by £75.3m to £1,732.6m. At the end of the period the asset allocation, compared to the strategic allocation, was;

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

## 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	TPR Checklist Dashboard

## 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](mailto:jo.ray@lincolnshire.gov.uk).

## APPENDIX A

## DISTRIBUTION OF INVESTMENTS

INVESTMENT	31 Dec 2015			30 Sept 2015			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
<b>UK EQUITIES</b>								
UK Index Tracker	337,523,109	31.9	19.5	325,659,115	32.9	19.7	20.0	+/- 1.5%
<b>TOTAL UK EQUITIES</b>	<b>337,523,109</b>	<b>31.9</b>	<b>19.5</b>	<b>325,659,115</b>	<b>32.9</b>	<b>19.7</b>	<b>20.0</b>	
<b>GLOBAL EQUITIES</b>								
Invesco	358,425,792	33.8	20.7	329,822,684	33.4	19.9	20.0	+/- 1.5%
Threadneedle	93,347,789	8.8	5.4	84,380,768	8.5	5.1	5.0	+/- 1%
Schroder	88,510,859	8.4	5.1	81,496,556	8.2	4.9	5.0	+/- 1%
Neptune	87,864,070	8.3	5.1	81,983,621	8.3	4.9	5.0	+/- 1%
Morgan Stanley	93,666,116	8.8	5.4	85,073,555	8.6	5.1	5.0	+/- 1%
<b>TOTAL GLOBAL EQUITIES</b>	<b>721,814,626</b>		<b>41.7</b>	<b>662,757,183</b>		<b>40.0</b>	<b>40.0</b>	
<b>TOTAL EQUITIES</b>	<b>1,059,337,735</b>	<b>100</b>	<b>61.1</b>	<b>988,416,299</b>	<b>100</b>	<b>59.6</b>	<b>60.0</b>	<b>+/- 5%</b>
<b>ALTERNATIVES</b>	<b>247,047,792</b>		<b>14.3</b>	<b>246,606,420</b>		<b>14.9</b>	<b>15.0</b>	<b>+/- 1.5%</b>
<b>PROPERTY</b>	<b>198,137,513</b>		<b>11.4</b>	<b>197,060,925</b>		<b>11.9</b>	<b>11.5</b>	<b>+/- 1%</b>
<b>FIXED INTEREST</b>								
Goodhart F & C	110,375,120	49.4	6.4	109,625,436	49.1	6.6	6.75	+/- 1%
Blackrock	113,250,457	50.6	6.5	113,731,398	50.9	6.9	6.75	+/- 1%
<b>TOTAL FIXED INTEREST</b>	<b>223,625,577</b>	<b>100</b>	<b>12.9</b>	<b>223,356,834</b>	<b>100</b>	<b>13.5</b>	<b>13.5</b>	<b>+/- 1.5%</b>
<b>TOTAL UNALLOCATED CASH</b>	<b>4,426,405</b>		<b>0.3</b>	<b>1,797,037</b>		<b>0.1</b>	<b>0.0</b>	<b>+ 0.5%</b>
<b>TOTAL FUND</b>	<b>1,732,575,022</b>		<b>100</b>	<b>1,657,237,514</b>		<b>100</b>	<b>100</b>	

## APPENDIX B

**PURCHASES AND SALES OF INVESTMENTS – QTR ENDED 31<sup>ST</sup> DECEMBER 2015**

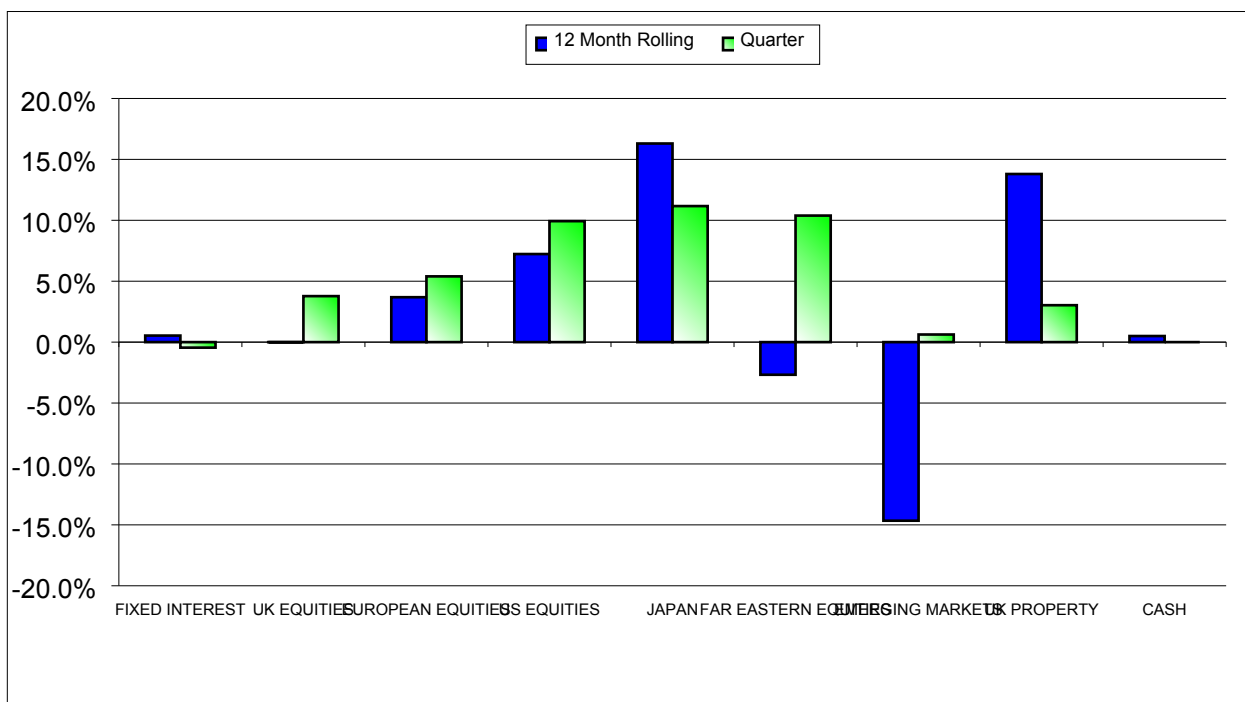
<b>Investment</b>	<b>Purchases £000's</b>	<b>Sales £000's</b>	<b>Net Investment £000's</b>
<b>UK Equities</b>			
In House	3,815	0	3,815
<b>Global Equities</b>			
Invesco	38,015	35,532	2,484
Threadneedle	3,101	2,676	426
Schroders	10,118	10,102	17
Neptune	11,764	11,411	353
Morgan Stanley Global Brands	0	0	0
<b>Total Equities</b>	<b>66,814</b>	<b>59,720</b>	<b>7,094</b>
<b>Alternatives</b>			
Morgan Stanley	0	0	0
<b>Total Alternatives</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Property</b>	<b>188</b>	<b>1,901</b>	<b>(1,712)</b>
<b>Fixed Interest</b>			
BlackRock	0	0	0
Goodhart F & C	0	0	0
<b>Total FI</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL FUND</b>	<b>67,002</b>	<b>61,621</b>	<b>5,382</b>

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 31<sup>ST</sup> DECEMBER 2015



INDEX RETURNS	12 Months to Dec 15	Oct-Dec 15
	%	%
<b>FIXED INTEREST</b>	0.5	(0.5)
<b>UK EQUITIES</b>	0.0	3.8
<b>EUROPEAN EQUITIES</b>	3.7	5.4
<b>US EQUITIES</b>	7.2	9.9
<b>JAPANESE EQUITIES</b>	16.3	11.2
<b>FAR EASTERN EQUITIES</b>	(2.7)	10.4
<b>EMERGING MARKETS</b>	(14.7)	0.6
<b>UK PROPERTY</b>	13.8	3.0
<b>CASH</b>	0.5	0.0

## APPENDIX D

<b>Votes Summarised by Votes Cast</b>				
<b>Votes Cast at Management Group Level</b>				
<b>Report Period: 01 Oct 2015 to 31 Dec 2015</b>				
<b>Voting Guideline Code</b>	<b>For</b>	<b>Abstain</b>	<b>Against</b>	<b>Total</b>
<b>Lincolnshire County Council</b>				
Adjourn Meeting	9	0	0	9
All Employee Share Schemes	2	0	3	5
Amend Class of Capital	3	0	0	3
Annual Incentive Plan Metrics	1	0	0	1
Approve Agreement	2	0	0	2
Audit Committee Report	1	0	0	1
Auditor - Appointment	28	0	8	36
Auditor - Remuneration	13	0	11	24
Auth Board to Issue Shares	21	0	3	24
Auth Board to Issue Shares w/o Pre-emption	12	0	12	24
Authorise Political Donations & Expenditure	8	0	1	9
Authorised Capital	0	0	0	0
Cancel Class of Capital	1	0	0	1
Cancel Treasury Shares	1	0	0	1
Capital Raising	0	0	3	3
Change of Name	2	0	0	2
Company Objectives	1	0	0	1
Convert Type of Company	1	0	0	1
Debt - Borrowing Powers	1	0	0	1
Delegate Powers	2	0	0	2
Director Election - All Directors [Single]	289	0	51	340
Director Election - Chairman	14	0	18	32
Director Election - Chairs Audit Committee	30	0	4	34
Director Election - Chairs Nomination Com	17	0	13	30
Director Election - Chairs Remuneration Com	30	0	3	33
Director Election - Chairs Risk Com	3	0	2	5
Director Election - Executives	63	0	6	69
Director Election - Lead Ind. Director/DepCH	15	0	3	18
Director Election - Non-executive/Sup Board	219	0	35	254
Director Election - Sits on Audit Committee	102	0	15	117
Director Election - Sits on Nomination Com	92	0	10	102
Director Election - Sits on Risk Com	11	0	0	11
Director Election - Slate	1	0	0	1
Director Election - Sits on Remuneration Com	88	0	23	111
Distribute/Appropriate Profits/Reserves	1	0	0	1
Dividend - Approve Policy	1	0	0	1
Dividends - Ordinary	18	0	1	19
EGM Notice Perioseptds	16	0	0	16

Financial Statements	13	0	9	22
Financial Statements - Environmental Issues	13	0	9	22
Individual Share Award	16	0	0	16
Insert New Holding Company	0	0	0	0
Internal Reorganisation	1	0	0	1
Long-term Deferral Systems	2	0	0	2
Long-term Incentive Plans	0	0	11	11
Merger Related Compensation [US]	8	0	0	8
NED Remuneration - Fee Rate/Ceiling	6	0	0	6
NED Remuneration - Fees proposed for year	1	0	0	1
NED Remuneration - Policy	1	0	0	1
New Class of Capital	1	0	0	1
Other Capital Structure Proposal	1	0	0	1
Other Changes to Governance Arrangements	19	0	0	19
Other Meeting Procedures	4	0	0	4
Proportional Takeover Provisions	1	0	0	1
Reduce Nominal Value	2	0	0	2
Reduce Share Premium Account	0	0	0	0
Related Party Transaction - Specific Transaction	1	0	0	1
Remuneration Policy	5	0	1	6
Remuneration Report	22	0	22	44
Return of Capital	0	0	0	0
Scheme of Arrangement	0	0	0	0
SH: Adopt Diversity & Equality Policies	0	0	0	0
SH: Adopt sustainable sourcing policies	1	0	0	1
SH: Establish Corp Responsibility Committee	1	0	0	1
SH: Lobbying - Improve Disclosure	1	0	0	1
SH: Other Meeting Procedures	1	0	0	1
SH: Performance Conditions - Disclose	1	0	0	1
SH: Report on Climate Change Risks	0	0	0	0
SH: Right to Nominate Directors - 'Proxy Access'	4	0	0	4
SH: Shareholder Resolution - Other	0	0	0	0
SH: Voting Procedures	1	0	0	1
Share Buy-back Authority (inc Tender Offer)	19	0	1	20
Share Consolidation	2	0	0	2
Share Split	0	0	0	0
Significant Transactions	1	0	1	2
Sits on Corporate Responsibility Committee	2	0	1	3
Treasury Shares - Set Re-issue Price Range	2	0	0	2
Unclassified	0	0	0	0
Waive Mandatory Takeover Requirement	0	0	3	3
	<b>1272</b>	<b>0</b>	<b>283</b>	<b>1555</b>

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## The Pension Regulator's and Scheme Advisory Board Compliance Checklist

### Summary Results Dashboard

No	Completed	Compliant
<b>Reporting Duties</b>		
A1	G	G
A2		
A3	G	G
A4	G	G
<b>Knowledge &amp; Understanding</b>		
B1	G	G
B2	G	G
B3	G	G
B4	G	G
B5	G	G
B6	G	G
B7	G	G
B8	A	A
B9	G	G
B10	A	A
B11	G	G
B12	A	A
<b>Conflicts of Interest</b>		
C1	A	A
C2	G	G
C3	A	A

No	Completed	Compliant
C4	G	G
C5	G	G
C6	G	G
C7	G	G
C8	G	G
C9	G	G
C10	G	G
C11	G	G
<b>Publishing Scheme Information</b>		
D1	G	G
D2	G	G
D3	G	G
D4	G	G
<b>Risk and Internal Controls</b>		
E1	G	G
E2	G	G
E3	G	G
E4	G	G
E5	G	G
E6	G	G
E7	G	G
E8	G	G

No	Completed	Compliant
<b>Maintaining Accurate Member Data</b>		
F1	A	A
F2	G	G
F3	G	G
F4	G	G
F5		
F6	G	G
F7	G	G
F8	G	A
F9	G	G
F10	G	G
F11	G	G
<b>Maintaining Contributions</b>		
G1	G	G
G2	G	G
G3	G	G
G4	G	G
G5	G	A
G6	G	G
G7	A	A
G8	A	R
G9	G	G

No	Completed	Compliant
<b>Providing Information to Members and Others</b>		
H1	G	G
H2	G	G
H3	G	G
H4	G	G
H5		
H6		
H7	G	A
H8	G	G
H9	G	G
H10	G	G
H11	G	G
H12	G	G
H13	G	G
<b>Internal Dispute Resolution</b>		
I1	G	G
I2	G	G
I3	G	G
I4	G	G
I5	G	G
I6	G	G
I7	G	G

No	Completed	Compliant
I8	G	G
I9	G	G
<b>Reporting Breaches</b>		
J1	G	A
J2	G	G
J3	G	G
<b>Scheme Advisory Board Requirements</b>		
K1	G	G
K2	G	G
K3	G	G
K4	G	G
K5	A	A
K6	A	A
K7	A	A
K8	G	G
K9	G	G
K10	G	G
K11	G	G
K12	G	G
K13	G	G
K14	G	G
K15	G	G

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## Regulatory and Other Committee

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

Report to:	<b>Pensions Committee</b>
Date:	<b>07 April 2016</b>
Subject:	<b>Investment Management Report</b>

#### Summary:

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

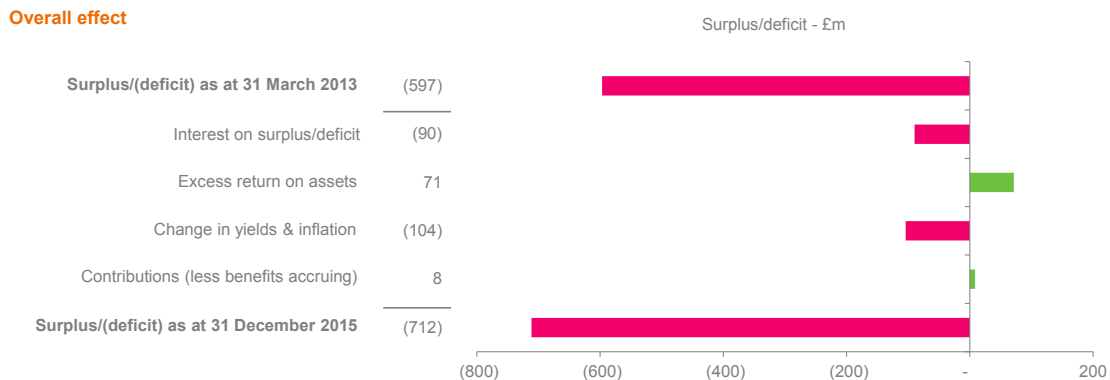
- 1.1 The funding update is provided to illustrate the estimated development of the funding position from 31<sup>st</sup> March 2013 to 31<sup>st</sup> December 2015, for the Fund.
- 1.2 As the graph below shows, the funding level at the latest formal valuation was 71.5%. As at 31<sup>st</sup> December 2015 the funding level has decreased to 71%.

## Change in funding level since last valuation



1.3 As shown below, the deficit in real money has increased from £597m to £712m between the period 31<sup>st</sup> March 2013 and 31<sup>st</sup> December 2015. This is due to strong assets returns which have been offset by falling real bond yields which has increased the value of liabilities.

1.4 What's happened since last valuation?



1.5 In the period since 30<sup>th</sup> September 2015, the funding level has increased from 66.4% to 71%. This is due to yields having risen slightly which has placed a lower value on the liabilities. Combined with positive asset returns, this has resulted in a higher funding level and lower deficit amount at 31<sup>st</sup> December 2015.



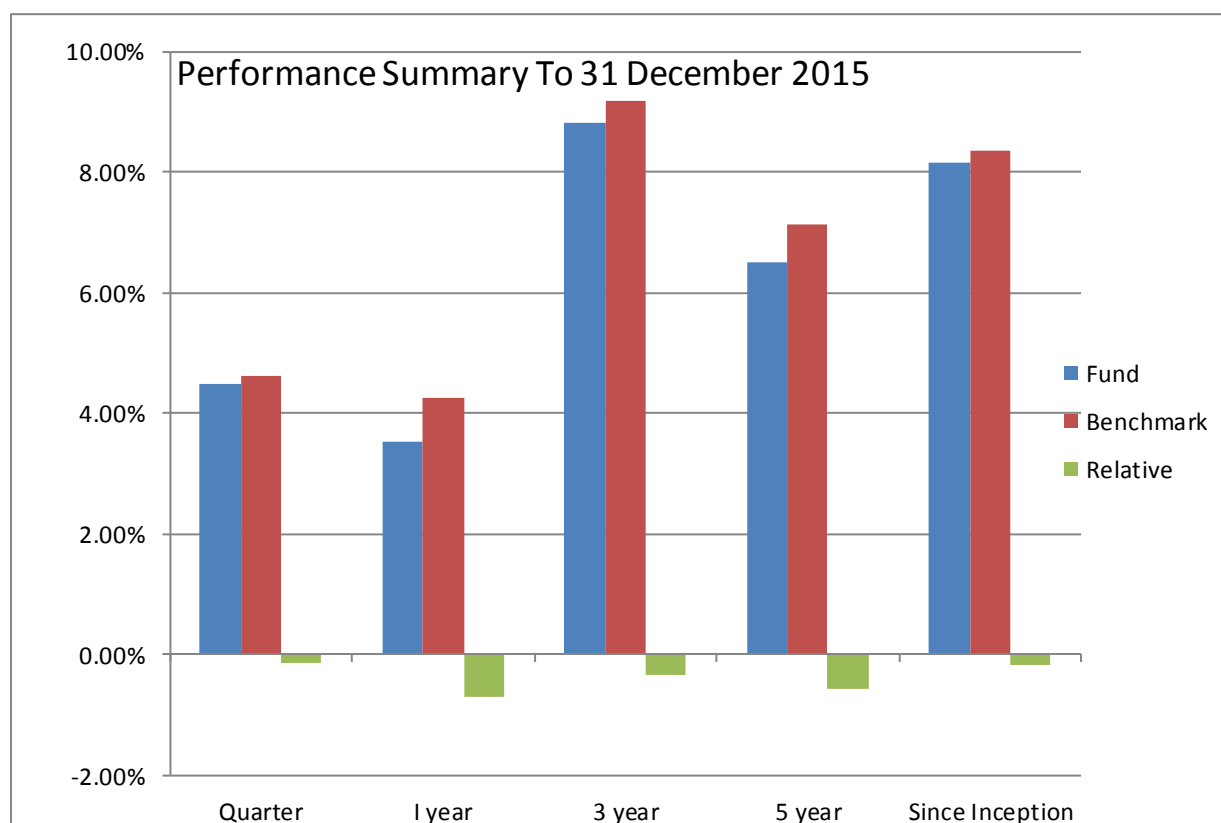
## 2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £75.4m during the quarter from £1,657.2m to £1,732.6m, as the chart below shows. The Fund was overweight to Cash and Global Equities and underweight UK Equities, Alternatives, Property and Fixed Interest.

Asset Class	Q4 2015 £	Q3 2015 £	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	337.5	325.6	19.5	20.0	(0.5)
Global Equities	721.8	662.7	41.7	40.0	1.7
Alternatives	247.1	246.6	14.3	15.0	(0.7)
Property	198.2	197.1	11.4	11.5	(0.1)
Fixed Interest	223.6	223.4	12.9	13.5	(0.6)
Cash	4.4	1.8	0.2	0.0	0.2
<b>Total</b>	<b>1,732.6</b>	<b>1,657.2</b>	<b>100.0</b>	<b>100.0</b>	

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 0.75% per annum.

2.3 Over the quarter, the Fund produced a positive return of 4.49% and underperformed the benchmark which returned -0.13%. The Fund is behind the benchmark over all 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 during the quarter there was one rating change with F&C going from "retain" to "on watch". Sixteen managers remained rated as retain and four managers, Reef Property Ventures Fund 3, Aviva Pooled Property Fund, Neptune and F&C 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	

#### **4. Individual Manager Update**

- 4.1 The manager returns and index returns for equity, fixed interest and alternative managers are shown in the table below. A detailed report on each manager outlining the investment process, performance, purchases and sales and Hymans Robertson's manager view can be found after the table at 4.2.
- 4.2 Manager Returns – As shown below it was a good quarter for the Fund with all managers, except Blackrock and Morgan Stanley Alternatives producing a positive absolute return. Over the quarter, only three managers outperformed their benchmark, Threadneedle, Schroder's and Morgan Stanley Global Brands. Over the 12 month period only F&C, Morgan Stanley Alternatives and the In House Portfolio have failed to produce a positive absolute return. Against their target, Schroder's and Morgan Stanley Global Brands have performed well whilst F&C and Morgan Stanley Alternatives continue to disappoint.

	3 months ended 31/12/15			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	Target p.a. %
Passive UK Equity In house	3.7	3.8	(0.1)	(0.2)	0	(0.2)	+/- 0.5
Invesco (Global Equities (ex UK))	8.7	8.8	(0.1)	5.6	4.7	1.0	+1.0
Threadneedle (Global Equities)	10.6	8.0	2.4	10.4	3.8	6.4	+2.0
Neptune (Global Equities)	6.5	8.1	(1.4)	2.8	3.8	(1.0)	+4.0
Schroder's (Global Equities)	8.5	7.9	0.5	6.3	3.3	2.9	+3.0
Morgan Stanley Global Brands	10.1	8.4	1.5	12.0	4.9	6.8	n/a
Blackrock (Fixed Interest)	(0.5)	(0.5)	0.0	0.7	0.5	0.2	Match Index
F&C (Fixed Interest)	0.7	0.8	(0.1)	(0.4)	3.1	(3.4)	3M LIBOR + 3%
Morgan Stanley (Alternative Investments)	(0.2)	1.1	(1.3)	(3.9)	4.7	(8.2)	3M LIBOR + 4%

**Lincolnshire Pension Fund  
UK Equities – In House (Passive UK)  
Quarterly Report December 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 30.09.15	Value at 31.12.15
£325,659,115	£337,523,109

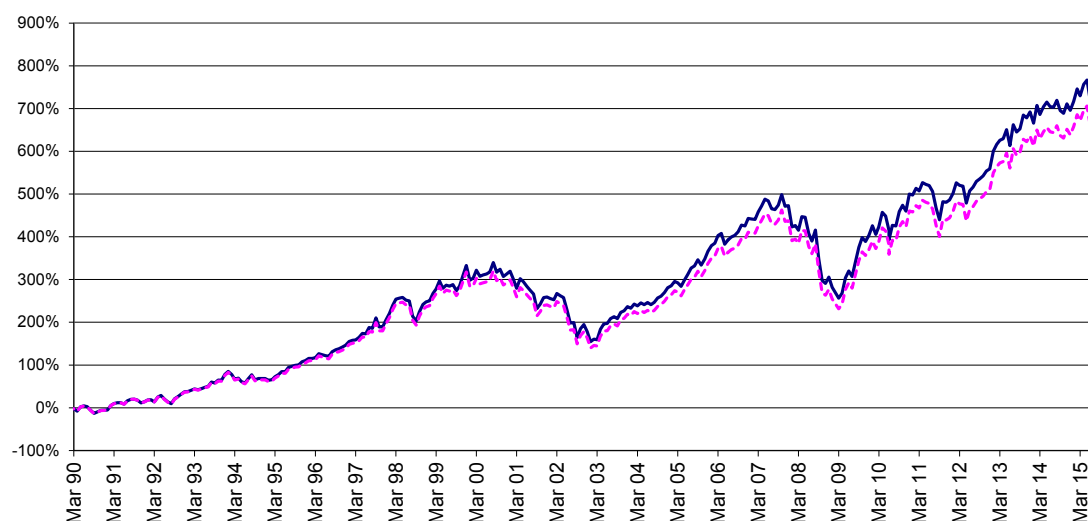
**Performance**

During the quarter the portfolio produced a positive return of 3.7% which was 0.1% below the benchmark. 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	3.7	(0.2)	6.4	5.8	8.1
MSCI UK IMI	3.8	0.0	6.5	5.7	7.8
Relative Performance	(0.1)	(0.2)	(0.1)	0.1	0.3

\* annualised, inception date 01/10/1989

**UK Equities In House Portfolio Performance Since Inception**



## Turnover

Holdings at 30.09.15	Holdings at 31.12.15	Turnover in Quarter %	Turnover in Previous Quarter %
263	274	0.5	1.6

## Purchases and Sales

During the quarter the manager made several purchases. These included new positions in Optimal Payments and London Metric Property and an increase to the holdings of Glencore and HSBC.

## Largest Overweights

Babcock	0.12%
Inmarsat	0.11%
Greene King	0.11%
Rangold Res	0.10%
Travis Perkins	0.10%

## Largest Underweights

Auto Trader	(0.18%)
Abcam	(0.06%)
BWIN Party Digit	(0.05%)
Aviva	(0.05%)
Shire	(0.05%)

\* Measured against MSCI UK IMI

## Top 10 Holdings

1	HSBC	£18,561,551	6	Vodafone	£10,583,138
2	Royal Dutch Shell	£17,324,938	7	Astrazeneca	£10,328,992
3	British American Tobacco	£12,372,312	8	Diageo	£8,265,936
4	GlaxoSmithKline	£12,094,824	9	Lloyds Banking	£7,411,994
5	BP	£11,456,898	10	BT Group	£7,293,562

## Risk Control

The portfolio has a tracking error limit of 0.5%. At the end of December 2015 the tracking error was 0.20%.

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

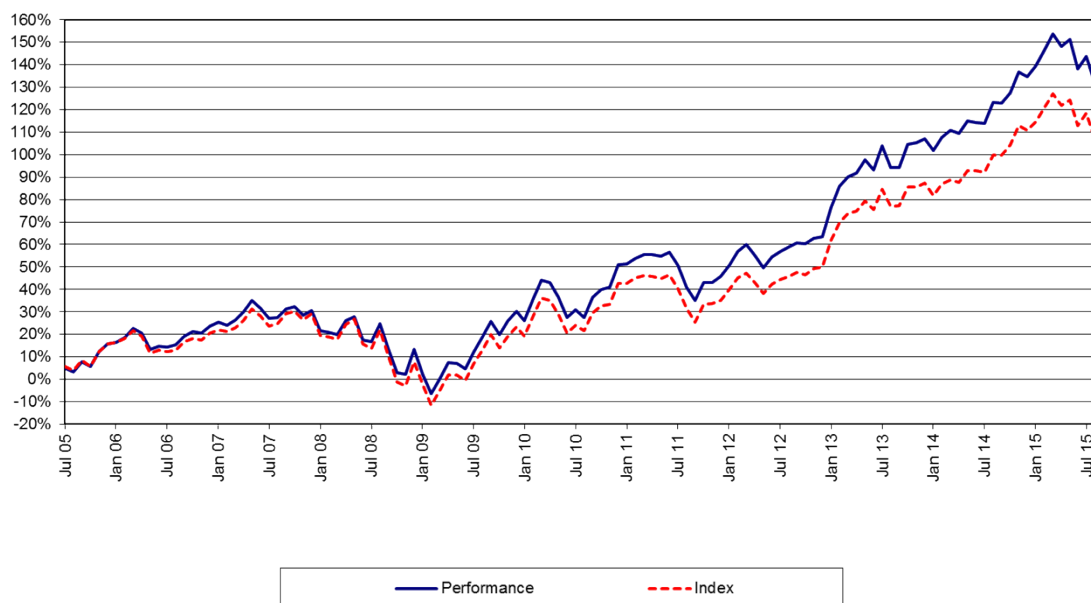
**Portfolio Valuation**

Value at 30.09.15	Value at 31.12.15
£329,822,684	£358,425,059

**Performance**

During the quarter Invesco's strategy underperformed its benchmark. Stock Selection had a slightly negative impact on relative performance, as the contribution from their overweighted assets was negative. Contributions from Countries and Currencies, were positive with the overweight position to New Zealand and an underweight position in Canada helping performance.

**Invesco Performance Since Inception**



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Invesco	8.7	5.6	14.9	10.4	9.0
MSCI World ex UK	8.8	4.7	13.7	9.1	7.8
Relative Performance	(0.1)	0.9	1.0	1.2	1.1

\* annualised, inception date 1<sup>st</sup> July 2005

## Turnover

Holdings at 30.09.15	Holdings at 31.12.15	Turnover in Quarter %	Turnover in Previous Quarter %
457	471	8.9	10.1

## Purchases and Sales

During the quarter, Invesco made a number of stock adjustments to the portfolio. They increased their positions in General Electric, Macquarie, Walt Disney and Apple. These were funded by selling out of Health Net, Allstate and Delhaize Group and decreasing positions in NTT and HP.

## Largest Overweights

Intel	1.03%
JP Morgan Chase	1.01%
Citigroup	0.94%
Apple	0.90%
General Electric	0.85%

## Largest Underweights

Alphabet	(0.79%)
Chevron	(0.57%)
Exxon Mobil	(0.55%)
Coca-Cola	(0.43%)
Bristol-Myers Squibb	(0.38%)

\* Measured against MSCI World ex UK (NDR)

## Top 10 Holdings

1	Apple Inc	£10,308,548	6	Citigroup	£5,175,351
2	General Electric	£6,553,281	7	Johnson & Johnson	£5,134,848
3	JP Morgan Chase	£6,485,987	8	Comcast	£4,409,786
4	Microsoft	£6,000,594	9	Cisco Systems	£3,288,062
5	Intel	£5,584,612	10	Bank of America	£3,242,907

## Hymans Robertson View

There were no relevant business issues reported over the period.

## Risk Control

The predicted tracking error of the portfolio slightly decreased to 1.06% (actual target 1%).



**Lincolnshire Pension Fund  
Global Equities – Neptune  
Quarterly Report December 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 than the Fund's other Global Equity Managers and are seen as benchmark agnostic.

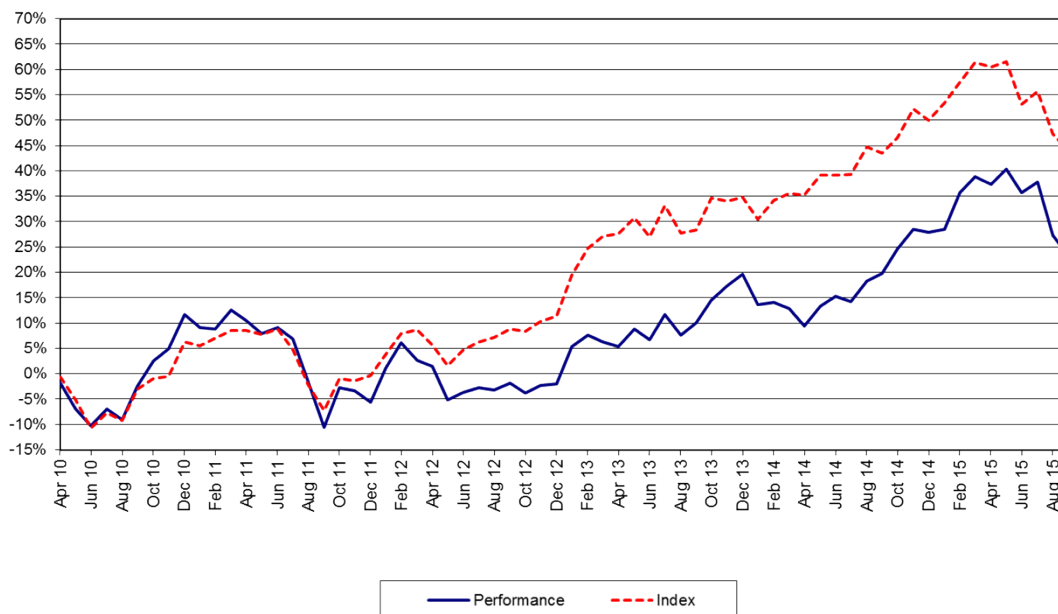
**Portfolio Valuation**

Value at 30.09.15	Value at 31.12.15
£81,983,621	£87,864,070

**Performance**

During the quarter Neptune produced a positive return of 6.5% and underperformed the benchmark by 1.4%. The Fund's exposure to world class Japanese multinationals contributed to outperformance as the stocks rebounded in the fourth quarter. However the absence of further quantitative easing continued to be felt, which led to yen strength and financials underperformance. The best performers in the Fund were once again Neptune's US technology and consumer holdings, with companies such as Amazon, LinkedIn and Home Depot enjoying another strong quarter. Neptune maintain their belief that the low oil price will continue to provide a boost to US consumer spending, whilst in the technology space they have maintained their structural overweight, as companies such as Amazon continue to grow their market share.

Neptune Performance Since Inception



	Quarter %	1 Year %	3 Year %	5 Year %	Inception* %
Neptune	6.5	3.6	10.3	3.3	5.3
MSCI ACWI**	8.1	3.8	11.8	7.9	8.0
Relative Performance	(1.4)	(0.2)	(1.6)	(4.3)	(2.7)

\* annualised, inception date 16/04/2010

## Turnover

Holdings at 30.09.15	Holdings at 31.12.15	Turnover in Quarter %	Turnover in Previous Quarter %
53	52	11.2	9.0

## Purchases and Sales

Neptune continued to add to consumer exposure in Japan at the expense of some industrial stocks where they took profits. They also reduced their exposure to India, selling ICCI and Larsen & Toubro. They also added Under Armour to increase US domestic millennial consumption exposure.

### Top 5 Contributions to Return

Alphabet	1.2%
Amazon.com	0.9%
Keyence	0.7%
Linkedin	0.6%
Baidu.com	0.6%

### Bottom 5 Contributions to Return

Under Armour	(0.3%)
Nintendo	(0.3%)
Hain Celestial	(0.3%)
Isetan Mitsukoshi	(0.2%)
Sumitomo Realty & Dev	(0.2%)

## Top 10 Holdings

1	Alphabet	£4,380,771	6	Mitsubishi Estate	£2,845,979
2	Starbucks	£3,257,752	7	Amazon	£2,843,023
3	CME Group	£3,170,839	8	Tencent Holdings	£2,668,313
4	Linkedin	£3,054,210	9	Keyence	£2,647,956
5	Apple	£2,855,553	10	Dai-ichi Life Insurance	£2,639,834

## Hymans Robertson View

Hymans rating on Neptune Global Equity is currently at '3 - On Watch'. They were encouraged by the initiatives taken in 2015 by Neptune to improve its investment process. They would expect Robin Geffen's top down view to continue to dominate though they note that his ('correct') overweight call on Japan was undermined at the stock selection level in 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 December 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.

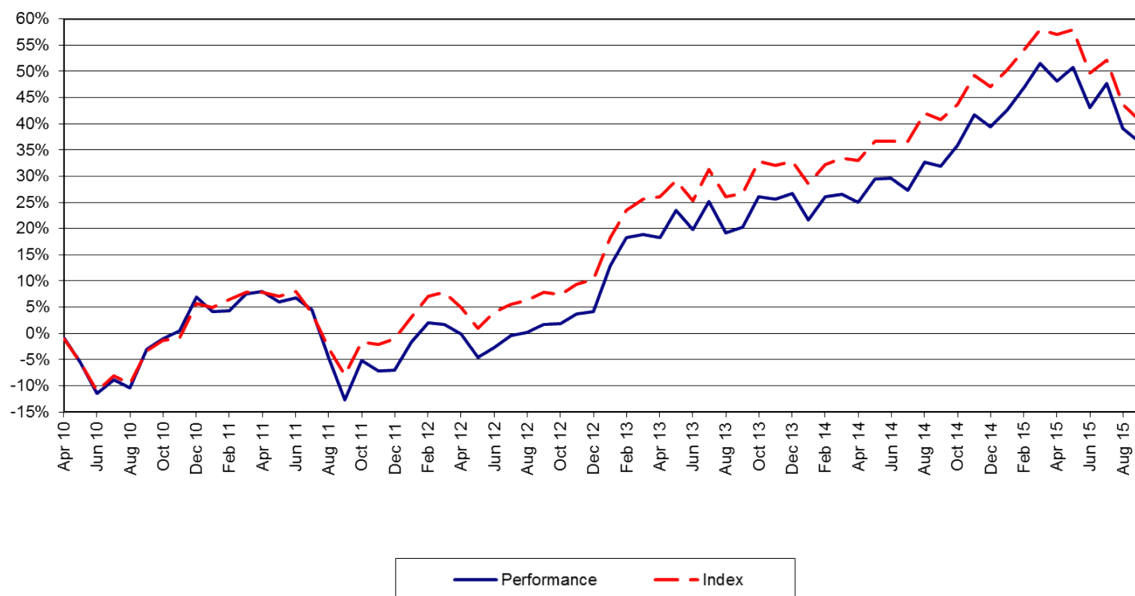
**Portfolio Valuation**

Value at 30.09.15	Value at 31.12.15
£81,496,556	£88,510,859

**Performance**

Schroders outperformed the benchmark over the period, driven by strong regional stock selection. They gained the most from their holdings in North America, Japan and the emerging markets. Offsetting this to some extent though, were their holdings in consumer staples, energy and financials.

Schroders Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Schroders	8.5	6.3	12.5	6.8	7.1
MSCI ACWI (Net)	7.9	3.3	11.3	7.5	7.5
Relative Performance	0.5	2.9	1.1	(0.7)	(0.4)

\*annualised since Inception April 16 2010

## Turnover

Holdings at 30.09.15	Holdings at 31.12.15	Turnover in Quarter %	Turnover in Previous Quarter %
67	69	9.8	7.1

## Purchases and Sales

During the quarter Schroders purchased the Japanese industrial stock, Keyence and Japanese mobile operator KDDI. The sold their position in Japanese air-conditioning firm Daikin to fund these purchases.

### Top 5 Contributions to Return

Google	0.4%
Amazon	0.4%
Daikin Industries	0.3%
Alibaba Group	0.3%
Smc Corp	0.2%

### Bottom 5 Contributions to Return

Bbva	(0.3%)
Kasikornbank	(0.3%)
Cabot Oil & Gas	(0.2%)
Safran	(0.2%)
Microsoft	(0.2%)

## Top 10 Holdings

1	Alphabet	£3,153,628
2	Amazon.com	£2,213,890
3	Citigroup	£2,213,112
4	TWN Semicont	£2,173,953
5	Pfizer	£1,973,048

6	Reckitt Benckiser	£1,971,729
7	Amgen	£1,917,332
8	Apple	£1,915,291
9	Visa	£1,873,428
10	Danaher	£1,855,032

## Hymans Robertson View

There were no relevant business issues reported over the period.

## Risk Control

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

## Lincolnshire Pension Fund Global Equities – Threadneedle Quarterly Report December 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.

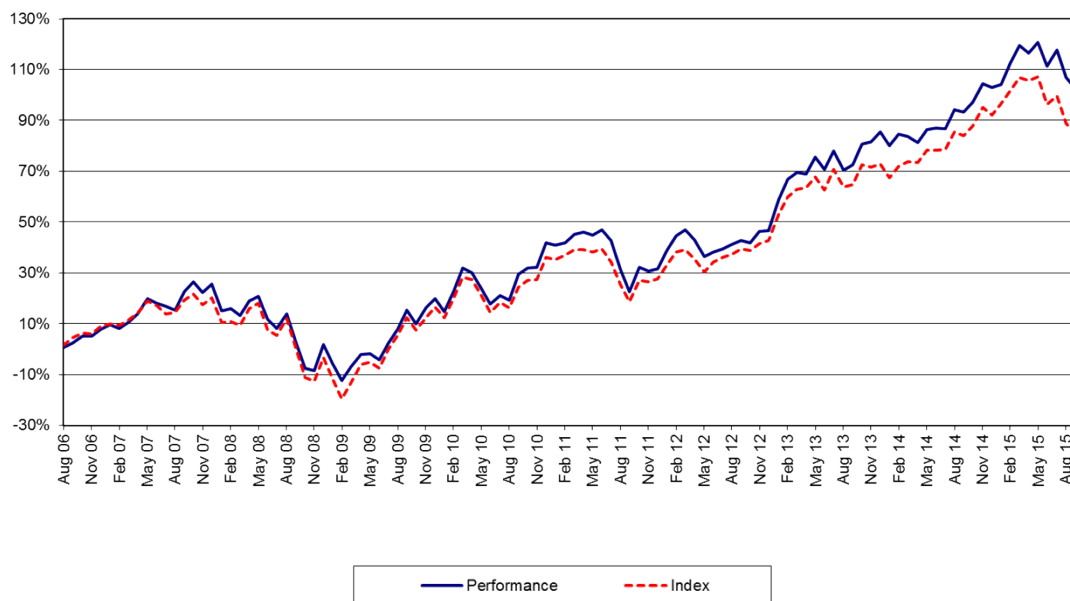
### Portfolio Valuation

Value at 30.09.15	Value at 31.12.15
£84,380,768	£93,347,789

### Performance

Threadneedle outperformed its benchmark in the quarter. Regional allocation detracted, as developed Asia and Japan, where they are underweight, both outperformed. Threadneedle's overweight in technology and underweight in energy were especially helpful to performance, as were their selections in technology and healthcare.

Threadneedle Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Threadneedle	10.6	10.4	14.6	9.0	8.3
MSCI ACWI	8.1	3.8	11.9	8.0	7.5
Relative Performance	2.4	6.4	2.5	1.0	0.8

\* annualised, inception date 01/08/2006

## Turnover

Holdings at 30.09.15	Holdings at 31.12.15	Turnover in Quarter %	Turnover in Previous Quarter %
85	88	2.7	8.3

## Purchases and Sales

Threadneedle opened positions in China's Ping An Insurance, Nintendo and NXP Semiconductors. These were funded by exiting positions in Disney and Liberty Global.

### Top 5 Contributions to Return

Alphabet	0.66%
Facebook	0.51%
Amazon.com	0.45%
PT Bank Rakyat	0.41%
Vertex Pharmaceuticals	0.38%

### Bottom 5 Contributions to Return

Spirit Airlines	(0.14%)
Nintendo	(0.12%)
Union Pacific	(0.09%)
Wolseley	(0.05%)
American Express	(0.04%)

## Top 10 Holdings

1	Alphabet	£2,927,973	6	Comcast	£1,905,663
2	Priceline	£2,365,193	7	Aon	£1,808,853
3	Gilead Sciences	£2,363,859	8	Continental	£1,784,572
4	Facebook	£2,253,962	9	Mastercard	£1,779,126
5	UBS Group	£2,088,772	10	JP Morgan Chase	£1,756,323

## Hymans Robertson View

In December 2015 the FCA fined Threadneedle £6m for failing to put in place adequate controls on its dealing desk. This relates back to a situation in 2011 when a Threadneedle employee attempted a fraudulent trade. This was picked up and reported to the FSA (at the time) and the employee dismissed. The FCA subsequently ruled the firm's dealing controls were not sufficiently rigorous and subsequent remedial changes had not been fully implemented, hence the fine. The FCA is now fully satisfied with Threadneedle's dealing controls and, while the incident does not reflect well on the manager, its systems did work, no clients lost out and, in Hyman's judgement, this does not warrant a revision to their current ratings.

## Risk Control

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

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

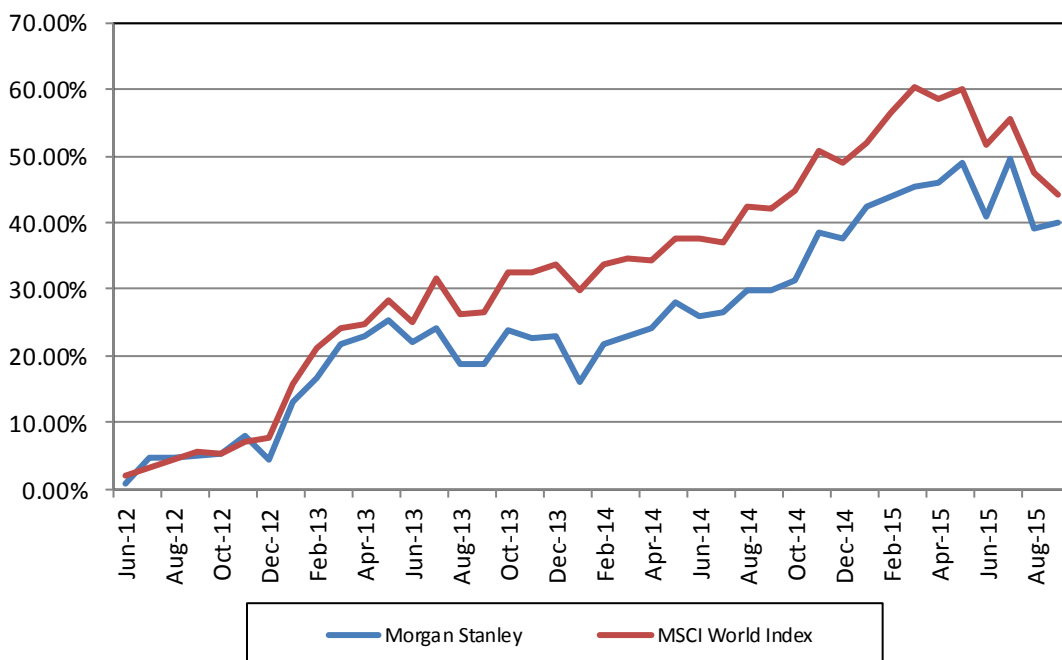
**Portfolio Valuation**

Value at 30.09.15	Value at 31.12.15
£85,073,555	£93,666,116

**Performance**

During the quarter Morgan Stanley Global Brands returned 10.1% outperforming its benchmark by 1.5%, which returned 8.42%. The outperformance for the quarter was mainly due to stock selection in Information Technology while their zero weights in Energy, Utilities and Materials and the underweight in Financials also contributed.

**Morgan Stanley Global Brands Performance Since Inception**



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley Global Brands	10.1	12.0	13.8	N/A	12.8
MSCI World Index	8.4	4.9	13.3	N/A	13.3
Relative Performance	1.5	6.8	0.5	N/A	(0.4)

\*annualised, inception date 18/06/2012

### Purchases and Sales

During the quarter Morgan Stanley retreated from areas where they are worried about the business, these included P&G and Mead Johnson. They made two purchases, in high quality companies, L'Oreal and Reynolds.

### Top 3 Contributions to Return

Microsoft	2.07%
Unilever	0.66%
Visa	0.58%

### Bottom 3 Contribution to Return

Sanofi	(0.16%)
L'Oreal	(0.10%)
Time Warner	(0.09%)

### Top Ten Holdings

Company	Industry	% Weighting
Microsoft	Software	8.7
Nestle	Food Products	8.0
British American Tobacco	Tobacco	7.5
Reckitt Benckiser	Household Products	7.2
Unilever	Personal Products	5.8
Altria	Tobacco	4.9
Reynolds American	Tobacco	4.8
Mondelez	Food Products	4.7
Accenture	IT Services	4.6
Visa	IT Services	4.2

### Hymans Robertson View

There were no relevant business issues reported over the period.



**Lincolnshire Pension Fund  
Passive Bonds – Blackrock  
Quarterly Report December 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.

<b>Pooled Fund</b>	<b>Indexing Method</b>
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 31<sup>st</sup> December 2015**

<b>Portfolio</b>	<b>30.09.15 £</b>	<b>31.12.15 £</b>
Corporate Bond All Stocks Index Fund	56,649,063	56,878,545
Over 5 Years UK Index-Linked Gilt Index Fund	34,111,942	32,987,164
Overseas Bond Index Fund	22,970,482	23,384,837
Cash (residual)		10
<b>Total</b>	<b>113,731,487</b>	<b>113,250,556</b>

**Performance**

Over all periods the portfolio has slightly outperformed the benchmark.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	(0.5)	0.7	4.4	6.2	6.5
Composite Benchmark	(0.5)	0.5	4.3	6.1	6.4
Relative Performance	0.0	0.2	0.1	0.0	0.1

\*annualised since inception 28/07/10

## Hymans Robertson View

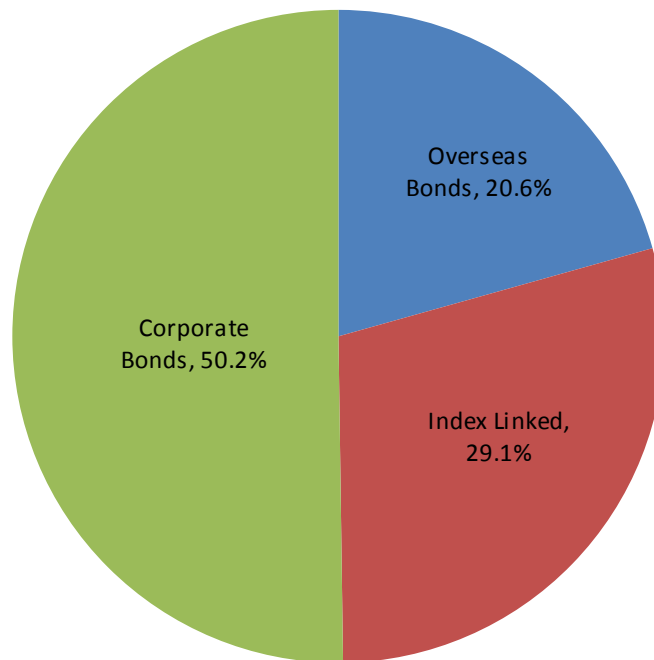
There were no significant developments within the Index Fixed Income team over the quarter; as such Hymans continue to rate Blackrock as one of their preferred passive fixed income managers.

## 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 31<sup>st</sup> December 2015.



**Lincolnshire Pension Fund  
Absolute Return Bonds – F&C  
Quarterly Report December 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 30.09.15	Value at 31.12.15
£109,625,436	£110,375,120

**Performance**

F&C produced a positive return of 0.7% during the quarter which was 0.2% below target. In the quarter, Chenavari came back strongly as they had hoped at the end of September. Concerto were down, as was the US high yield market and Columbia Threadneedle were flat.

Over 12 months, Comcerto were the main contributor to the negative performance, and there was no strong positive contributor to offset this..

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
F&C	0.7	(0.4)	(0.1)	1.2	1.3
3 Month LIBOR + 3%	0.9	2.7	2.9	3.1	3.1
Relative Performance	(0.2)	(3.0)	(2.9)	(1.9)	(1.8)

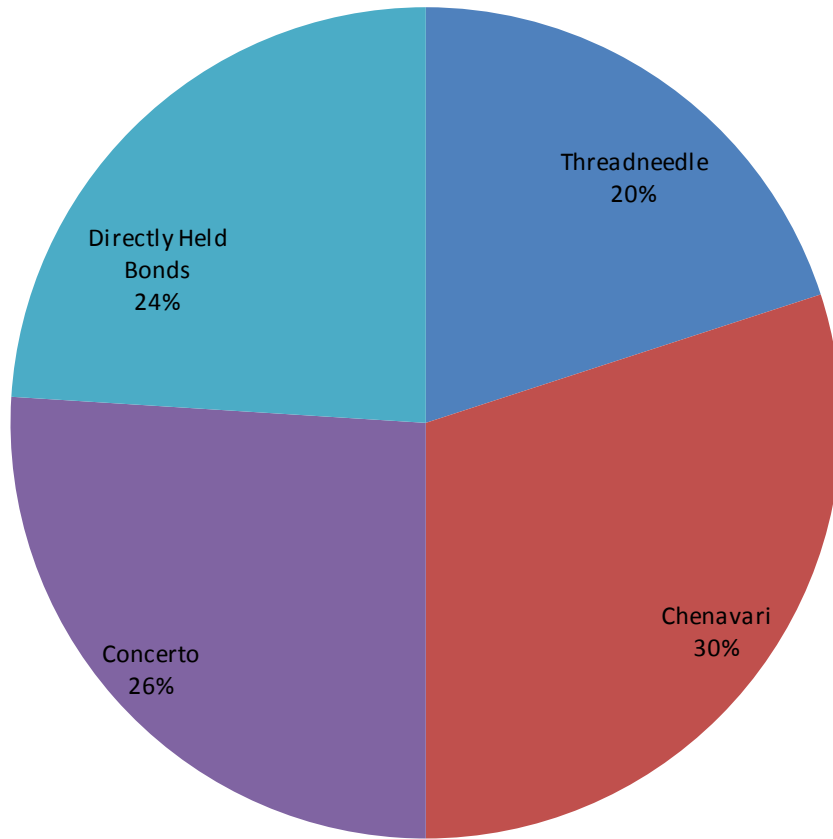
\* annualised since inception date 19/07/2010

**Allocation**

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

Threadneedle	Interest rates, currency
Chenavari	Credit
Concerto	Credit

The pie chart below shows the allocation as at 31<sup>st</sup> December 2015



### **Hymans Robertson View**

Although many absolute return bond managers struggled in 2015, the disappointing returns from F&C have gone on for much longer. Hymans will be discussing the options for this mandate with the Committee in May and they have changed their rating to "on watch".

**Lincolnshire Pension Fund  
Alternative Investments – Morgan Stanley  
Quarterly Report December 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 30.09.15	Value at 31.12.15
£179,384,509	£183,444,113

**Performance**

The portfolio returned -0.23% during the fourth quarter. The largest detractors to absolute performance were high yield bonds and commodities, while real estate was the primary contributor. Positive relative returns from tactical decisions were partly offset by manager selection. Within manager selection, senior loans, infrastructure and REIT's outperformed while hedge funds and more focused global asset allocation managers lagged.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley	(0.2)	(3.9)	1.0	N/A	3.3
3 Month LIBOR + 4%	(1.2)	4.7	4.7	N/A	4.7
Relative Performance	(1.3)	(8.2)	(3.5)	N/A	(1.4)

\* 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.

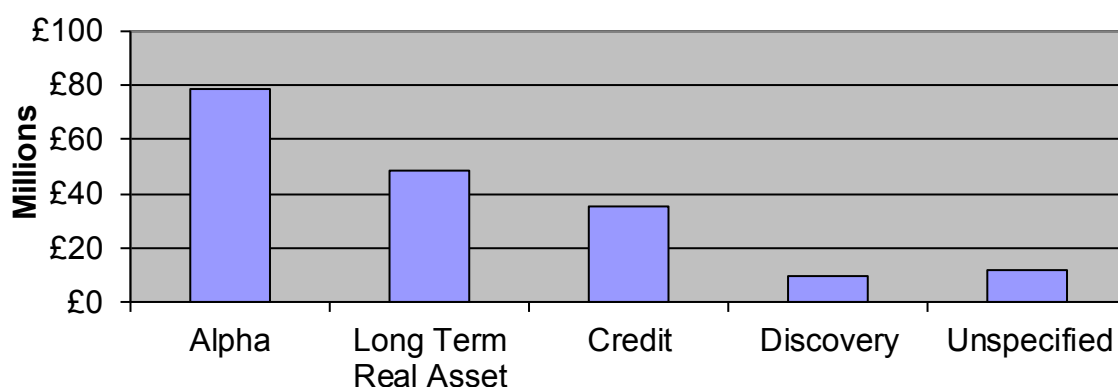
Credit – These are the purchase of the lower rated bonds where higher default is more likely. Manager selection is important to ensure the correct bonds are purchased that will appreciate following rating upgrades and merger and acquisition

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.

**Allocation as at 31st December 2015**



### Portfolio Positioning

In recent months, equity and fixed income market volatility, driven by the potential Fed interest rate hike and global growth concerns spurred by the China slowdown, whipsawed markets and dampened beta-driven rallies. In this environment alpha oriented strategies are relatively more attractive. As such, Morgan Stanley continue to favour hedge funds and continued to add to the hedge fund portfolio over the quarter. They remain underweight credit due to liquidity concerns, low interest rates globally and expectations of Fed interest rate hikes. Over the quarter they made reductions to EM debt through redemptions in two investments as their alpha generation has lagged given the difficult growth environment in EM. Within real assets, they continue to progressively make commitments to private infrastructure. On the liquid side, they have a preference for listed private equity over listed infrastructure, since the latter is more exposed to interest rate sensitivity. The portfolio allocation to listed private equity reflects their positive view on the medium and long term prospects for the sector, predicated on strong fundamentals, current valuations levels and robust return expectations during rising interest rate environments. Lastly, in anticipation of expected Fed interest rate hikes in the U.S., the first of which occurred on December 16, and the concomitant impacts on the USD, they have maintained caution towards commodities. That said, given pricing dynamics and heightened volatility, they are attentive to potentially reducing that sustained underweight in the next quarter and continue to have the portfolio positioned to take advantage of the stabilization of oil prices through their energy high yield investment.

### Hymans Robertson View

The team's approach to investing has not changed and Hymans acknowledge that many of the underlying asset classes in which the manager invests posted negative or flat returns in 2015 as a result of key macro themes, notably the China slowdown and its impact on commodities and emerging markets more broadly. In such an

environment, the portfolio will struggle to hit its long term target of LIBOR + 4% p.a. Returns last year were not unexpected. In more positive market conditions, the portfolio would be expected to materially exceed its performance target.

### **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 4.49% which is behind 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](mailto:nick.rouse@lincolnshire.gov.uk).

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## Regulatory and Other Committee

<b>Open Report on behalf of Executive Director of Finance and Public Protection</b>
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Report to:	<b>Pensions Committee</b>
Date:	<b>07 April 2016</b>
Subject:	<b>Annual Pensions Committee Training Plan and Policy</b>

### Summary:

This paper sets out the training policy and the annual training plan for Pension Committee members for the meetings from May 2016 to April 2017.

### Recommendation(s):

That the Committee agree the training policy and plan.

### Background

1. There is a high level of risk involved in managing and making decisions relating to Local Government Pension Scheme's (LGPS). It is therefore essential that those involved with these tasks have the appropriate knowledge and skills to do so. The need for appropriate knowledge and skills in the management of pension schemes has been a key topic in recent years in both the public and private sector.
2. Members and Officers are required to undertake training to satisfy the obligations placed upon them by the following:
  - Lord Hutton, in his review of Public Sector Pensions, included a key recommendation referring to the need for all Pension Committees and Boards to be properly trained.
  - The Public Service Pensions Act 2013 included a requirement for members of Pensions Boards in the public sector to have an appropriate level of knowledge, and included a provision that required the Pensions Regulator to issue a Code of Practice relating to this for both Pension Board members and Scheme Managers (the Administering Authority).
  - The Chartered Institute of Public Finance and Accountancy (CIPFA) launched a technical guidance for Representatives on Pensions

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

- Myners Principles – Scheme Administering Authorities have been required for some time to report on a 'comply or explain' basis their adoption of, and compliance with, the principles. This is set out in the Governance Compliance Statement and the Statement of Investment Principles.
3. The Pensions Committee has adopted the key recommendations and principles of the CIPFA Code of Practice, detailed below:
- Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision making and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.
  - Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme financial knowledge and skills for those in the organisation responsible for financial administration and decision-making.
  - The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Knowledge and Skills Frameworks.
  - The organisation has designated a named individual to be responsible for ensuring that policies are implemented.
4. For the Lincolnshire Pension Fund, the County Finance Officer (and delegated Section 151 Officer) David Forbes is the designated officer in this regard.
5. To ensure that the Fund complies with the requirements above, a training policy and annual training plan is produced (attached at appendix A) and agreed by the Committee. Evaluation of knowledge and skills is periodically undertaken to ensure any emerging knowledge gaps, (due to either regulatory/market change or change in members or key officers) are addressed.
6. The CIPFA KSF (attached at appendix B for reference) covers six areas:

- i. Pensions Legislative and Governance Context
- ii. Pensions Auditing and Accounting Standards
- iii. Financial Services Procurement and Relationship Management
- iv. Investment Performance and Risk Management
- v. Financial Markets and Products Knowledge
- vi. Actuarial Methods, Standards and Practices

7. It is acknowledged that these areas are very wide; however, the framework requires an awareness or understanding in most areas, rather than detailed knowledge. There are also a number of different ways in which this information can be gained by members, such as during normal Committee meetings, training sessions or attendance at conferences or seminars. It is not expected for members of the Committee to have knowledge in all areas of the framework but a collective understanding by the Committee as a whole.
8. The training policy was last agreed at the April 2015 meeting of this Committee. It sets out the policy concerning the training and development of:
  - the members of the Pensions Committee and
  - officers of Lincolnshire County Council responsible for the management of the LGPS.

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

9. The Committee training plan presents the topics that will be covered in the normal Committee meeting and also the additional training sessions for the coming year. This will be updated for additional areas that are covered in Committee throughout the year, and will be used to assist in disclosure requirements for training in the 2015/16 Annual Report. The statement of compliance also requires Officers to keep a record of attendance at training courses and conferences by Members. Members are requested to inform Officers should they attend any meetings that are relevant to the Knowledge and Skills Framework.
10. Committee members are asked to agree topics for training for the sessions in September and February.

11. Committee members that attend external training events, including conferences, will be asked to provide a brief update to the next meeting of the Pensions Committee, covering the following points.
  - Their view on the value of the event and the merit, if any, of attendance;
  - A summary of the key learning points gained from attending the event; and
  - Recommendations of any subject matters at the event in relation to which training would be beneficial to all Committee Members.
12. The Pensions Regulator has an online education portal for public sector pension schemes, which can be accessed through the following link: <https://education.thepensionregulator.gov.uk/login/index.php>.

### **Conclusion**

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

### **Consultation**

#### **a) Policy Proofing Actions Required**

n/a

### **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Pensions Committee Training Plan and Policy May 2016 to April 2017
Appendix B	CIPFA Knowledge and Skills Framework for Elected Representatives

### **Background Papers**

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

This report was written by Jo Ray, who can be contacted on 01522 553656 or [jo.ray@lincolnshire.gov.uk](mailto:jo.ray@lincolnshire.gov.uk).

## **PENSIONS COMMITTEE TRAINING POLICY AND COMMITTEE TRAINING PLAN MAY 2016 TO APRIL 2017**

### **Policy Objectives**

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

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

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

### **Application of the Policy**

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

### **Review and maintenance**

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

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

### **CIPFA Knowledge and Skills Framework and Code of Practice**

In January 2010, CIPFA launched technical guidance for Representatives on Pension Committees and non-executives in the public sector within a

knowledge and skills framework. The framework sets the skill set for those responsible for pension scheme financial management and decision making.

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

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

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

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

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

### **Measurement, Assessment and Training Provision**

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

#### **Members:**

- Upon appointment to the Pensions Committee, undertake a one-to-one training session with the Pension Fund Manager, as a minimum.
- Undertake, as a Committee, regular training as set out in the annual training plan.
- Highlight to officers any areas where further training would be desirable or required, following subjects covered in Committee meetings or following attendance at any external training events or conferences.
- Obtain a satisfactory collective level of knowledge and skills in relation to all modules of the CIPFA Framework. Support from officers and the

Fund's Advisors will be available as and when required, but always in advance of any decision being taken.

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

**Officers:**

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

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

**Delivery of Training**

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

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

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

## **External Events**

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

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

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

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

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



## PENSIONS COMMITTEE TRAINING PLAN MAY 2016 TO APRIL 2017

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

1. **Pensions Legislative and Governance Context**
2. **Pensions Auditing and Accounting Standards**
3. **Financial Services Procurement and Relationship Management**
4. **Investment Performance and Risk Management**
5. **Financial Markets and Products Knowledge**
6. **Actuarial Methods, Standards and Practices**

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

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

<b>Date</b>	<b>Topic</b>	<b>KSF area(s)</b>
<b>May 2016</b> Committee topics	External Manager Presentations	4,5
<b>Jul 2016</b> Committee papers	Independent Advisor Market Update	4,5
	Fund Update	1,3,4
	Investment Management Report	4,5
	Pensions Administration Report	1
	Annual Report and Accounts	2
	Internal Manager Presentation	4
	Annual Property Report	4,5
	Policies Review Report	1
	Risk Register Annual Review	1,4
	Asset Pooling Update	1,3,4,5

<b>Sep 2015</b> Training	Triennial Valuation draft results – discussion and assumption setting	6
<b>Oct 2016</b> Committee papers	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report External Manager Presentation Audit Governance Report Annual Fund Performance Report Asset Pooling Update	4,5 1,3,4 4,5 1 4 2 4 1,3,4,5
<b>Dec 2016</b> Committee papers	External Manager Presentations	4,5
<b>Jan 2017</b> Committee papers	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report Asset Pooling Update	4,5 1,3,4 4,5 1 1,3,4,5
<b>Feb 2017</b> Training	To be decided	4,5
<b>Apr 2017</b> Committee papers	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report Annual Training Paper Asset Pooling Update	4,5 1,3,4 4,5 1 1 1,3,4,5

Committee papers and training may be subject to change.

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

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

Pensions legislative and governance context      Pensions accounting and auditing standards      Financial services procurement and relationship management      Investment performance and risk management      Financial markets and products knowledge      Actuarial methods, standards and practices

A regularly updated appreciation of the latest changes to the scheme rules. Knowledge of the role of the administering authority in relation to the LGPS.

**Pensions regulators and advisors**

An understanding of how the roles and powers of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.

**General constitutional framework**

Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.

Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.

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



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

Report to:	<b>Pensions Committee</b>
Date:	<b>07 April 2016</b>
Subject:	<b>LGPS Asset Pooling</b>

#### Summary:

This paper updates the Committee on Lincolnshire's progress to meet the Government's requirements on pooling LGPS assets, following the publication of the pooling criteria and investment regulations consultation on 25th November 2015.

#### Recommendation(s):

That the Committee

- i) note the report; and
- ii) delegate authority to the Executive Director of Finance and Public Protection, in consultation with the Chair and Vice Chair of the Pensions Committee, to respond to the Government's consultation and pooling requirements, for the July 15th submission.

## Background

### 1 Asset Pooling

- 1.1 The Committee have been kept updated since the summer budget speech in July on the Government's desire to pool LGPS fund assets. In his speech on the Comprehensive Spending Review on 25<sup>th</sup> November 2015, the Chancellor announced the release of the awaited consultation on pooling. Para 1.138 states: *"The government will today publish guidance for pooling Local Government Pension Scheme Fund assets into up to 6 British Wealth Funds, containing at least £25 billion of Scheme assets each. The government is now inviting administering authorities to come forward with their proposals for new pooled structures in line with the guidance to significantly reduce costs while maintaining overall investment performance, with the wider ambition of matching the infrastructure investment levels of the top global pension funds"*.

1.2 The criteria for pooling assets are:

- a) Achieve the benefits of **scale** – up to 6 asset pools of £25bn or more.
- b) Strong **governance** and decision-making – investments should be managed appropriately by the pool with risk adequately assessed and managed. The pool should have appropriate resources and skills. The Local authority will hold the pool to account.
- c) **Reduced costs** and excellent **value for money** – pools need to deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining investment performance.
- d) An improved capacity to invest in **infrastructure** – proposals should show how the pooling arrangements will enable the funds to invest more in infrastructure.

1.3 Following discussion at the January 2016 meeting of this Committee, the Pensions Committee agreed to pool its assets with Border to Coast Pensions Partnership (BCPP).

1.4 The consultation required an initial “suitably ambitious” but well-structured proposal for submission to Government by 19<sup>th</sup> February 2016, detailing our commitment to pooling, describing our ‘progress towards formalising arrangements with other authorities’. This joint submission, from all members of BCPP, was sent to Government on 19<sup>th</sup> February and is attached at appendix A.

1.5 A total of 8 pool submissions were received from the LGPS:

- BCPP (£36bn)
- Access (£30bn)
- London CIV (£28bn)
- Lancs/LPFA (£12bn)
- Central (£35bn)
- Northern Powerhouse (£35bn)
- Brunel (£23bn)
- Wales (£12bn)



- 1.6 Indications are that the government has been impressed with how much has been done in such a short space of time, and that generally the submissions have been good. It is expected that Government will respond to all the proposals before the Easter recess, indicating where clarification is needed, and whether they meet expectations at this time. Pools will be invited for follow-up meetings, to assist in finalising the July submissions.
- 1.7 The 15<sup>th</sup> July submission must fully address the criteria set out in paragraph 1.2 in detail, with enough information for the proposal to be fully evaluated by government. Each pool must make a submission which covers the joint proposals and describes the proposed governance, structure and implementation plan. Each authority must also submit an individual return which sets out the profile of costs and savings, for up to 15 years ahead, the transition profile for the assets and the rationale for any assets which it proposes to hold outside the pool.

## **2 Progress with BCPP**

- 2.1 BCPP has, in collaboration with the Central and Access pools, commissioned legal work from two firms to offer an options appraisal to cover the following areas:
- legal, taxation and regulatory advice on collective investment vehicles (a regulated option) and collective asset pools (a non-regulated option);
  - Pros and cons of each option and practical implementation issues; and
  - Other legal structures available to fulfil section B of the criteria.

This had been received and both firms will present their findings at a meeting of officers in April.

- 2.2 Officers from all 13 Funds within BCPP met on 1<sup>st</sup> and 2<sup>nd</sup> March in Leeds to discuss the July submission and how to progress. Presentations were received from Eversheds and PWC, looking at the structure options available to BCPP, the legal requirements of FCA authorisation and the risks of managing the pool in an unauthorised structure. Initial discussions were held on the possible sub-funds needed to meet all asset allocation requirements of the pool members. Further detailed information is being collected to analyse current investments and managers, to identify how they can be captured within the new pool structure, and what potential transitions will be required.
- 2.3 There has been much debate about whether the operating structure for the asset pool needs to be FCA authorised. The understanding of BCPP is that

this is expected by government, and indeed that it should be authorised to provide proper assurance to the Funds that the assets are being managed appropriately. However, there has been no direct statement from government that this is required. The submissions from some of the asset pools are recommending an unauthorised structure, as this is cheaper and easier to implement.

- 2.4 In order to seek clarification before unnecessary cost and time is spent investigating all options, BCPP sent a letter on 17<sup>th</sup> March to Chris Megainey, Deputy Director Workforce Pay and Pensions, requesting a definitive statement on the requirement, or otherwise, for a regulated structure.
- 2.5 All 13 funds are participating in the CEM Benchmarking study, to ensure consistent data is submitted for cost and performance to meet the requirements of the July submission, covering the three years to the end of March 13,14 and 15.
- 2.6 A cross-pool working group has been established, to ensure that across the LGPS we respond to the government in a consistent way, and to identify any collaborative opportunities where costs may be saved or efficiencies made. This group is meeting monthly. BCPP are represented by Fiona Miller, from Cumbria Pension Fund, and Jo Ray from Lincolnshire Pension Fund.
- 2.7 A meeting will be held on 15<sup>th</sup> April, in York, for all of the Chairs and S151's from the 13 Funds. The agenda will cover:
- Current position – including feedback from HMT/DCLG
  - Asset allocation and internal management
  - Members questions to HMT/DCLG
  - Next Steps
- 2.8 BCPP is looking to use the services of a project manager, initially to get to the 15<sup>th</sup> July submission date, then potentially until the asset pooling vehicle is fully established, which it must be by April 2018.
- 2.9 There is still a considerable amount of work to be done to get to the second submission, required by 15th July 2016.

## **2 Impact on the Committee**

- 2.1 How does this change impact the Committee? Actually, very little. The only area that changes for the Pensions Committee is manager selection. The

important aspects of managing the Pension Fund will all stay with the Committee; the asset allocation (e.g. how much in equities or bonds, how much in UK or overseas), the administration of the benefits, and the Fund governance. BCPP will manage the investments of the Fund, and the manager selection, in the asset allocation set by the Committee. BCPP will be responsible for the manager choice, but will be accountable to the Fund for poor investment decisions. BCPP will report to the Fund on the performance of its investments, rather than the manager presentation meetings that are currently held.

### **3 Proposed Changes to the Investment Regulations**

- 3.1 The consultation on replacing and revoking the LGPS (Management and Investment of Funds) Regulations 2009 closed on 19<sup>th</sup> February, and the Fund's response was circulated to Committee members with the monthly letter on 22<sup>nd</sup> February. The aim of the new regulations is to lift existing restrictions on LGPS fund investment powers in order to make it easier for them to pool investments and access benefits of scale. The core principle has been to move to a prudential approach securing a diversified investment strategy that appropriately takes account of risk, as is done in the private sector. In doing this, each Fund will be required to produce an Investment Strategy Statement (ISS), to replace the current Statement of Investment Principles (SIP), within six months of the regulations coming into force, explaining how the Fund's assets will be managed.
- 3.2 It was originally expected that these regulations would come into force on 1<sup>st</sup> April 2016, requiring the ISS to be written and published by 1<sup>st</sup> October. It is now expected that the regulations will not be laid until October, pushing back the deadline for producing the ISS to April, bringing it more into line with the Funding Strategy Statement that is required to be produced by 31<sup>st</sup> March, following a valuation year.

### **4 Recommendation for delegated authority**

- 4.1 Given the timescale in which a response is required (by 15<sup>th</sup> July 2016), and the Committee timetable, it is requested that authority is delegated to the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee, to submit the submission for asset pooling, both at a pool and a Fund level.

### **Conclusion**

- 5 The first response to the Government's asset pooling requirements was submitted in February 2016. Much work has been undertaken and much

more is required to meet the final submission date of July 2016, from both BCPP and the Fund.

- 6 Delegation of authority is requested to allow the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee, to prepare and submit the submissions required.

## **Consultation**

### **a) Policy Proofing Actions Required**

n/a

## **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Border to Coast Pensions Partnership February 2016 submission

## **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](mailto:jo.ray@lincolnshire.gov.uk).

**BORDER TO COAST  
PENSION PARTNERSHIP  
(BCPP)**

**INITIAL PROPOSAL TO POOL  
LGPS ASSETS**

**19<sup>TH</sup> FEBRUARY 2016**

## **INTRODUCTION**

1. We, the administering authorities for the following Local Government Pension Scheme (LGPS) Funds, are pleased to have the opportunity to submit to the Department for Communities and Local Government (DCLG) a joint pooling proposal: “*Border to Coast Pensions Partnership*” (BCPP) for your consideration:-
  - Bedfordshire Pension Fund
  - Cumbria Pension Fund
  - Durham Pension Fund
  - East Riding Pension Fund
  - Lincolnshire Pension Fund
  - North Yorkshire Pension Fund
  - Northumberland Pension Fund
  - South Yorkshire Pension Fund
  - South Yorkshire Passenger Transport Pension Fund
  - Surrey Pension Fund
  - Teesside Pension Fund
  - Tyne and Wear Pension Fund
  - Warwickshire Pension Fund
2. The BCPP collaboration encompasses 13 Funds with combined assets of £36bn (fund valuations at 31<sup>st</sup> March 2015).
3. We believe there is an efficiency ceiling for the number of funds within the BCPP pool. The pool needs to be large enough to reach the Government’s target for scale, but larger numbers of participant Funds will inevitably lead to more complex governance arrangements. With these two factors in mind we believe the optimum number of funds to be in the range of ten to fourteen.
4. Whilst the purpose of the BCPP pool is for the collective pooling and subsequent management of all partner Funds’ investment assets, the assets are held to fund the future benefits of a combined LGPS membership of 905,995, representing 2,166 employers (values as at 31<sup>st</sup> March 2015). In this regard, it can be stated that the partner Funds have a fiduciary duty to their members.
5. This submission represents BCPP’s joint initial response to the request for pooling proposals to address the criteria as set out in DCLG’s “*Local Government Pension Scheme: Investment Reform Criteria and Guidance*”. The intention of this submission is to set out an initial, high level proposal that demonstrates how the BCPP pool proposes to achieve the overarching aims of maintaining investment performance whilst achieving cost savings. The proposal meets the Government’s other specified criteria (scale, governance, and how to build capacity to invest in infrastructure investment).

6. The proposal is for a multi asset pool formed on the basis of “like-minded” ethos and beliefs, which have been outlined in our guiding principles (Appendix 1).
7. We look forward to working more closely with Government in the next phase to expand and enhance our final proposal for submission by 15 July 2016.

## **HOW BCPP PROPOSE TO MEET THE CRITERIA**

- A. Scale
- B. Strong governance and Decision Making
- C. Cost efficiency and value for money
- D. Improved capacity to invest in infrastructure

### **A. SCALE**

8. Whilst there are differences in the partner Funds’ choice of managers, there is a great deal of similarity with regard to asset choice, investment styles and risk appetite.
9. The 13 partner Funds of BCPP have a combined asset base of £36bn (valuations as at 31<sup>st</sup> March 2015). The intention is that the vast majority of the assets will be managed and monitored from the initial formation by the BCPP pool and that going forward all new investments will be acquired by suitably regulated, professionally qualified and experienced staff within the BCPP pool on behalf of the partner Funds. Costs will be shared equitably between the partner Funds with both a fixed allocation to cover entity/structure running costs and a variable element representing costs relating to the choices of asset class and the investment process used.
10. It should be stated that certain assets will remain outside of the BCPP pool: some on a run off basis such as directly held property and private equity investments and others, such as cash, held for operational/cash flow reasons.

### **B. STRONG GOVERNANCE AND DECISION MAKING**

11. The proposal is for a multi asset pool formed on the basis of “like-minded” beliefs which have been outlined in our guiding principles (Appendix 1). The intention is to refine and expand these over the next phase of the proposal design process.
12. Core to our “like-minded” belief structures are:-
  - One Fund, one vote, regardless of Fund size.
  - Asset allocation strategy remains a decision for each Fund. This is necessary to enable Funds to demonstrate that they are exercising their democratic and

fiduciary duty.

- The BCPP pool's role is to independently and professionally deliver these asset allocation choices. However, all partner Funds accept that if savings are to be achieved, changes will be required through the rationalisation and standardisation of processes and the selection and appointment of external managers.
- There will be a clear segregation of duties between those undertaken by the partner Funds and those performed by employees of the BCPP pool. This will ensure both that the fiduciary duty and democratic responsibility of the partner Funds can be maintained, whilst achieving the cost benefits and expanded professionalisation of the investment functions through scale.
- The BCPP pool should have a strong corporate governance philosophy, focused on the delivery of long term value through active corporate engagement, the rationale being that this aligns directly with ensuring the partner Funds exercise their fiduciary duty in the best interests of their members and employers. BCPP believes that this is most effectively and efficiently achieved through leveraging the scale of the combined LGPS through collaborations such as the Local Authority Pension Fund Forum (LAPFF). BCPP has both elected member and officer representatives on the LAPFF Executive.
- As a public body representing the financial interests of 905,995 members, BCPP will aim for the highest standards of corporate governance. Amongst other objectives, this includes seeking FCA registration for the internally managed operation within the BCPP pool. To confirm our understanding, BCPP pool legal advice is currently being procured that FCA registration will be required for the BCPP pool to invest on behalf of all Funds within the BCPP pool. Additionally, going forward, this will enable BCPP to meet the Government's requirement that internally managed services can be evaluated alongside externally managed operations.
- Effective management of costs and performance requires timely, consistent and accurate data to enable the operation of effective analysis and benchmarking. All the partner Funds are currently in the process of evaluating their data, including the use of the CEM benchmarking services.
  - Internally: all data on costs and performance will be openly available to all partner Funds, thus encouraging best practice.
  - Externally: Tyne and Wear has been one of the leading Funds in total



cost reporting, especially in the alternative asset class space. This experience and expertise will be shared and developed to the benefit of all partner Funds.

- Cost and governance benefits can be most effectively achieved through collaborative working within the BCPP pool, across other LGPS pools, and at a national level. We can demonstrate this through the active engagement of the partner funds in this proposal, through officer engagement in cross fund working to formulate the Project POOL (the Hymans Robertson supported report from the LGPS funds), the jointly procured legal advice currently being undertaken and the representation on the Scheme Advisory Board (SAB) by elected members within the BCPP pool. In addition, several of the partner Funds are actively involved in the LGPS National Frameworks.

13. The broad principles of how the BCPP pool will operate have been agreed by the partners and are outlined below. While the governance structures and associated vehicles have not as yet been finalised, the required tiers of control and governance that will be required have. BCPP intends that it will incorporate the following activities:-

- **Supervisory Entity:** the purpose is to provide overall accountability by the partner Funds and act as the conduit back into the partner Funds' democratic and fiduciary processes. There will be equal representation from each Fund at this level. It will define key strategic objectives and operational governance of the BCPP pool, including any scheme of delegation to the Executive Body. Under the BCPP proposal, it could be either a joint committee or shareholder board. Whichever is finally chosen, it will have strong and well defined links back into the partner Funds, so as to ensure they can perform their fiduciary duty to members and employers and demonstrate a clear democratic link.
- **Executive Body:** in a formal Collective Investment Vehicle (CIV), this is the equivalent of the Operator. This body makes decisions on manager selection and the number and type of sub funds, legal vehicles and structures. Procurement routes as to the best means of acquiring and housing assets will also be decided. It will have to demonstrate due regard to the views of the supervisory entity. It will need to be a legal entity (e.g. a TECKAL company) in order to create a contractual relationship with suppliers and in the Authorised Contractual Scheme (ACS) sub fund model, it is the legal (but not beneficial) owner of some or all of the assets.
- There are currently three Funds who manage their assets internally (£12.2bn or 34% of the total BCPP assets). It is intended that the BCPP pool will consolidate and expand this capability. This will enable those Funds to take

advantage of this well proven, low cost asset management option. As such, it is envisaged that the current teams will transfer into the pooled entity so they can operate independently on behalf of the partner Funds wishing to take advantage of this facility. As they will be undertaking a regulated function, FCA registration will be required. South Yorkshire Pension Fund (SYPF) is already FCA registered and BCPP intends to leverage their experience in this regard to achieve future BCPP pool compliance. BCPP believes that if the pool is to demonstrate the highest levels of governance, risk management and control and thus be able to demonstrate effective controls and independence to all Funds in the BCPP pool, it must achieve regulated status and transfer assets out of the current Fund structures to within the new BCPP pool.

- **Sub funds** – a range of asset class and/or risk based ‘buckets’ which Funds allocate monies to or purchase units from.
- Assets will be held in the most managerially and tax efficient way. To ensure all the asset allocation choices of the partner Funds can be serviced, this will require a range of legal structures (much the same as how most of our partner Funds operate now).
- Some or all of these sub funds may have an ACS wrapper for tax transparency purposes where the operator is the legal owner of the assets.

14. The detailed delivery options to fulfil these aims are currently being evaluated and appropriate legal advice is currently being procured. BCPP wishes to continue the collaborative work that has previously been undertaken across the LGPS and has therefore joined a joint procurement process that is currently underway across three pools. This advice will be used to inform our final detailed proposal to be submitted by 15<sup>th</sup> July 2016.

### **C. COST EFFICIENCY AND VALUE FOR MONEY**

15. It has not been possible in the time available to determine the total current investment management costs of BCPP on a consistent basis across the partner Funds for this consultation response. However, BCPP is committed to improving the reporting and consistency of cost data and is currently working with CEM Benchmarking to inform its assessment of investment costs and fees to be included in the consultation response of 15<sup>th</sup> July 2016.

16. Despite this, it has been possible to identify high level potential cost savings as well as additional costs that are expected to be incurred. It is important to note that, whilst BCPP will aim to make material cost savings in investment

management expenses, the overriding objective will be to enhance net investment returns.

17. It should be noted that expected savings in totality from BCPP will be lower than some pools due to the large existing allocation to low cost internal investment management, currently hosted by the East Riding, South Yorkshire and Teesside Funds. **Cost savings are estimates based on a preliminary analysis of costs and are subject to change.**

18. The initial net cost savings, estimated on a prudent basis, expected to be generated by BCPP within ten years can be summarised as follows:

High Level Summarised Cost Savings	Annual cost saving	Timescale
Fee savings on externally managed assets	£12.3 – £12.9m	Within five years
Fee savings on Alternative investments	£18.0 – £36.0m	Within ten years
Less: Costs of BCPP pool	(£10.8m)	Immediate
<b>Net cost savings</b>	<b>£19.5 – £38.1m</b>	

19. The potential costs savings include a reduction in management fees through economies of scale in externally managed assets and fee savings in Alternatives through economies of scale, co-investments, and direct investments. It does not include the potential cost savings from moving externally managed assets (as in the first instance, this is a Fund asset allocation decision) to internal management or the potential savings in performance fees.

20. The costs of the BCPP pool are based on the expected annual cost of operating the pooling arrangements once fully established, and do not include setup costs or transition costs, which are expected to exceed cost savings in the short term.

**Potential cost savings**

21. The detailed cost analysis of BCPP’s partner Funds’ existing investment management arrangements shown in Appendices 2 – 3 shows that a wide range of investment management fees are being paid across the partner Funds. As a result, BCPP believes that there is significant scope to identify and implement costs savings where they do not have a detrimental impact on net investment returns.

22. It is important to assess the potential cost savings to BCPP on a consistent basis. Therefore, the savings shown in (18) above have been based on the assumption

that partner Funds' asset allocation and their split between active and passive management, and internal and external management, remain unchanged.

23. The main areas where the partner Funds within BCPP are expected to generate cost savings are:

**A. *Achieving cost savings on external management of quoted equities and fixed income through increased scale and manager rationalisation:-***

- Based on a review of existing management fee structures and current market intelligence, this could result in a potential cost saving of circa 10bps p.a. for actively managed investments and circa 2 – 3bps p.a. for passively managed investments.
- As at 30<sup>th</sup> September 2015, BCPP's Funds had circa £11.2bn in active external investments and circa £5.7bn in passive external investments. This would equate to cost savings of circa £11.2m for actively managed assets and circa £1.1m – £1.7m p.a. for passively managed assets.

**B. *Achieving cost savings in Alternative investments through the following:-***

- Reduction in management fees on pooled investments: these can be achieved either through greater economies of scale or earlier participation in fund raises. It is estimated that potential cost savings of circa 20 – 30bps p.a. could be achieved.
- Increased use of co-investments: it is intended that BCPP will increase the level of internal investment resources, enabling it to take advantage of co-investment opportunities, which typically have significantly lower or even zero management fees. It is estimated that potential cost savings of circa 50 – 100bps p.a. could be achieved.
- Increased use of direct investments: as with co-investments, the increased resources within BCPP will enable it to take advantage of direct investments where investment management fees would not be payable. It is estimated that potential cost savings of circa 75 – 100bps p.a. could be achieved.
- Reduction in the use of fund-of-funds: although BCPP will continue to use these vehicles where it is considered to be appropriate, it is likely that investment in fund-of-funds will decrease over time. It is estimated that cost savings of circa 25 – 100bps p.a. could be achieved.
- The total cost savings associated with Alternative investments are difficult to estimate with any degree of certainty as it will depend on each Fund's asset

allocation decisions and investment opportunities as and when they arise. However, assuming an average allocation of 20% to Alternatives<sup>1</sup>, average investment duration of ten years, and recycling of existing capital into new investments, this would result in new investments of circa £720m p.a. (based on a pool size of £36bn). Assuming a 25 – 50bps p.a. reduction in fees from a combination of the above, this could result in cost savings of circa £1.8m – £3.6m p.a. in the first year, increasing to circa £18.0m - £36.0m within ten years. It has been assumed that there will be no opportunities for cost savings within existing Alternative investments.

**C. In addition to the above, further cost savings could be made from the transfer of active externally managed assets to active internal management:-**

- BCPP is expected to have a significant internal investment resource from the outset, drawn from existing internally managed funds<sup>2</sup> and will look to build this resource further over time. It is intended that BCPP will look to offer an internal management option for the majority of asset classes. This could result in a potential cost saving of circa 30bps p.a. for Equities and circa 20bps p.a. for Fixed Income, equating to circa £2m – £3m p.a. for each £1bn of assets transferred. It is envisaged that the balance between externally and internally managed assets will initially be determined at the Fund level, but over time will become a decision at the BCPP pool level.

24. The potential savings noted above should be treated with caution at this stage as further detailed analysis is required. However, initial estimates provide a broad indication of the areas where cost savings may be possible and the potential quantum.

25. It is important to note that these proposals for cost savings will only be implemented where it is believed that they can be achieved without having an adverse impact on investment returns.

**Additional costs**

26. There will be additional costs associated with the creation and operation of BCPP including:

- Initial setup and ongoing operational costs for the BCPP pool are expected to be significant. The Project POOL report<sup>3</sup> noted that the setup costs to date of the London CIV have been circa £2m – £2.5m, with only a limited number of

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<sup>1</sup> The WM Local Authority Average allocation to Alternatives (including Property) as at 31 March 2015 was 18.8% – source: State Street Investment Analytics “UK Local Authority Annual Review 2014 – 15”.

<sup>2</sup> Currently managing c. £12.2bn of internal assets.

<sup>3</sup> “Findings of Project POOL”, January 2016.

sub-funds created, and ongoing costs estimated at circa 3bps p.a. Assuming a BCPP pool size of £36bn, this would result in costs to BCPP of circa £10.8m p.a. However, it should be noted that some of these costs could be offset by more favourable tax treatments in certain jurisdictions.

- Transition costs, including transaction costs and taxes, are also expected to be significant. The Project POOL report noted that Government could assist the pooling process by considering ways of mitigating transition costs, a view that BCPP would support but which cannot be assumed. In addition, there is a significant level of execution risk in the transition of assets on this scale which could erode a significant amount of the expected savings if it were done incorrectly.
- There will be additional costs at the outset of this project, including legal, tax, and professional fees in the commissioning of suitable advice. It should be noted that BCPP intends to collaborate with other pools on the commissioning of this advice in order to minimise any costs incurred.
- It is recognised that certain elements of costs currently within partner funds will reduce or disappear (e.g. global custodian fees), but other specific costs will not reduce (e.g. fund actuary fees). With regard to staffing costs incurred with funds predominantly externally managed, there may not be a reduction in staffing at fund level, given the other aspects of fund governance and managing the Pension Fund at individual fund level.

27. The costs noted above should be treated with caution as it has not been possible to accurately quantify them for the first consultation response. It is intended that a more detailed analysis will be presented in the second consultation response by 15<sup>th</sup> July 2016.

#### **D. IMPROVED CAPACITY TO INVEST IN INFRASTRUCTURE**

28. The partner Funds currently hold allocations to infrastructure equating to 3.8%, which is already much higher than the LGPS average figure of 0.3%, as quoted in the Scheme Advisory Board 2013 Annual Report. Therefore, any opportunity to deliver enhanced capability and capacity to generate savings in this area, whilst retaining asset allocation choice at Fund level and investment discretion at the pool level, would be well received by BCPP. Within the partner Funds, the BCPP pool already invests in a wide range of infrastructure assets, both in the UK and Overseas.

29. BCPP also wants to reiterate its broad support for the findings from the Hymans coordinated Project POOL report, in that Infrastructure assets considered most

attractive to LGPS pension funds are the established infrastructure projects delivering steady inflation proof income streams (since pension fund payments increase with CPI inflation). Additionally, any assistance that central Government can give in helping to increase access to such asset pipelines would be welcomed.

30. Due to the scale and complexity involved in infrastructure investing, BCPP believes that collaborative work across pools is probably the most efficient means of achieving the Government's goals in this area. However, we believe that this would form only part of our infrastructure capability.
31. As such, we are currently engaged in discussions with other pools (both individually and as part of a national officer group) to investigate how this might be best delivered.
32. Whilst we recognise and support collaborative work in this area to help build capability and capacity to enable the LGPS to invest directly in infrastructure, this has to be achieved within a strong governance framework, which recognises that asset allocation to infrastructure is an individual Fund decision, while how each investment is delivered is a BCPP pool decision. To demonstrate due diligence and appropriate risk management, BCPP would need to retain investment discretion at all levels throughout the asset selection process.

#### **POTENTIAL TIMETABLE FOR IMPLEMENTATION**

33. This timetable represents an early indication of potential key dates. This is likely to be subject to significant change as the pooling proposal is developed

19 <sup>th</sup> February 2016	Deadline for initial proposal
15 <sup>th</sup> July 2016	Deadline for detailed proposal
September 2016	Governance structure agreed
October 2016	Agreement on audit and risk considerations
November 2016	Agreement on legal structure
December 2016	Agreement on specifics of vehicle structure
June 2017	Formation of internal investment management operation
December 2017	Full regulatory approval of internal investment management function
December 2017	Asset transition planning complete
April 2018	Commencement of asset transition to BCPP pool
December 2018	Full implementation of listed assets
Within 15 years	Completion of transfer of unlisted assets

## **SUMMARY**

34. The 13 Funds comprising the BCPP (AUM £36bn) are pleased to have this opportunity to submit to Government our initial proposal for asset pooling. BCPP's proposal is for a multi asset, collaborative pooling proposition, based around a set of guiding principles which outline an ethos of "like-minded" investment, governance and risk beliefs where partner Funds retain strategic asset allocation but the BCPP pool manages and acquires all assets on their behalf.

35. We are proactively engaged within the BCPP pool, and engaged with external industry experts and with other pools in gathering the evidence required to enable us to finalise our detailed proposition. To help assist us in this, we look forward to having the opportunity to work more closely with central Government over the next five months to ensure that the final detailed proposal submitted from BCPP in July meets all participants requirements.





## **LIST OF APPENDICES**

Appendix 1: BCPP Guiding Principles

Appendix 2: Investment Management Costs on a Weighted Average Basis

Appendix 3: Range of Investment Management Costs Across Existing Mandates



Bedfordshire Pension Fund	 Cllr. Doug McMurdo	 Bedfordshire Pension Fund
Cumbria Pension Fund	 Cllr. Melvyn Worth	 Cumbria County Council
Durham Pension Fund	 Cllr Andy Turner	 Durham County Council
East Riding Pension Fund	 Cllr. John Holtby	 ERPFF East Riding Pension Fund
Lincolnshire Pension Fund	 Cllr. Mark Allan	 Lincolnshire COUNTY COUNCIL Working for a better future
North Yorkshire Pension Fund	 Cllr. John Weighell	 North Yorkshire County Council
Northumberland Pension Fund	 Cllr. Tony Reid	 NORTHUMBHERLAND Northumberland County Council
South Yorkshire Pension Fund	 Cllr. Sue Ellis	 SOUTH YORKSHIRE PENSIONS AUTHORITY
South Yorkshire Passenger Transport Pension Fund	 Cllr. David Leech	 Sheffield City Region COMBINED AUTHORITY
Surrey Pension Fund	 Cllr. Denise Le Gal	 SURREY PENSION FUND Surrey Pension Fund
Teesside Pension Fund	 Cllr. Steve Bloundele	 Teesside Pension Fund
Tyne and Wear Pension Fund	 Cllr. Eileen Leask	 Tyne and Wear Pension Fund Administered by South Tyneside Council
Warwickshire Pension Fund	 Cllr. Izzi Seccombe	 WARWICKSHIRE pension fund

## BCPP - GUIDING PRINCIPLES

The key factors that Funds have looked to address in any options presented to Members for their consideration are that:

### Asset Strategy

- 1) Asset allocation strategy must be retained at an individual Fund level;
- 2) Partner Funds must have a complementary investment ethos and strategy; and
- 3) Any new structure should be capable of complementing a bespoke investment strategy for scheme employers with common characteristics.

### Governance / Vehicle Structure

- 4) Any new structure must be compatible with the Government's aims of ability to achieve scale, improved governance, infrastructure and fee savings;
- 5) The partner Funds should retain a pivotal role in the governance of any pooled structure chosen;
- 6) Any new structures should offer opportunities for savings, while retaining or improving on the Fund's performance net of fees;
- 7) The possibility to expand internal investment management capability and increase resilience for all partner Funds;
- 8) The structure chosen must be sufficiently flexible to ensure assets are only transferred into any vehicle when/if it is cost effective, tax efficient and managerially effective to do so;
- 9) Any new structure must be scalable to ensure it is capable of achieving the Government's stated aims;
- 10) There must be a specific solution to infrastructure investing; and
- 11) The initial assumption should be that any vehicle used would be an ACS due to Government's current preference for this type of vehicle.

### Sharing Resource Improving Resilience

- 12) Any solution provides additional resilience and capacity over and above current investment structures;
- 13) The solution will seek to provide internal shared resource to progress more proactive management of liability and cash flows;
- 14) Activities will be distributed across the partner organisations to improve performance through creating centres of excellence and improving resilience through larger teams; and
- 15) The shared investment team will be situated in a location with a consideration to access.

INVESTMENT MANAGEMENT COSTS ON A WEIGHTED AVERAGE BASIS (IN BPS)<sup>4</sup>

ASSET CLASS	INTERNAL		EXTERNAL	
	ACTIVE	PASSIVE	ACTIVE	PASSIVE
<b>EQUITIES</b>	2	2	37	7
UK	3	2	34	3
EUROPE	2	-	22	5
NORTH AMERICA	2	-	21	4
JAPAN	2	-	34	2
PACIFIC EX JAPAN	2	-	28	2
EMERGING MARKETS	2	-	55	18
GLOBAL	-	-	38	10
<b>FIXED INCOME</b>	2	-	22	5
UK GOVERNMENT	4	-	19	7
UK INDEX-LINKED	1	-	18	4
UK CORPORATE	3	-	13	7
OVERSEAS GOVERNMENT	2	-	24	12
OVERSEAS CORPORATE	2	-	25	7
HIGH YIELD	1	-	45	-
EMERGING MARKETS	-	-	64	-
ABSOLUTE RETURN	-	-	36	-
<b>ALTERNATIVES</b>				
PROPERTY	22	-	28	-
OTHER ALTERNATIVES	-	-	69	-

<sup>4</sup> The data analysis is based on the direct costs of investment management for either internal management or where there is an external investment mandate. It does not include the costs of pooled investments.

RANGE OF INVESTMENT MANAGEMENT COSTS ACROSS EXISTING MANDATES (IN BPS)<sup>5</sup>

ASSET CLASS	INTERNAL		EXTERNAL	
	ACTIVE	PASSIVE	ACTIVE	PASSIVE
<b>EQUITIES</b>				
UK	2 – 4	2	19 – 52	2 – 5
EUROPE	2 – 4	-	21 – 22	2 – 9
NORTH AMERICA	2	-	21	2 – 9
JAPAN	2	-	21 – 49	2 – 9
PACIFIC EX-JAPAN	2	-	21 – 45	2 – 9
EMERGING MARKETS	2	-	21 – 30	13 – 25
GLOBAL	-	-	20 – 75	6 – 20
<b>FIXED INCOME</b>				
UK GOVERNMENT	2 – 4	-	18 – 29	7
UK INDEX-LINKED	1 – 2	-	18	3 – 7
UK CORPORATE	2 – 4	-	10 – 30	8
OVERSEAS GOVERNMENT	1 – 4	-	15 – 30	12
OVERSEAS CORPORATE	2	-	19 – 30	7
HIGH YIELD	1	-	45	-
EMERGING MARKETS	-	-	64	13
ABSOLUTE RETURN	-	-	23 – 80	-
<b>ALTERNATIVES</b>				
PROPERTY	22	-	18 – 98	-
OTHER ALTERNATIVES	-	-	45 – 170	-

<sup>5</sup> The data analysis is based on the direct costs of each fund's investment management arrangements.