

County Offices
Newland
Lincoln
LN1 1YL

6 July 2016

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 14 July 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



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, 14 JULY 2016**

Item	Title	Report Reference
1	Apologies for Absence	
2	Declaration of Members' Interests	
3	Minutes of meetings of the Pensions Committee held as follows:-	
3a	(a) 7 April 2016	(Pages 5 - 8)
3b	(b) 26 May 2016	(Pages 9 - 12)
4	Independent Advisors Report <i>(A report by Peter Jones, the Committee's Independent Advisor Fund's, which provides a market commentary on the current state of global investment markets)</i>	(Pages 13 - 16)
5	Pension Administration Report <i>(A report by Yunus Gajra, the Business Development Manager, which provides an update on current administration issues. This is the quarterly report by the Fund's pension administrator, West Yorkshire Pension Fund)</i>	(Pages 17 - 30)
6	Pension Fund Update Report <i>(A report by Jo Ray, Pension Fund Manager, which updates the Committee on Fund matters over the quarter ending 31st March 2016 and any current issues)</i>	(Pages 31 - 46)
7	Investment Management Report <i>(A report by Nick Rouse, Investment Manager, which covers the management of the Lincolnshire Pension Fund assets, over the period from 1st January to 31st March 2016)</i>	(Pages 47 - 72)
8	UK Equity Portfolio Annual Report <i>(A report by Nick Rouse, Investment Manager, which covers the performance of the UK Equity index-tracking portfolio managed internally)</i>	(Pages 73 - 78)
9	Annual Report on the Fund's Property Investment <i>(A report by Nick Rouse, Investment Manager, which outlines the performance of the Fund's property and related investments for the year ended 31st March 2016)</i>	(Pages 79 - 90)
10	Pension Fund Draft Annual Report and Accounts <i>(A report by Jo Ray, Pension Fund Manager, which brings to the Pension Board the draft Annual Report and Accounts for the Pension Fund)</i>	(Pages 91 - 232)

- 11 Pension Fund Policies Review**
(A report by Jo Ray, Pension Fund Manager, which brings to the Committee the main policies of the Pension Fund for review) (Pages 233 - 264)
- 12 Pension Fund Risk Register**
(A report by Jo Ray, Pension Fund Manager, which presents the Pension Fund Risk Register to the Committee for annual review) (Pages 265 - 274)

Democratic Services Officer Contact Details

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

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

Contact details set out above.

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



PENSIONS COMMITTEE 7 APRIL 2016

PRESENT: COUNCILLOR M G ALLAN (CHAIRMAN)

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

Co-Opted Members: Mr A N Antcliff (Employee Representative) and District Councillor J Summers (District Councils Representative)

Councillor M A Whittington attended the meeting as an observer.

Officers in attendance:-

David Forbes (County Finance Officer), Yunus Gajra (West Yorkshire Pension Fund), Jo Ray (Pension Fund Manager) and Nick Rouse (Investment Manager), Catherine Wilman (Democratic Services Officer)

47 APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS

Apologies were received from Councillor C E D Mair and Mr Grant (Small Scheduled Body Representative).

48 DECLARATIONS OF MEMBERS' INTERESTS

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

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

Councillor P Wood declared a personal interest on all items on the agenda as a contributing member of the Pension Fund.

49 MINUTES OF THE PREVIOUS MEETING OF THE PENSIONS COMMITTEE HELD ON 7 JANUARY 2016

RESOLVED

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

PENSIONS COMMITTEE
7 APRIL 2016

50 INDEPENDENT ADVISORS REPORT

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

Discussion took place regarding various issues including the impending referendum on staying or leaving the European Union, and how they might affect global markets.

RESOLVED

That the report be noted.

51 PENSIONS ADMINISTRATION REPORT

Consideration was given to the quarterly report by the Fund's pension administrator, West Yorkshire Pension Fund.

During discussion of the report, the following points were noted:

- Issues around incoming data were still impacting slightly on performance. The Fund was working with LCC and Serco to improve the quality of monthly data. There was increased confidence that valuation deadlines would be met. It was clarified that contributions were being paid in a timely manner;
- Information regarding the cessation of Contracting Out in April 2016 and the changes to the Annual Allowance was being communicated to members in the Spring 2016 newsletter;
- The shared service cost per member of the Fund was estimated at £15.55 in July 2014. This forecast, as at December 2015 and going forward had been amended to £15.25.

RESOLVED

That the report be noted.

52 PENSION FUND UPDATE REPORT

The Committee considered a report which provided an update on Fund matters over the quarter ending 31 December 2015.

It was reported that the Fund had risen in value, over the quarter, by 4.5% and all asset classes and managers were within agreed benchmark tolerances.

The Committee received an update on the Local Authority Pension Fund Forum and it was reported that LAPFF continued to engage with companies to improve their shareholder value.

The Pension Regulator's (TPR) checklist dashboard would become a new standing section of the Pension Fund Update Report. Three areas had been upgraded to 'green' status, with one remaining 'red' area – G8 Maintaining Contributions. A

process for monitoring contributions was in development and a new member of staff had been employed to improve this area.

It was reported that since the publication of the report, Risk 27 within the Risk Register (ongoing monthly data issues with LCC) had been downgraded from red to blue as this was now in a much better position.

RESOLVED

That the report be noted.

53 INVESTMENT MANAGEMENT REPORT

Consideration was given to a report which covered the management of the Lincolnshire Pension Fund assets over the period from 1 October to 31 December 2015.

The funding level, at the latest formal valuation was 71.5% and as at 31 December, the funding level had decreased to 71%.

F&C would be coming to present to the Committee at its May 2016 meeting.

Neptune had seen poor performance over the quarter and would be kept under review.

RESOLVED

That the report be noted.

54 ANNUAL PENSIONS COMMITTEE TRAINING PLAN AND POLICY

The Committee considered its annual training plan for meetings from May 2016 to April 2017.

It was reported a training criterion had been added to the Committee's Training Policy which required any new members of the Committee to undertake a one-to-one training session with the Pension Fund Manager. This would form the basis of new member training and would be accepted as an absolute minimum, with additional training advised.

The report illustrated how attendance at Committee provided Members with the experience and information to fulfil certain elements of the CIPFA Knowledge and Skills Framework.

The training session in September 2016 would cover the Triennial Valuation draft results and assumption setting.

The topic for the training session in February 2017 would be decided nearer the date, to reflect priorities at the time.

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7 APRIL 2016

RESOLVED

That the Training Policy and plan be agreed.

55 LGPS ASSET POOLING

The Committee considered a report which provided an update 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.

Following discussion at its January 2016 meeting, the Committee agreed to pool its assets with the Border to Coast Pension Partnership (BCPP). A letter had been received from the Government thanking BCPP for their progress in such a short space of time. It also stated the pool would have to be FCA Regulated and requested more detail from the pool regarding their intentions to invest in infrastructure, although this was not defined as UK infrastructure only.

15 July 2016 was the deadline for the pooled submission to the Government on how the pool would be set up and a separate submission from Lincolnshire including what costs and savings would be made for up to 15 years ahead.

A forthcoming meeting had been organised for the Committee chairmen and S151 officers from the pool to meet and a project manager to the pool had been appointed.

There was a considerable amount of work to be completed before the 15 July submission.

During discussion, the following was confirmed:

- The asset allocation decisions would still remain with the Committee;
- The pool would consider what the infrastructure possibilities were;
- The Funds within the pool had no concern over investing in infrastructure if the right opportunity presented itself;
- The three Funds within the BCPP that had internal management had strong track records. This joint team would be low cost and could be grown further if necessary;
- The pool was not a Sovereign Wealth Fund.

RESOLVED

1. That the report be noted;
2. That authority be delegated to the Executive Director of Finance and Public Protection, in consultation with the Chairman and Vice Chairman of the Pensions Committee, to respond to the Government's consultation and pooling requirements for the 15 July submission.

The meeting closed at 11.45 am.



PENSIONS COMMITTEE 26 MAY 2016

PRESENT: COUNCILLOR M G ALLAN (CHAIRMAN)

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

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

Officers in attendance:- Jo Ray (Pension Fund Manager), Nick Rouse (Investment Manager), Catherine Wilman (Democratic Services Officer)

56 APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS

Apologies were received from Councillors C E D Mair and P Wood.

57 DECLARATIONS OF MEMBERS' INTERESTS

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

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

58 CONSIDERATION OF EXEMPT INFORMATION

RESOLVED

That in accordance with section 100(A) (4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following items of business on the grounds that if they were present there could be a disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

59 MANAGERS' REPORTS

60 MANAGER PRESENTATION - MORGAN STANLEY ALTERNATIVE INVESTMENT PARTNERS

The Committee received a presentation from Morgan Stanley Investment Management on the Fund's Diversified Alternatives portfolio.

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26 MAY 2016

A question was asked about the fees relating to the hedge fund element of the portfolio. It was noted that hedge funds were expensive to invest in, however the fees would be kept under review.

RESOLVED

That the report and presentation be noted.

61 MANAGER PRESENTATION - MORGAN STANLEY GLOBAL BRANDS FUND

The Committee received a presentation from Morgan Stanley Funds UK on the Fund's Global Brands portfolio.

The portfolio had excellent returns from consumer staples which included British American Tobacco and Reckitt Benckiser both in the top five absolute contributors over 3 years.

RESOLVED

That the report and presentation be noted.

62 MANAGER PRESENTATION - F&C - ABSOLUTE RETURN BONDS

Prior to welcoming Goodhart Partners Horizon Fund to receive their presentation, the Committee discussed the options available to it for the future of the Target Return Fund managed by F&C Investments as absolute return bonds were proving less profitable.

RESOLVED

That the report and presentation be noted.

63 ASSET POOLING - BORDER TO COAST PENSION PARTNERSHIP

Consideration was given to a report which introduced an update from the Pension Fund Manager on the latest developments on asset pooling.

The Chairman reported that all the committee chairs of the participating funds within the BCPP (Border to Coast Pension Partnership) had met as a group. Out of this meeting, a memo of understanding had been written which provided for a group of Members to be formed (Pool Advisory Board) which would include the chairman and one other member from each committee. Councillor Allan suggested Vice Chairman, Councillor Phillips for this role.

There would be a separate Officer Advisory Group to take information back to the individual funds. This would ensure funds did not make manager decisions without informing the other members of the pool.

Although the pool took certain work away from Pensions officers, the Committee was assured, there were plenty of other issues that could be given the time they deserved.

The Government's deadline for Asset Pooling Submissions (15 July 2016) was fast approaching and Officers would keep the Committee updated throughout the process.

RESOLVED

That the report be noted.

The meeting closed at 1.35 pm

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Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	14 July 2016
Subject:	Independent Advisors Report

Summary:

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

Recommendation(s):

That the Committee note the report.

Background

INVESTMENT COMMENTARY

July 2016

Markets completely wrong footed by Brexit outcome

Members will be well aware of the violent moves in both currency and security markets on 24th June, the day of the Referendum result announcement. My own view is that such extreme volatility is explicable with the realisation that that markets had become committed, by the time the polls closed on polling day, to the virtual certainty that the Remain vote would prevail. Remember too that a number of investment banks and hedge funds had commissioned their own private exit polls - which presumably were similar to the public polls announced after voting closed. If almost the whole market were thus wrong footed, irrational and extreme price and currency moves should have been expected. Since the increase in financial regulation following the Lehman crisis, the amount of market making capacity is much smaller, thus exaggerating price moves – in either direction.

That said, when viewed over the week as a whole, most major securities markets around the world were not greatly changed, being in a range of roughly up 2% to down 2%. No real issue there. The stock markets of southern Europe and

Emerging Markets were among the worst affected. The single exception was the value of sterling, which fell sharply and failed to recover the bulk of its fall. The fall in sterling is, of course, beneficial for most FTSE 100 companies (with their large overseas interests) and for UK exporters.

Writing so soon after the result was announced (27th June), risks making comments, which could soon be shown to be unwise or just wrong. Large price swings in short time periods can generate losses for short term investors (who may be using borrowed money) and lead to their insolvency. The coming days will see if any such failures emerge – which could further damage market sentiment.

Uncertainty and markets

Markets traditionally hate uncertainty – from whatever quarter, especially economic and political. The re-negotiations under Article 50 of the Treaty of Lisbon will probably be measured in years rather than months. And then there will be the two years during which the actual withdrawal takes effect. Perhaps more problematic is politics. Certainly UK politics; it is not clear to me that a Conservative “Brexit dominated” government can secure a durable working majority in the Houses of Parliament. The Lords is even more problematic. I have little doubt that the will of the people will be respected. But both the Conservative and Labour parties are divided. And the Scottish National party has a sizeable number of MPs. Another coalition government may be the way forward? And what about European Union politics of the remaining 27 member states: how might they develop?

Hence, markets will need to come to terms with the lower levels of clarity about future trends. Traditionally, the greater the uncertainty, the lower are equity prices and the higher are government bond prices (i.e. yields lower). None of this, of course, is favourable for pension schemes and other long term investors. This is a huge and largely unexpected change in prospects for which markets will have to come to terms, in the coming weeks and months.

What has not changed?

Global economic growth continues to be lacklustre, almost everywhere except the USA. There, Q1 2016 was below par, perhaps reflecting seasonal factors, but the second quarter seems to have seen stronger growth, prompting suggestions that the US Federal Reserve may feel able to increase short term interest rates during the second half of 2016. Surprisingly, Japanese growth has exceeded admittedly pessimistic expectations. But elsewhere, including the important Chinese economy, the news has disappointed. Amongst the investment community (and no doubt elsewhere as well), this is generating an air of pessimism. Eight years after the Lehman crisis, a concerted and unprecedented effort by Central Banks around the globe has not succeeded in producing robust economic growth in the developed world. The head winds have been too strong – in the main due to deteriorating demographic trends and to debt levels (both government and consumer), which are too high and seemingly intractable.

What could change?

It is common knowledge that the UK economy has seen a significant slowdown in economic growth in the last six months; most commentators attribute this to the heightened uncertainty caused in the run up to the Referendum. This factor certainly seems to have led to capital investment decisions being postponed, awaiting the outcome of the vote. It seems unlikely that the UK economy will now regain its healthy growth rate of over 2.5% per annum that was seen in 2014 and early 2015. If the vote had been to Remain, no doubt there would have been something of an economic “rebound”. That now seems unlikely. A significant number of investors and economists now expect a recession in the UK in 2017. That seems to me to be pessimistic. But there is little doubt that the UK exchequer finances, which were already under pressure before the vote, will deteriorate under the increased uncertainty.

Could the European Commission, the Brussels bureaucracy and the European Parliament be so shocked by the referendum vote into initiating changes to make the EU more efficient, more capable of competing in world trade and more democratically accountable? Perhaps not. Their efforts are likely to be focussed on ameliorating the refugee crisis and to resolving (if they can be) significant philosophical differences around austerity between Germany and northern Europe on the one hand and Greece, Spain, Italy etc on the other. And there is the Greek financial crisis still lurking in the background.

What has changed?

Quite the most significant feature has been the rebound in the oil price, recently trading as high as \$50 a barrel; it was briefly below \$30 in January. Other commodity prices have also been firmer. There are signs too that inflation in the USA and the UK is picking up, with 2% inflation possible in 2017. This would be a welcome turn of events, especially if it reflected more robust labour markets and higher wages. It would also commence the long road to reducing the real value of the debt mountain referred to earlier. In normal circumstances, fears of rising inflation would lead to a sell off in bond markets, i.e. rising yields. So far, this has not been the case. In 2016 to date, bond markets have risen and are holding onto their gains.

Market prospects

Equity markets around the world are quite close to their all time highs, despite post Brexit falls. With the possible exception of the USA, this hardly seems justified by the relevant economic prospects. And bond markets look fully valued, especially if inflation is moving upwards, albeit modestly. I do not see much upside to any market and continue to see them trading in quite narrow bounds. The downside risk is surely the greater.

Peter Jones
27th June 2016

Conclusion

Consultation

a) Policy Proofing Actions Required

n/a

Background Papers

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

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

Regulatory and Other Committee

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

Report to:	Pension Committee
Date:	14 July 2016
Subject:	PENSION ADMINISTRATION REPORT

Summary:

This is the quartely 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 March 2016 to 31 May 2016 as measured against both the local indicators and the national CIPFA benchmarks.

WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT
Transfer In Quote	13	35	9	85	69.23
Transfer In Payment Received	12	35	12	85	100.00

Divorce Quote	9	35	9	85	100.00
Deferred Benefits Set Up on Leaving	179	10	165	85	92.18
Refund Quote	127	35	69	85	54.33
Refund Payment	76	10	76	85	100.00
Transfer Out Quote	56	35	10	85	17.86
Transfer Out Payment	6	35	5	85	83.33
Pension Estimate	203	10	143	85	70.44
Retirement Actual	104	3	101	85	97.12
Deferred Benefits Into Payment	135	5	127	85	94.07
Death Grant Single Payment	40	5	38	85	95.00
Change of Address	577	20	577	85	100.00
Life Certificate Received	2597	20	2574	85	99.11
Death Grant Nomination Received	982	20	786	85	80.04
Payroll Changes	76	20	76	85	100.00
Change to Bank Details	72	20	70	85	97.22
Death Notificatoin	118	5	117	85	99.15
Potential Spouse	15	10	12	85	80.00
AVC In-house (General)	61	10	59	85	96.72

NB. The table represents LPF cases only.

- 1.3 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 @ 27 June 2016 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	24,999	27,574	1,919	18,461	1,725
Councillors	20	25	-	37	-
Totals no's	25,019	27,599	1,919	18,498	1,725
Change	+692	-47	+876	+238	+83

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	466	1736	1688	2167	2621	3794	4276	3852	2813	1296	243	47	24999
Beneficiary Pensioner	88	36	1	1	7	9	44	69	148	198	279	1475	2355
Deferred	7	578	1644	2131	2227	3871	5579	6106	4348	999	34	10	27534
Deferred Ex Spouse	0	0	0	0	2	0	10	10	14	0	0	0	36
Pensioner	0	1	1	1	8	27	38	113	1095	4156	4779	5873	16092
Pensioner Deferred	0	0	0	0	0	1	1	0	2	0	0	0	4
Pensioner Ex Spouse	0	0	0	0	0	0	0	0	2	7	2	3	14
Preserved Refund	11	89	75	101	154	217	282	298	218	144	91	45	1725
	572	2440	3409	4401	5019	7919	10230	10448	8640	6800	5428	7453	72759
Undecided													1919
Councillors													82
Total													74760

2.3 Employer Activity

Academies and Prime Account Schools

Between 1 October 2015 and 31 March 2016 four academies became Scheme employers in the Fund.

WYPF is currently working with a number of schools that are in the process of converting to academies or Prime Account Schools.

Town and Parish Councils

Between 1 October 2015 and 31 March 2016, one Town and Parish Council became a Scheme employer. A further two have not yet decided whether to become Scheme employers in the Fund.

Admission Bodies

Between 1 October 2015 and 31 March 2016 there were no new Admission Bodies.

WYPF is currently working on the admissions for two Admission Bodies.

Employers ceasing Participation

Between 1 October 2015 and 31 March 2016 no employers ceased their participation in WYPF.

Number of Employers in LPF

These changes to employers bring the total number of employers in LPF as at 31 March 2016 to 220.

3.0 Praise and Complaints

3.1 Over the quarter January to March we received **two** online customer responses.

Over the quarter January to March **250** Lincolnshire member's sample survey letters were sent out and **78 (31.2%)** returned:

Overall Customer Satisfaction Score;

January to March 2015	April to June 2015	July to September 2015	October to December 2015	January to March 2016
N/A	78.34%	83.94%	80.16%	80.34%

Appendix 1 shows full responses.

3.2 Three training courses for Employers have been provided in Lincoln this year:

- Your Responsibilities held on 27 January
- Secure Administration held on 23 February
- A Complete Guide held on 17 March.

Feedback from participants is attached at Appendix 2.

4.0 Internal Disputes Resolution Procedures (IDRP)

4.1 All occupational pension schemes are required to operate an IDRP. The LGPS has a two-stage procedure. Stage 1 appeals, which relate to employer decisions or actions, are considered by a person specified by each employer to review decisions (the 'Adjudicator'). Stage 1 appeals relating to appeals against administering authority decisions or actions are considered the Pension Fund Manager. Stage 2 appeals are considered by a solicitor appointed by Lincolnshire County Council. From 1 January 2016 to 30 June 2016 four Stage 1 appeals were received and there were a total of four Stage 2 appeals, as detailed below:

	Number of Appeals	Outcomes	Details
STAGE 1	4		
		2 Turned down	1 Overpayment of benefits due reduction to benefits not been applied and incorrect Pensions Increases when they were paid from 23 April 2014. 1 Member's 2 nd wife felt her 2 children should have received part of the death grant.
		2 Decisions to make	1 Not being able to draw the whole of her pension benefits as a lump sum 1 Delay in payment of her pension benefits and transfer of excess her excess AVC fund.
STAGE 2	4		
AGAINST EMPLOYER	4	1 Referred back to employer to reconsider	1 Employer did not agree to extend time limit to allow a transfer in of previous pension rights
		2 Turned down	2 Final pension benefits were lower than quoted on previous pension estimate due to incorrect pay been used in pension estimate calculation.
		1 Decision to make	1 Employer did not agree to extend time limit to allow a transfer in of previous pension rights.
AGAINST LPF	0		

4.2 The Pensions Ombudsman can consider appeals and allegations of maladministration, once the two stages of the IDRPs have been exhausted. From 1 January 2016 to 30 June 2016 the Pensions Ombudsman did not issue any determinations in respect of appeals or complaints made against the LPF.

5.0 Administration Update

5.1 Annual Benefit Statements (ABS)

Production and despatch of annual benefit statements is well underway. This is a massive improvement on last year and much of this is down to moving from annual returns to monthly returns. To date 35% of LPF members have received an ABS. As in previous years, approximately 2,000 per day are being sent out to spread the workload. There should be no problem meeting the Pension Regulators statutory deadline of 31 August, provided that LPF employers respond to any queries in a timely manner.

5.2 Affinity Connect pre-retirements

Three trial pre-retirement seminars have been held at various employers within WYPF and are provided by a company call Affinity Connect. These seminars last half a day and are available to all members regardless of which employer they work for. The three sessions that have been held have received excellent feedback and have been fully booked. We are now working with Affinity Connect to agree a series of dates for next year. This service is also being rolled out to LPF scheme members. The first one was held on 22 June and was fully booked.

5.3 Life Certificates

As mentioned in the previous report, 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 started to go out from 21 March, on a weekly basis and will be scheduled to target everyone over the next twelve months. To date we have issued 5,947 life certificates and 4,004 have been returned (67%).

5.4 Death Grant Nominations

WYPF have sent out death grant nomination forms to 12,000 members where one wasn't present on their record. Having nomination details makes it easier and quicker to pay death grants in the event of a member's death. As a result, the percentage of records without a death grant has reduced from 65% to 48%. We will continue the work to reduce this percentage even further.

6.0 Current Issues

6.1 Consultation on amendment regulations

On Friday 27th May, DCLG commenced a consultation on draft amendment regulations for the LGPS in England and Wales. Amongst other

amendments, the consultation covers Fair Deal and changes to AVC provisions in light of the recent Freedom and Choice reforms. The consultation document is available under Drafts and Consultations on www.lgpsregs.org and on Gov.uk. The consultation closes at 12.00am on 20th August 2016 (effectively on the evening of Friday 19th August).

6.2 Tell Us Once

The Tell Us Once service is now live for public service pension schemes, and – since the end of April 2016 – has moved to the business as usual part of DWP.

6.3 LGPS Database

An LGPS Database has also been set up so that funds can:

- a) search for matching pension records in other funds in cases where there may be a potential duplicate death grant; and
- b) contact funds where a match is found to check on the death grant entitlement.

Later this year, a project will be undertaken by the LGA to identify further possible usages for the LGPS Database and establish what may be needed to mean the Database can be used for these other purposes, in particular taking into account data protection considerations.

6.3 Enterprise Act 2016

The Enterprise Bill received Royal Assent in May and is now the Enterprise Act 2016. The Act provides the legislative framework for the introduction of the £95k cap on public service exit payments which it is expected will become effective later this year, but no earlier than 1st October. We now await HM Treasury regulations which are due to provide further detail on how the cap will work in practice (and which will confirm the cap's implementation date). HM Treasury directions are also expected providing detail of the circumstances in which the cap may be relaxed by permitted bodies. We expect regulations to include local authorities as such permitted bodies having the power to relax the cap in certain circumstances.

7.0 Valuation Update

- 7.1 This year we are hoping to get the information to the Actuary a little earlier than in previous valuation years to enable the work to be completed by both the Actuaries and WYPF/LPF by the 31st March 2017. WYPF have recently received a delivery from our software house (Civica), called the Universal Data Extract. This is currently being tested and once happy we will run the extract to produce the information required by Aon (WYPF's Actuary) and Hymans (LPF's Actuary). WYPF and LPF are in the process of compiling cash flow and other information about each employer in the Fund.

This will then be sent to the Actuary. This will be followed by discussions between each Fund and their Actuaries regarding key decisions and assumptions resulting in the valuation results. Following this work each Fund will then start to look at the position of each individual employer to produced details of their assets/liabilities and required contribution rates for the next three years.

8.0 Finance

8.1 Cost per Member

The final cost of shared services per member for 2015/16 was £14.29, a reduction of £1.26 from the original estimate of £15.55. The 2016/17 original budget provision for shared services per member is £15.85. This figure includes service improvement contingencies. As a result our "invest to save" strategies this figure is likely to reduce to £15 per member before the end of the year.

8.2 Data Governance and Service Quality

Our monthly data returns from employers underpins our data governance and service quality. Monthly data returns from LCC (Serco) were a concern during 2015/16. Since the start of this financial, LCC (Serco) have improved in this area. We will continue to monitor this area and report back to if there is a deterioration in performance.

9.0 Staffing

9.1 The Team Manager (Business Relations) left recently to take up employment with East Riding Pension Fund. The post was advertised and Stuart Duncombe (based in the Lincoln team) was successful. After a period of training, Stuart will split his time between the Bradford and Lincoln offices. Stuart's post of Pension Fund Representative is currently being advertised.

9.2 Adam Hutchinson (Pensions Officer) left recently to take up alternative employment. A recruitment exercise is currently taking place to fill this post. It is likely the post will be based in Bradford.

10. LEAF Meeting

10.1 The latest LEAF meeting for Lincolnshire Pension Fund took place on 8 June. The meeting was attended by around 45 Employers and was well received. Items on the agenda included:

- Valuation and FRS 17 update
- Pre-retirement courses – Affinity Connect
- WYPF administration update, including,

- Employer and communications survey results
- Employer worktrays
- Discretionary policies
- Annual Benefit Statement Update
- GAD factors
- Death Grants
- Auto Enrolment

11. News

11.1 WYPF have been shortlisted by Professional Pensions under the following categories:

- Public Sector Scheme of the Year
- DB Communications (public sector)
- Best DB Scheme Innovation
- Trustee Development Awards
- Best Use of IT and Technology

The judges commented that "This year's entries were all of exceptional quality, giving our judges a really tough challenge".

Winners will be announced in London on 14 July.

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 - January to March 2016
Appendix B	Employer Feedback - January to March 2016

Background Papers

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

This report was written by Yunus Gajra, who can be contacted on 01274 432343 or yunus.gajra@wypf.org.uk.

Customer Survey Results - Lincolnshire Members (1st January to 31st March 2016)

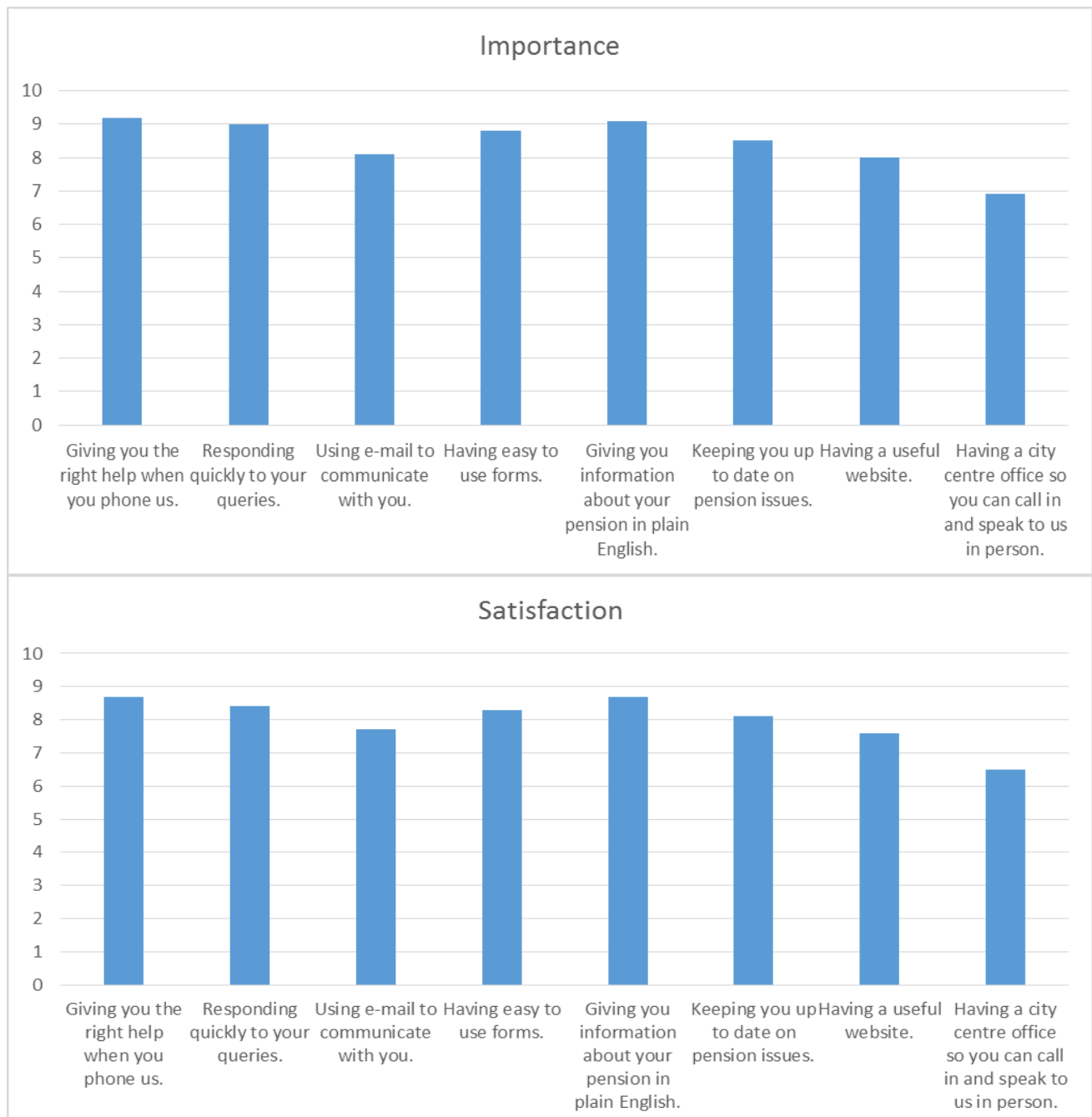
Over the quarter January to March we received **2** online customer responses.

Over the quarter January to March **250** Lincolnshire member's sample survey letters were sent out and **78 (31.2%)** returned:

Overall Customer Satisfaction Score;

January to March 2015	April to June 2015	July to September 2015	October to December 2015	January to March 2016
N/A	78.34%	83.94%	80.16%	80.34%

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



Sample of positive comments:

Member Number	Comments
8072053	Excellent service from everyone that I dealt with. I was very happy with the service from WYPF, everything was dealt with efficiently.
8045261	Superb. The service is outstanding. It has been the one thing that has gone right for me and my family. My health is very poor & having to retire at 52 was a massive shock to us, your clear answers swift actions have made our future much easier to face. You could never imagine what a difference you have made. Thank you
80962313	Confusing paperwork but friendly helpful staff. I found Annamaria Hodgkinson really helpful. She went out of her way to help me understand aspects of pension transfer that I was struggling to understand.
8053641	Very helpful and informative. Nice to be able to speak to someone on the telephone who knew what they are talking about. Thank you
Online (8074736)	Very good to deal with on the whole clear advice and available to answer queries when required. Perhaps the only issue I had was the tendency to post out letters just prior to Christmas when an email or telephone call would have helped to avoid delay but in the end my pension was paid on time and the advice was very helpful indeed.
Online (8044553)	Efficient willing and friendly. A massive improvement on the service provided by the previous LCC pensions Administrator! Thank you

Complaints/Suggestions:

Member Number	Comments	Corrective/ Preventive Actions
8001448	Poor. Shambles. It took your guys about 5 months to process my refund. When you actually got round to sending me the refund form your stupid computer said No. Then you sent me two forms. I never wanted to join your pension fund. This was carried out automatically by my employer.	Response was sent by Stephen.
8029655	Not good enough you need to improve. I have had a bad experience with this company right from when I said I was going to get my insurance up to me actually getting my insurance. I was really disappointed. I am sorry that I have had to say this.	Response was sent by Naheed
8015173	There seemed to be a lack of communication between LCC & WYPF. Everyone blaming each other for this. This resulted in unnecessary delays.	Passed to Kate G

**Employer Feedback - LPF
Quarter 1 January – March – Corrective action**

Your responsibilities – 27/01/2016

Feedback score: 78.38%*

Comment	Action taken
None	

A summary of the compliments

- Having arrived with little/no knowledge the session has been really useful & given me lots to think about
- As usual all explained very well especially as the audience has different levels of knowledge

*we believe that 2 feedback sheets have been completed in reverse as the comments do not reflect the scores.

Secure administration – 23 February 2016

Feedback score: 98.29%

Comment	Action taken
None	

A summary of the compliments

- Very useful information
- Very informative and useful

Complete Guide –17 March 2016

Feedback score: 95.82%

Comment	Action taken
A few more exercises	LD & SC to review
Perhaps use the portal to work through examples	LD & SC to review

A summary of the compliments

- A very enlightening insight into what I need to know!
- Very useful inform and explained thoroughly especially as I am new to payroll

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Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	14 July 2016
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 31st March 2016 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 £17.7m (1%) to £1,750.2m on 31st March 2016. 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 31st March. All asset classes are within the agreed tolerances. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 0.9%

UK Equities underweight by 0.8%

Global Equities overweight by 1.7%

Underweight Alternatives by 0.7%

Neutral Property

Underweight Bonds by 0.5%

Overweight Cash by 0.3%

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

- 1.3 The purchases and sales made by the Fund's portfolio managers over the period (including those transactions resulting from corporate activity such as take-overs) are summarised in Appendix B.
- 1.4 Appendix C shows the market returns over the three and twelve months to 31st March 2016.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 31st March, accounting for 9.6% of the Fund, compared to 9.0% last quarter. Equity holdings in the Fund are now shown on the Pensions website, and updated on a quarterly basis.

	Company	Total Value £M	% of Fund
1	ROYAL DUTCH SHELL	25.1	1.4
2	BRITISH AMERICAN TOBACCO	20.9	1.2
3	RECKITT BENCKISER	17.4	1.0
4	MICROSOFT	17.2	1.0
5	APPLE	16.9	1.0
6	HSBC	16.2	0.9
7	UNILEVER	15.4	0.9
8	ALPHABET	14.0	0.8
9	GLAXOSMITHKLINE	12.6	0.7
10	VODAFONE	11.8	0.7
	TOTAL	167.5	9.6

- 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 96 company events and cast votes in respect of 1329 resolutions. Of these resolutions, the Fund voted 'For' 965, 'Against' 337 and abstained on 19 and withheld votes on 8.
- 1.7 A breakdown of the issues covered by these resolutions together with an analysis of how the votes were cast between 'For', 'Abstain' or 'Against' a resolution is given in Appendix D. Votes were cast in accordance with the voting template last reviewed at the 9th January 2014 meeting of this Committee, and effective from 1st March 2014.

2 Local Authority Pension Fund Forum

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

- **Corporate Governance** – to develop and monitor, in consultation with Fund Managers, effective company reporting and engagement on governance issues.
- **Overseas employment standards and workforce management** - to develop an engagement programme in respect of large companies with operations and supply chains in China.
- **Climate Change** - to review the latest developments in Climate Change policy and engage with companies concerning the likely impacts of climate change.
- **Mergers and Acquisitions** - develop guidance on strategic and other issues to be considered by pension fund trustees when assessing M&A situations.
- **Consultations** – to respond to any relevant consultations.

2.2 The latest LAPFF newsletter can be found on their website at www.lapfforum.org. Some of the engagement highlights during the quarter included:

- Engagement continued with BP to assess how the company is responding to the resolution requests from last year, with a meeting with a number of BP's senior management at the end of February, with colleagues from the Aiming for A coalition.
- Engagement with BHP representatives about the Company's community engagement efforts, particularly at the Cerrejon mine in Colombia, and its responses to the Samarco disaster in Brazil.
- Meetings with Kier Group to discuss the company's remuneration practices.
- Engaging with the FTSE 100 companies on tax through the Forum's Corporate Tax Transparency Initiative (CTTI) questionnaire.
- Attendance at a Nestlé investor roundtable event, where one of the new executive members was successful in getting the Nestlé Chairman to agree to review the Company's reporting on labour rights in the supply

chain, so that the Company is compliant with the reporting requirements in the new Modern Slavery Act.

- LAPFF finalized its policies on human capital which should help to guide engagements relating to people and investment value.
- Co-filing three strategic resilience resolutions for the 2016 AGMs of Glencore, Anglo American, and Rio Tinto.

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 outturn report detailing the performance of the cash balances managed by the Treasury. This shows an average cash balance of £7m. The invested cash has outperformed the benchmark from 1st April 2015 by 0.28%, annualised, as shown in the table below, and earned interest of £52k.

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

Pension Fund Balance – 2015/16 Outturn				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised %	Cumulative Weighted Benchmark Annualised %	Performance %
6,981.6	52	0.73	0.45	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 April Committee are:

G8 - Maintaining Contributions - the process for monitoring contributions is now fully in place, this has moved from yellow to green for being completed, and red to yellow for being compliant.

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. The annual review of the risk register is agenda item 12.

6 LGPS Asset Pooling

- 6.1 The deadline for the final submission to DCLG for the asset pooling proposals is 15th July. By the date of this Committee the Border to Coast Pension Partnership (BCPP) submission will have been approved by all 13 Funds in the partnership (either by the Pensions Committees or through delegation by the Executive Directors). Officers circulated the final submission to members of this Committee on 11th July.
- 6.2 The expectation (pre EU Referendum result) was that formal approval by Ministers to progress the creation of BCPP would be received in September and the timetable to meet the April 2018 deadline depends upon this. Officers will continue working on the detail behind BCPP over the next few months, and will not be waiting until formal approval is received. Given the positive feedback from Government so far, it is expected that approval will be given. Conversations will continue with DCLG and HMT over the summer months to ensure that there are no further areas that need to be addressed or clarified in the submission.
- 6.3 The next meeting of the Member Steering Group is set for 30th September, and will be a strategy planning day.
- 6.4 However, following the "Leave" outcome of the EU referendum, there is greater uncertainty as to whether asset pooling will still be a priority for Government.

7 Member Training – LGA Fundamentals

- 7.1 The training dates for the three day Fundamentals training have now been released. This is an A-Z bespoke Local Government Pension Scheme training course, aimed at elected members serving on pension committees/panels, and has been attended by over 1300 delegates since 2002. It is recommended that all Committee members undertake this training during their time on the Committee. Details of the programme were included as an attachment to the May monthly update letter, emailed to the Committee on 23rd June.

7.2 Fundamentals XV 2016 will be delivered at three locations as follows:

London	Day 1	6 October
	Day 2	1 November
	Day 3	29 November

Leeds	Day 1	18 October
	Day 2	9 November
	Day 3	6 December

Cardiff	Day 1	25 October
	Day 2	15 November
	Day 3	14 December

7.3 If you would like to attend any of the dates, please contact Jon Haw (jonathan.haw@lincolnshire.gov.uk or 01522 553627) and he will book your place.

Conclusion

8 This reporting period saw the value of the Fund rise, increasing by £17.7m to £1,750.2m. 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 .

9 The deadline for the Governments asset pooling submissions is 15th July. Lincolnshire has approved the BCPP submission, and await the Governments formal response.

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.

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APPENDIX A

DISTRIBUTION OF INVESTMENTS

INVESTMENT	31 Mar 2016			31 Dec 2015			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
UK Index Tracker	335,436,113	31.5%	19.2%	337,523,109	31.9	19.5	20.0	+/- 1.5%
TOTAL UK EQUITIES	335,436,113		19.2%	337,523,109	31.9	19.5	20.0	
GLOBAL EQUITIES								
Invesco	366,712,212	34.4%	21.0%	358,425,792	33.8	20.7	20.0	+/- 1.5%
Threadneedle	94,090,170	8.8%	5.4%	93,347,789	8.8	5.4	5.0	+/- 1%
Schroder	88,886,820	8.3%	5.1%	88,510,859	8.4	5.1	5.0	+/- 1%
Neptune	81,408,360	7.6%	4.7%	87,864,070	8.3	5.1	5.0	+/- 1%
Morgan Stanley	99,033,148	9.3%	5.7%	93,666,116	8.8	5.4	5.0	+/- 1%
TOTAL GLOBAL EQUITIES	730,130,710		41.7%	721,814,626		41.7	40.0	
TOTAL EQUITIES	1,065,566,823	100%	60.9%	1,059,337,735	100	61.1	60.0	+/- 5%
ALTERNATIVES	250,456,345		14.3%	247,047,792		14.3	15.0	+/- 1.5%
PROPERTY	202,064,149		11.5%	198,137,513		11.4	11.5	+/- 1%
FIXED INTEREST								
Goodhart F & C	108,035,745	47.5%	6.2%	110,375,120	49.4	6.4	6.75	+/- 1%
Blackrock	119,563,934	52.5%	6.8%	113,250,457	50.6	6.5	6.75	+/- 1%
TOTAL FIXED INTEREST	227,599,680	100%	13.0%	223,625,577	100	12.9	13.5	+/- 1.5%
TOTAL UNALLOCATED CASH	4,562,481		0.3%	4,426,405		0.3	0.0	+ 0.5%
TOTAL FUND	1,750,249,478		100%	1,732,575,022		100	100	

APPENDIX B

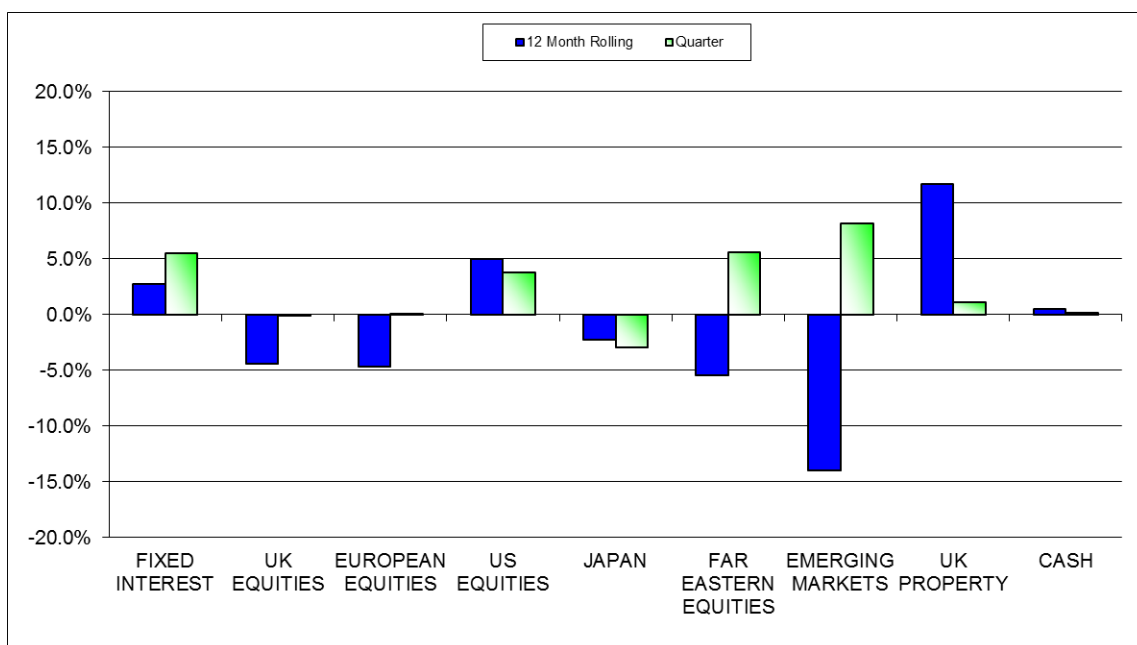
PURCHASES AND SALES OF INVESTMENTS – QTR ENDED 31ST MARCH 2016

Investment	Purchases £000's	Sales £000's	Net Investment £000's
UK Equities			
In House	1,485	23	1,461
Global Equities			
Invesco	32,577	28,976	3,601
Threadneedle	14,022	12,066	1,956
Schroders	14,593	14,226	367
Neptune	19,484	23,368	3,884
Morgan Stanley Global Brands	0	0	0
Total Equities	82,160	78,659	3,501
Alternatives			
Morgan Stanley	0	0	0
Total Alternatives	0	0	0
Property	81	1,001	(919)
Fixed Interest			
BlackRock	0	0	0
Goodhart F & C	0	0	0
Total FI	0	0	0
TOTAL FUND	67,002	61,621	5,382

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

APPENDIX C

MARKET RETURNS TO 31ST MARCH 2016



INDEX RETURNS	12 Months to Mar 16	Jan-Mar 16
	%	%
FIXED INTEREST	2.7	5.5
UK EQUITIES	-4.4	-0.1
EUROPEAN EQUITIES	-4.7	0.0
US EQUITIES	5.0	3.7
JAPANESE EQUITIES	-2.3	-3.0
FAR EASTERN EQUITIES	-5.4	5.6
EMERGING MARKETS	-14.0	8.2
UK PROPERTY	11.7	1.1
CASH	0.5	0.1

APPENDIX D

Votes Summarised by Votes Cast				
Votes Cast at Management Group Level				
Report Period: 01 Oct 2015 to 31 Dec 2015				
Voting Guideline Code	For	Abstain	Against	Total
Lincolnshire County Council				
Adjourn Meeting	4	0	0	4
AGM Date	1	0	0	1
All Employee Share Schemes	3	0	10	13
Alternate Auditor	1	0	0	1
Amend Class of Capital	1	0	0	1
Annual Incentive Plan Metrics	7	0	0	7
Any Other Business	0	0	1	1
Appoint Audit Committee (Slate)	2	0	0	2
Appoint Audit Committee Member	7	0	3	10
Appoint Chairman	5	0	0	5
Appoint Independent Proxy	3	0	0	3
Appoint Rem Committee (Slate)	1	0	0	1
Appoint Rem Committee Member	10	0	0	10
Approval of Executive's Remuneration Package	3	0	0	3
Approve Agreement	1	0	0	1
Approve Minutes	1	0	0	1
Auditor - Appointment	44	2	26	72
Auditor - Deputy/Secondary	1	0	0	1
Auditor - Remuneration	22	0	16	38
Auth Board to Issue Shares	33	0	3	36
Auth Board to Issue Shares w/o Pre-emption	20	0	26	46
Authorise Board to set Board Size	1	0	0	1
Authorise Option Grants/Dilution	2	0	0	2
Authorise Political Donations & Expenditure	13	0	0	13
Authorised Capital	0	0	0	0
Authorised Capital [DE/CH/AT]	5	0	0	5
Board of Directors aggregate remuneration approval	3	0	0	3
Board Rem - Allow Board to Set	2	0	0	2
Board Rem - Approve Bonuses	5	0	0	5
Board Rem - Proposed for Year	1	0	0	1
Board Size for Year	3	0	1	4
Board Size Range	1	0	0	1
Cancel Treasury Shares	7	0	0	7
Capital Raising	1	0	2	3
Chairs Corporate Responsibility Committee	1	0	0	1
Change Board Structure	4	0	0	4

Change Jurisdiction of Incorporation	0	0	0	0
Change of Name	3	0	0	3
Conditional Capital [DE/CH/AT]	1	0	0	1
Debt - Borrowing Powers	1	0	0	1
Delegate Powers	5	0	0	5
Director - Discharge from Liability	48	0	0	48
Director Election - All Directors [Single]	512	17	222	751
Director Election - CEO	0	0	2	2
Director Election - Chairman	23	4	44	71
Director Election - Chairs Audit Committee	53	1	10	64
Director Election - Chairs Nomination Com	32	4	20	56
Director Election - Chairs Remuneration Com	45	5	8	58
Director Election - Chairs Risk Com	1	0	2	3
Director Election - Executives	113	0	96	209
Director Election - Lead Ind. Director/DepCH	29	1	3	33
Director Election - Non-executive/Sup Board	386	17	115	518
Director Election - Sits on Audit Committee	155	5	18	178
Director Election - Sits on Nomination Com	149	3	26	178
Director Election - Sits on Risk Com	8	0	4	12
Director Election - Slate	5	0	0	5
Director Election - Sts on Remuneration Com	146	6	41	193
Distribute/Appropriate Profits/Reserves	38	0	0	38
Dividends - Ordinary	59	0	2	61
Dividends - Scrip	6	0	0	6
EGM Notice Periods	31	0	0	31
Elect Member Audit & Supervisory Board (JP)	9	0	1	10
Executive aggregate remuneration approval	1	0	0	1
Financial Statements	37	0	17	54
Financial Statements - Environmental Issues	37	0	17	54
Internal Reorganisation	0	0	0	0
Issue Bonds (Other)	1	0	0	1
Issue Convertible Bonds	1	0	0	1
Long-term Deferral Systems	3	0	0	3
Long-term Incentive Plans	0	0	26	26
LTI: Discretionary Share Option Plan	1	0	0	1
Meeting Formalities	2	0	0	2
Merger Related Compensation [US]	2	0	0	2
NED Remuneration - Fee Rate/Ceiling	10	0	1	11
NED Remuneration - Fees actually paid	4	0	0	4
NED Remuneration - Fees proposed for year	12	0	2	14
NED Remuneration - Policy	1	0	0	1
New Class of Capital	2	0	0	2
Other Capital Structure Proposal	1	0	0	1

Other Changes to Governance Arrangements	36	0	1	37
Other Meeting Procedures	4	0	0	4
Other Payments to Directors/Corp Auditors	3	0	0	3
Ratification of a Prior Act	0	0	1	1
Reduce Nominal Value	1	0	0	1
Reduce or Reclassify Capital or Reserves	6	0	0	6
Reduce Share Premium Account	0	0	0	0
Reissue (Use) Treasury Shares	2	0	0	2
Related Party Transaction - Specific Transaction	0	0	1	1
Remove Majority Vote Standard for Directors	1	0	0	1
Remove Supermajority Provisions	2	0	0	2
Remuneration Policy	8	0	7	15
Remuneration Report	28	0	26	54
Resolution Issues	5	0	0	5
Return of Capital	0	0	0	0
Right to Nominate Directors - 'Proxy Access'	1	0	0	1
Scheme of Arrangement	0	0	8	8
SH: Adopt Diversity & Equality Policies	0	0	0	0
SH: Adopt/amend Human Rights Policy	0	0	0	0
SH: Diversity & Equality Policies	1	0	0	1
SH: Improve CSR Disclosure	0	0	0	0
SH: Lobbying - Improve Disclosure	2	0	0	2
SH: Other Board-related Proposals	1	0	0	1
SH: Other Executive Pay Proposal	0	0	1	1
SH: Remove Supermajority Provisions	2	0	0	2
SH: Report on Human Rights Issues	0	0	0	0
SH: Request Improved Board Diversity	4	0	0	4
SH: Right to Nominate Directors - 'Proxy Access'	7	0	0	7
SH: Setting GHG reduction goals	0	0	0	0
SH: Shareholder Resolution - Other	0	0	0	0
SH: Voting Procedures	1	0	0	1
Share Buy-back Authority (inc Tender Offer)	38	0	7	45
Share Consolidation	1	0	0	1
Significant Transactions	0	0	8	8
Sits on Corporate Responsibility Committee	11	0	0	11
Termination Payments (Actual payoffs)	1	0	0	1
Treasury Shares - Set Re-issue Price Range	2	0	0	2
Unclassified	0	0	0	0
	2360	65	825	3250

The Pension Regulator's and Scheme Advisory Board Compliance Checklist

Summary Results Dashboard

No	Completed	Compliant
Reporting Duties		
A1	G	G
A2		
A3	G	G
A4	G	G
Knowledge & Understanding		
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
Conflicts of Interest		
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
Publishing Scheme Information		
D1	G	G
D2	G	G
D3	G	G
D4	G	G
Risk and Internal Controls		
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
Maintaining Accurate Member Data		
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
Maintaining Contributions		
G1	G	G
G2	G	G
G3	G	G
G4	G	G
G5	G	A
G6	G	G
G7	A	A
G8	G	A
G9	G	G

No	Completed	Compliant
Providing Information to Members and Others		
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
Internal Dispute Resolution		
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
Reporting Breaches		
J1	G	A
J2	G	G
J3	G	G
Scheme Advisory Board Requirements		
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:	Pensions Committee
Date:	14 July 2016
Subject:	Investment Management Report

Summary:

This report covers the management of the Lincolnshire Pension Fund assets, over the period from 1st January to 31st March 2016.

Recommendation(s):

That the committee discuss if they wish to continue with the Neptune mandate.

That the committee note this report.

Background

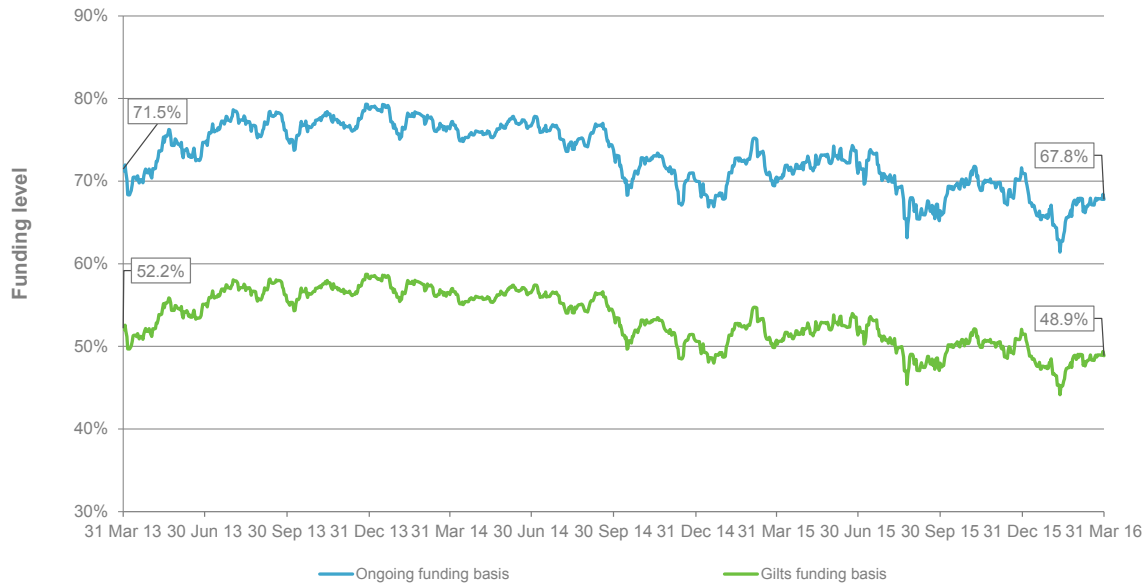
This report is split into four areas:

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

1. Funding Level Update

- 1.1 The funding update is provided to illustrate the estimated development of the funding position from 31st March 2013 to 31st March 2016, for the Fund.
- 1.2 As the graph below shows, the funding level at the latest formal valuation was 71.5%. As at 31st March 2016 the funding level has decreased to 67.8%. This, however, is not the formal Valuation funding level for March 2016, as the modelling used for this report is a roll forward of the previous valuation. The 2016 Valuation results will be available later in the year.

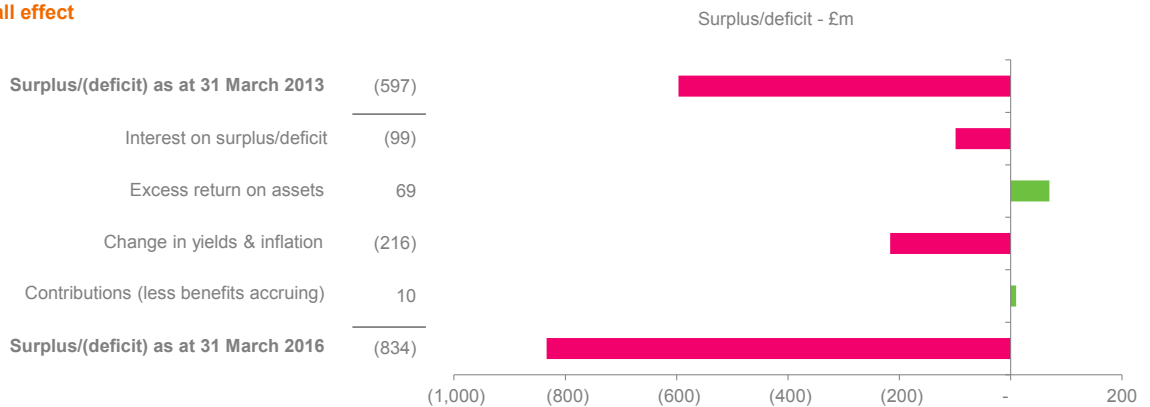
Change in funding level since last valuation



1.3 As shown below, the deficit in real money has increased from £597m to £834m between the period 31st March 2013 and 31st March 2016. This is largely as a result of a decrease in bond yields, and subsequent discount rate, which places a higher value on the Fund's liabilities. In addition, the Fund's actual investment return over the quarter was lower than the assumed return.

1.4 What's happened since last valuation?

Overall effect



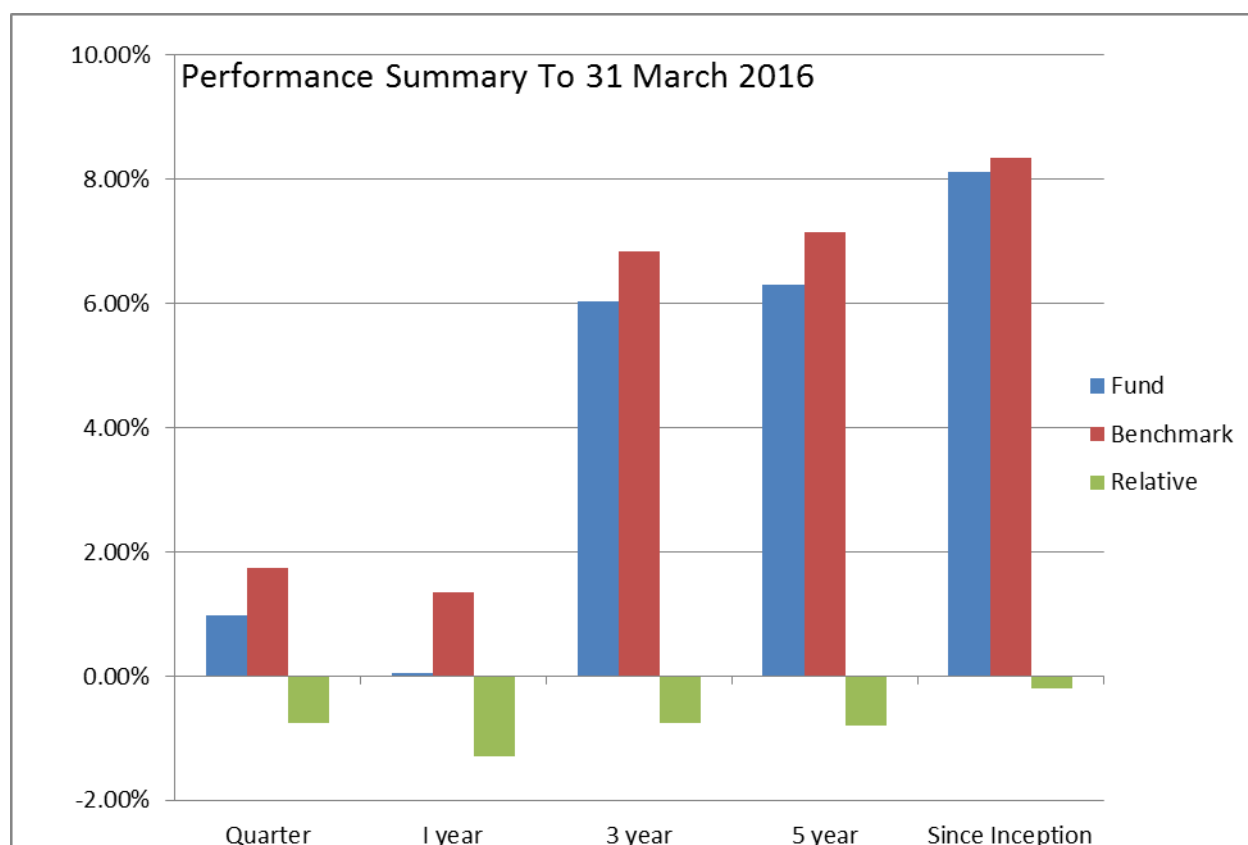
2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £17.6m during the quarter from £1,732.6m to £1,750.2m, as the chart below shows. The Fund was overweight to Cash and Global Equities and underweight UK Equities, Alternatives and Fixed Interest.

Asset Class	Q1 2016 £	Q4 2015 £	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	335.4	337.5	19.2	20.0	(0.8)
Global Equities	730.1	721.8	41.7	40.0	1.7
Alternatives	250.5	247.1	14.3	15.0	(0.7)
Property	202.0	198.2	11.5	11.5	0.0
Fixed Interest	227.6	223.6	13.0	13.5	(0.5)
Cash	4.6	4.4	0.3	0.0	0.3
Total	1,750.2	1,732.6	100.0	100.0	

2.2 The graph below shows the Fund's performance against the benchmark over the quarter, one year, three years, five years and since inception. The Fund has a target to outperform the strategic benchmark by 0.75% per annum.

2.3 Over the quarter, the Fund produced a positive return of 0.98% and underperformed the benchmark which returned 1.75%. The Fund is behind the benchmark over all periods. The underperformance being due to significant underperformance from two managers in the Fund, Neptune and BMO.



* 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 BMO going from "on watch" to "replace". Sixteen managers remained rated as retain and three managers, Reef Property Ventures Fund 3, Aviva Pooled Property Fund and Neptune "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
BMO Absolute Return Bonds	X				
Morgan Stanley Alternative Investments					X
Blackrock Fixed Interest					X
Standard Life European Property				X	
Innisfree Continuation Fund 2					X
Innisfree Secondary Fund					X
Innisfree Secondary Fund 2					X
Franklin Templeton European Real Estate				X	
Franklin Templeton Asian Real Estate				X	
RREEF Ventures Fund 3			X		
Igloo Regeneration Partnership				X	
Aviva Pooled Property Fund			X		
Royal London PAIF				X	
Standard Life Pooled Property Fund				X	
Blackrock Property				X	

4. Individual Manager Update

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

4.2 Manager Returns – As shown below it was a mixed quarter for the Fund with six managers producing a positive absolute return and three a negative return. Over the quarter, only two managers outperformed their benchmark, Morgan Stanley Global Brands and Blackrock. Over the 12 month period three managers produced a positive absolute return. Against their target, Blackrock, Threadneedle, Invesco and Morgan Stanley Global Brands have performed well whilst BMO, Morgan Stanley Alternatives and Neptune continue to disappoint.

	3 months ended 31/03/16			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	Target p.a. %
Passive UK Equity In house	(0.2)	(0.1)	(0.1)	(4.5)	(4.4)	(0.1)	+/- 0.5
Invesco (Global Equities (ex UK))	2.3	2.4	(0.1)	0.0	(0.6)	0.6	+1.0
Threadneedle (Global Equities)	0.8	2.9	(2.1)	2.9	(0.7)	3.6	+2.0
Neptune (Global Equities)	(7.7)	2.9	(10.4)	(12.7)	(0.7)	(12.2)	+4.0
Schroder's (Global Equities)	0.5	2.8	(2.3)	(1.8)	(1.2)	(0.6)	+3.0
Morgan Stanley Global Brands	5.7	2.2	3.5	12.0	(0.3)	12.3	n/a
Blackrock (Fixed Interest)	5.6	5.5	0.1	2.9	2.7	0.1	Match Index
BMO (Fixed Interest)	(2.1)	0.8	(2.9)	(3.8)	3.1	(6.8)	3M LIBOR + 3%

Morgan Stanley (Alternative Investments)	0.1	1.2	(1.1)	(4.2)	4.7	(8.5)	3M LIBOR + 4%
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**Lincolnshire Pension Fund
UK Equities – In House (Passive UK)
Quarterly Report March 2016**

Investment Process

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

Portfolio Valuation

Value at 31.12.15	Value at 31.03.16
£337,523,109	£335,436,113

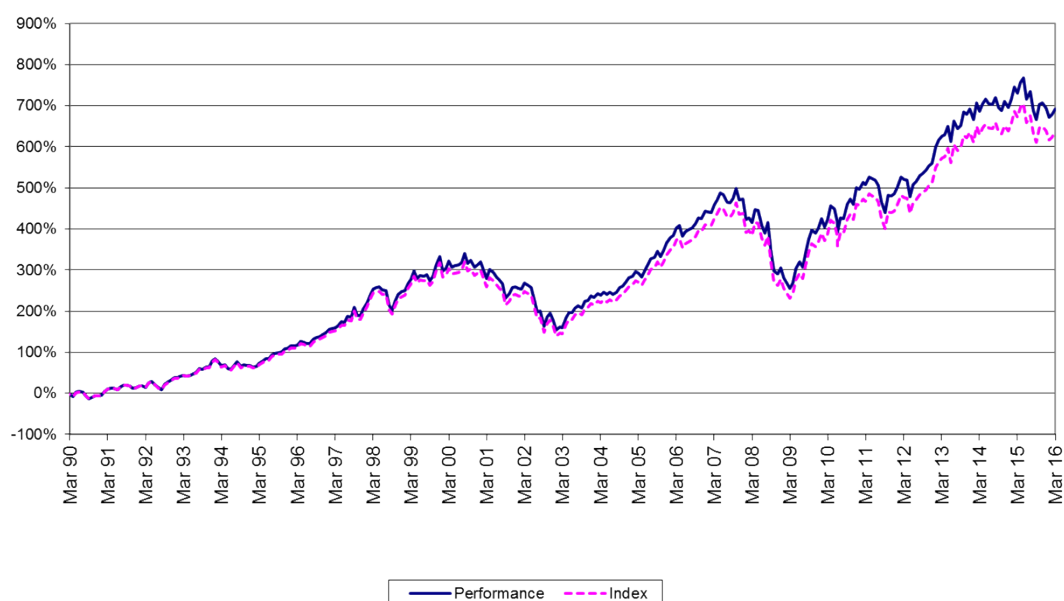
Performance

During the quarter the portfolio produced a negative return of 0.2% 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	(0.2)	(4.5)	3.0	5.5	8.0
MSCI UK IMI	(0.1)	(4.4)	3.1	5.4	7.7
Relative Performance	(0.1)	(0.1)	(0.1)	0.1	0.3

* annualised, inception date 01/10/1989

UK Equities In House Portfolio Performance Since Inception



Turnover

Holdings at 31.12.15	Holdings at 31.03.16	Turnover in Quarter %	Turnover in Previous Quarter %
274	270	0.0	0.5

Purchases and Sales

During the quarter the manager made no purchases or sales.

Largest Overweights

Rangold	0.15%
Paddy Power	0.13%
Babcock	0.11%
Greene King	0.10%
Inmarsat	0.10%

Largest Underweights

Auto Trader	(0.20%)
Mediclinic	(0.18%)
Worldpay	(0.16%)
CYBG	(0.10%)
Brit American Tobacco	(0.08%)

* Measured against MSCI UK IMI

Top 10 Holdings

1	Royal Dutch Shell	£23,741,845	6	Vodafone	£10,416,864
2	HSBC	£15,535,157	7	Astrazeneca	£8,732,429
3	British American Tobacco	£13,762,105	8	Diageo	£8,475,646
4	GlaxoSmithKline	£12,633,530	9	Sabmiller	£7,626,401
5	BP	£11,332,297	10	Reckitt	£7,567,145

Risk Control

The portfolio has a tracking error limit of 0.5%. At the end of March 2016 the tracking error was 0.41%.

Lincolnshire Pension Fund
Global Equities – Invesco (Global Ex UK Enhanced)
Quarterly Report March 2016

Investment Process

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

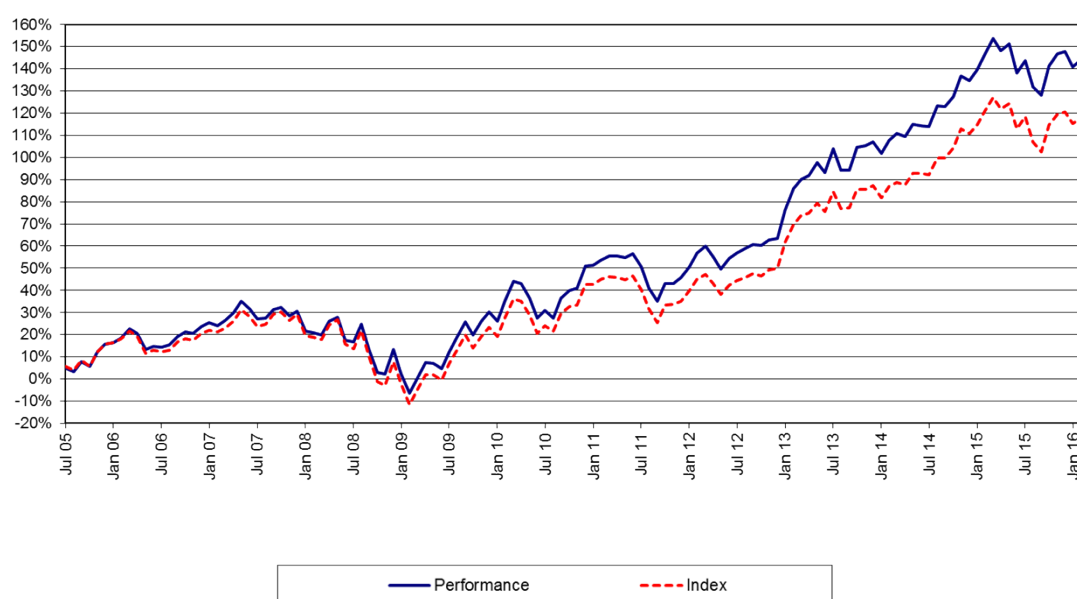
Portfolio Valuation

Value at 31.12.15	Value at 31.03.16
£358,425,059	£366,712,212

Performance

During the quarter Invesco's strategy underperformed its benchmark. Stock Selection showed the largest negative impact on relative performance, whilst active weights in Sectors resulted in a positive contribution to relative performance. Overweights in IT added value, but underweights in consumer staples detracted.

Invesco Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Invesco	2.3	0.0	10.1	10.3	9.0
MSCI World ex UK	2.4	(0.6)	9.1	9.1	7.9
Relative Performance	(0.1)	0.6	0.9	1.1	1.1

* annualised, inception date 1st July 2005

Turnover

Holdings at 31.12.15	Holdings at 31.03.16	Turnover in Quarter %	Turnover in Previous Quarter %
471	494	7.4	8.9

Purchases and Sales

During the quarter, Invesco made a number of stock adjustments to the portfolio. They added Sysco and Realty Income and increased their positions in United Technologies, Berkshire Hathaway and Alphabet. These were funded by reducing their position in General Electric, Macquarie Group, JP Morgan Chase, Equity Residential and Western Union.

Largest Overweights

Intel	1.02%
Apple	0.80%
Public Storage	0.72%
Citigroup	0.70%
Comcast	0.68%

Largest Underweights

Alphabet	(0.78%)
Chevron	(0.61%)
Exxon Mobil	(0.60%)
Bristol-Myers Squibb	(0.36%)
Medtronic	(0.36%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple	£8,753,930	6	Intel	£5,110,090
2	Johnson & Johnson	£5,830,088	7	Verizon	£4,449,575
3	Microsoft	£5,797,571	8	Citigroup	£4,415,092
4	JP Morgan Chase	£5,333,303	9	Comcast	£4,218,235
5	General Electric	£5,268,403	10	AT&T	£3,870,031

Hymans Robertson View

There were no relevant business issues reported over the period.

Risk Control

The predicted tracking error of the portfolio slightly increased to 1.07% (actual target 1%).

Lincolnshire Pension Fund Global Equities – Neptune Quarterly Report March 2016

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.

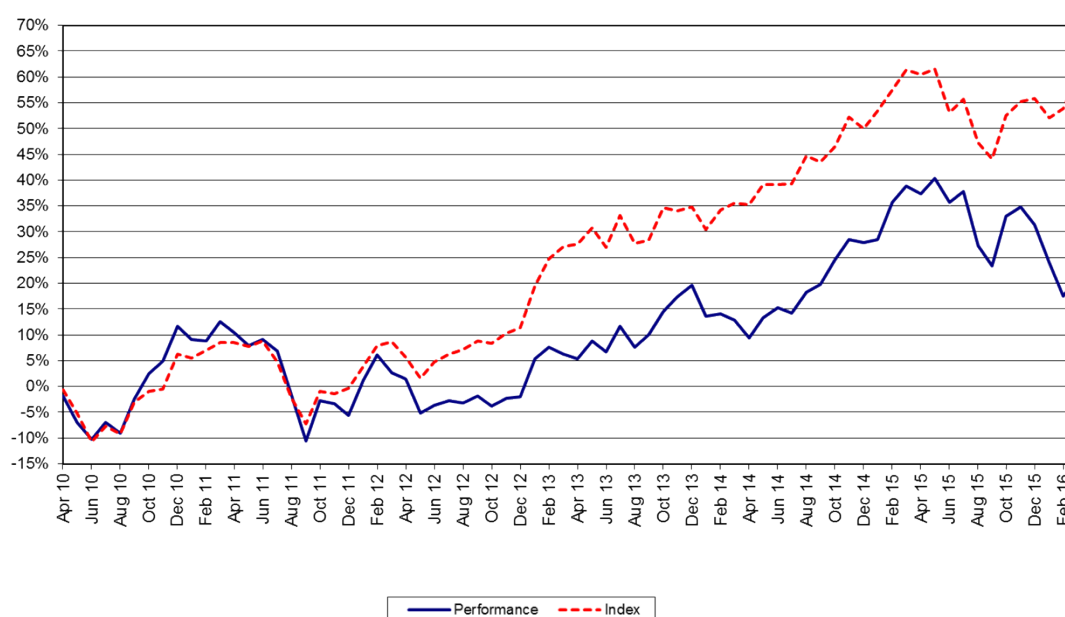
Portfolio Valuation

Value at 31.12.15	Value at 31.03.16
£87,864,070	£81,408,360

Performance

During the quarter Neptune produced a negative return of 7.7% and underperformed the benchmark by 10.4%. Markets that were linked to the oil price delivered the most outperformance during the quarter, with Brazil and Russia particularly strong. Neptune were underweight the energy sector, as their real world research highlighted the growth of US shale oil – as well as the growth of renewable energy resources such as electric cars – could see the oil price remaining lower for longer. Conversely, one of the worst performing markets was Japan, as it was perceived that the large Japanese multinationals were reliant on strong Chinese growth - a view that Neptune do not subscribe too. It was Neptune's overweight position to Japan that was the primary cause of underperformance in the first quarter. Neptune still believe that these world class companies, which generate significant year on year revenue growth are improving returns to shareholders through corporate governance reforms, will outperform over the long term.

Neptune Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Neptune	(7.7)	(12.7)	4.5	1.5	3.3
MSCI ACWI**	2.9	(0.7)	8.1	8.1	8.2
Relative Performance	(10.4)	(12.2)	(3.3)	(6.1)	(4.6)

* annualised, inception date 16/04/2010

Turnover

Holdings at 31.12.15	Holdings at 31.03.16	Turnover in Quarter %	Turnover in Previous Quarter %
52	56	22.7	11.2

Purchases and Sales

During the first quarter, Neptune decreased their exposure to Japan, by selling a number of industrials and consumer stocks and topped up their US exposure to an overweight position. Neptune increased their consumer exposure – in both staples and discretionary, particularly in the US where they believe that the effects of the lower oil price will feed through to higher spending. They also like the 'health and wellness' sector and have bought sports drink maker Monster Beverages and Whitewave which makes non-dairy milk alternatives such as Alpro. Neptune changed a number of the financials stocks, preferring US names over Japanese ones.

Top 5 Contributions to Return

Oriental Land Co	0.4%
Facebook	0.4%
CME Group	0.4%
Apple	0.2%
Tencent Holdings	0.2%

Bottom 5 Contributions to Return

Linkedin	(1.7%)
Dai-Ichi Life Insurance	(0.7%)
Sumitomo Mitsui	(0.7%)
Mitsubishi Financial	(0.7%)
Mitsubishi Estate	(0.3%)

Top 10 Holdings

1	Alphabet	£3,769,121	6	Apple	£2,559,629
2	Amazon	£3,151,840	7	Disney	£2,467,370
3	CME Group	£3,136,050	8	Starbucks	£2,226,323
4	Tencent Holdings	£2,796,668	9	Sumitomo	£2,181,234
5	Facebook	£2,647,614	10	JP Morgan Chase	£2,157,485

Hymans Robertson View

Hymans rating on Neptune Global Equity is currently at '3 - On Watch'. Q1 2016 was difficult for many active managers but Neptune could hardly have been worse placed: little exposure to defensive areas such as telecoms and utilities, no exposure to the commodity bounce and high exposure to the worst performing region, Japan, and no respite from the stronger Yen due to hedging. This perfect storm should have abated subsequently but Neptune has much ground to recover. Hymans optimism over the team / process enhancements is waning.

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.

Recommendation

The performance of Neptune was discussed at the Pensions Committee meetings in January and April, and the Committee agreed that a further review was to take place at the July Pensions Committee meeting. The Investment Manager will bring the latest performance figures to June 2016. The Committee will need to discuss if they wish to continue with the appointment of Neptune or to look at alternative options.

Lincolnshire Pension Fund

Global Equities – Schroders Quarterly Report March 2016

Investment Process

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

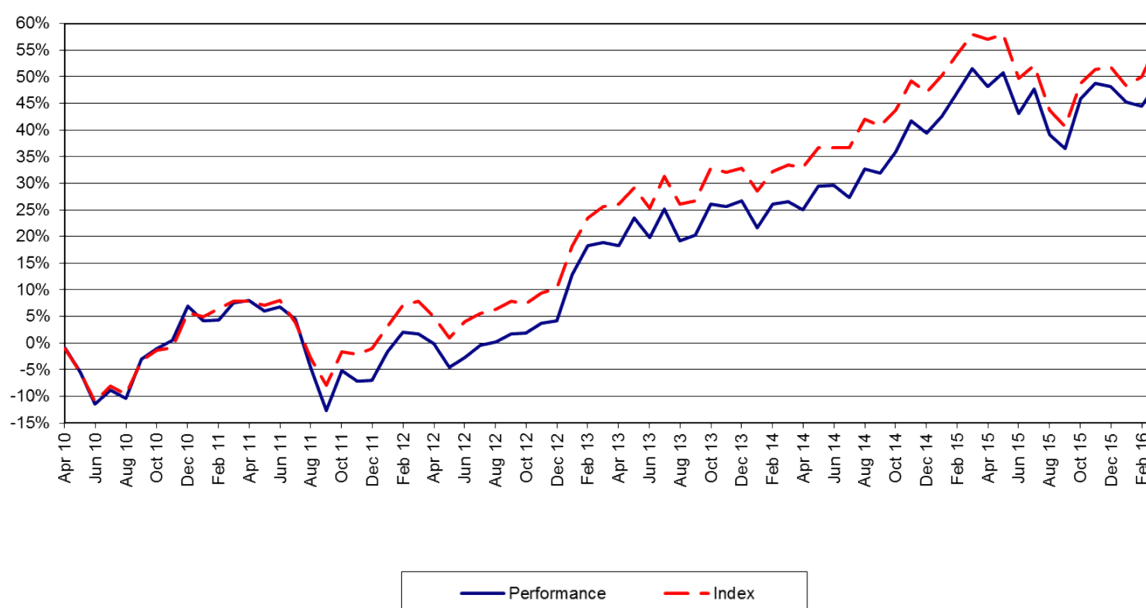
Portfolio Valuation

Value at 31.12.15	Value at 31.03.16
£88,510,859	£88,886,819

Performance

Schroders underperformed the benchmark over the quarter. The combination of the portfolio's growth bias together with the sharp market rally that was driven by lower quality, cyclical names towards the quarter end, had a significant bearing on the relative performance of the fund. Stock selection in the US, where the market shift was most prominent, was particularly unfavourable.

Schroders Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Schroders	0.5	(1.8)	7.8	6.7	6.8
MSCI ACWI (Net)	2.8	(1.2)	7.5	7.7	7.6
Relative Performance	(2.3)	(0.6)	0.3	(0.9)	(0.8)

*annualised since Inception April 16 2010

Turnover

Holdings at 31.12.15	Holdings at 31.03.16	Turnover in Quarter %	Turnover in Previous Quarter %
69	77	14.2	9.8

Purchases and Sales

During the quarter Schroders began to increase their exposure to the more cyclical areas of the market that have been out of favour for the past 18 months. These include Occidental Petroleum and chemical distributor, Brenntag. On the sales side, Schroders exited their position in Deutsche Bank and Nokia.

Top 5 Contributions to Return

Taiwan Semicon Man	0.4%
Kasikombank	0.2%
Cabot Oil & Gas	0.2%
Unitedhealth Group	0.2%
Statoil Asa	0.2%

Bottom 5 Contributions to Return

Citigroup	(0.4%)
Sumitomo Mitsui	(0.3%)
Prudential	(0.3%)
Amazon	(0.3%)
Capita	(0.2%)

Top 10 Holdings

1	Alphabet	£2,837,472
2	Citigroup	£2,344,648
3	TWN Semicont	£2,328,847
4	Comcast	£2,265,321
5	Reckitt	£2,119,365

6	Pfizer	£2,012,238
7	Lauder	£1,906,458
8	Unitedhealth	£1,903,047
9	Visa	£1,878,132
10	US Bancorp	£1,857,358

Hymans Robertson View

Q1 2016 was particularly difficult as the market variously rewarded stocks with near term cash flow safety and latterly commodity led value stocks which left Schroder's broader long term growth stocks out of favour. Financials (banks) exposure was also unhelpful.

Risk Control

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

Lincolnshire Pension Fund Global Equities – Threadneedle Quarterly Report March 2016

Investment Process

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

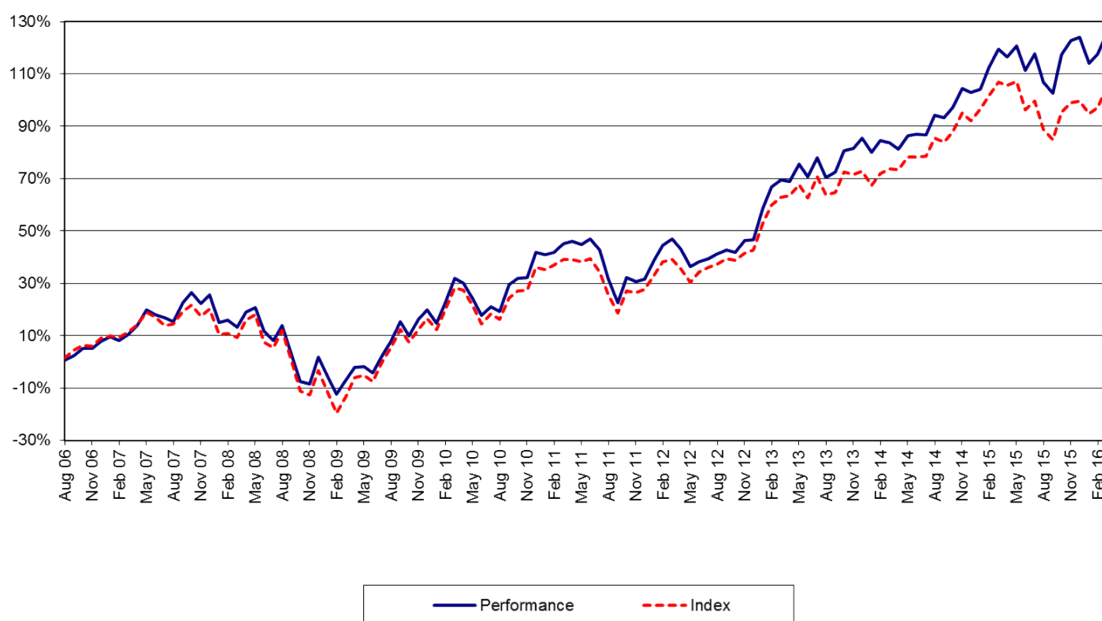
Portfolio Valuation

Value at 31.12.15	Value at 31.03.16
£93,347,789	£94,090,170

Performance

Threadneedle underperformed its benchmark in the quarter. Regional allocation was marginally positive, thanks largely to their underweight in Japan. However, both allocation and selection detracted in sector terms. Threadneedle's underweight position in materials, utilities and consumer staples weighed on returns, while gains from their industrials selections were offset by the adverse effects from those in healthcare, materials, financials and telecoms.

Threadneedle Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Threadneedle	0.8	2.9	10.0	9.2	8.8
MSCI ACWI	2.9	(0.7)	8.0	8.1	7.7
Relative Performance	(2.1)	3.6	1.8	1.0	1.0

* annualised, inception date 01/08/2006

Turnover

Holdings at 31.12.15	Holdings at 31.03.16	Turnover in Quarter %	Turnover in Previous Quarter %
88	85	12.4	2.7

Purchases and Sales

Threadneedle opened positions in CRH, one of the world's leading diversified building materials businesses. They also initiated a holding in Activision, a gaming company with a strong catalogue that is well placed to capitalise on the move towards digital. They exited their position in pharmacy benefit manager Express Scripts.

Top 5 Contributions to Return

Aon	0.36%
Markit	0.31%
Facebook	0.29%
Comcast	0.26%
WESCO	0.25%

Bottom 5 Contributions to Return

Alkermes	(0.77%)
Vertex Pharma	(0.67%)
UBS Group	(0.38%)
Bank of Ireland	(0.37%)
Taiheiyo Cement	(0.36%)

Top 10 Holdings

1	Alphabet	£2,756,291	6	Aon	£2,082,668
2	Facebook	£2,412,538	7	Gilead Sciences	£2,072,298
3	Unilever	£2,377,129	8	UBS Group	£1,866,471
4	Amazon	£2,288,236	9	Pfizer	£1,838,026
5	JPMorgan Chase	£2,156,665	10	Mastercard	£1,785,647

Hymans Robertson View

In April 2016, Columbia Threadneedle announced that Campbell Fleming, Chief Executive of the EMEA region and Global Chief Operating Officer was leaving the firm [he is moving to Aberdeen Asset Management]. Ted Truscott, Global CEO, remains in place. Ted Gillbanks (COO for EMEA) will take over Fleming's CEO role for the time being and Amy Johnson will take over Fleming's Global COO responsibilities. A replacement for Fleming is being sought. The departure of a senior figure such as Fleming is a loss for the firm but we think this is more about the opportunity at Aberdeen than a sign of any problems at Columbia Threadneedle. In the meantime Hymans see no reason to change their ratings on any of the firm's products.

Risk Control

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

**Lincolnshire Pension Fund
Global Equities – Morgan Stanley Global Brands
Quarterly Report March 2016**

Investment Process

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

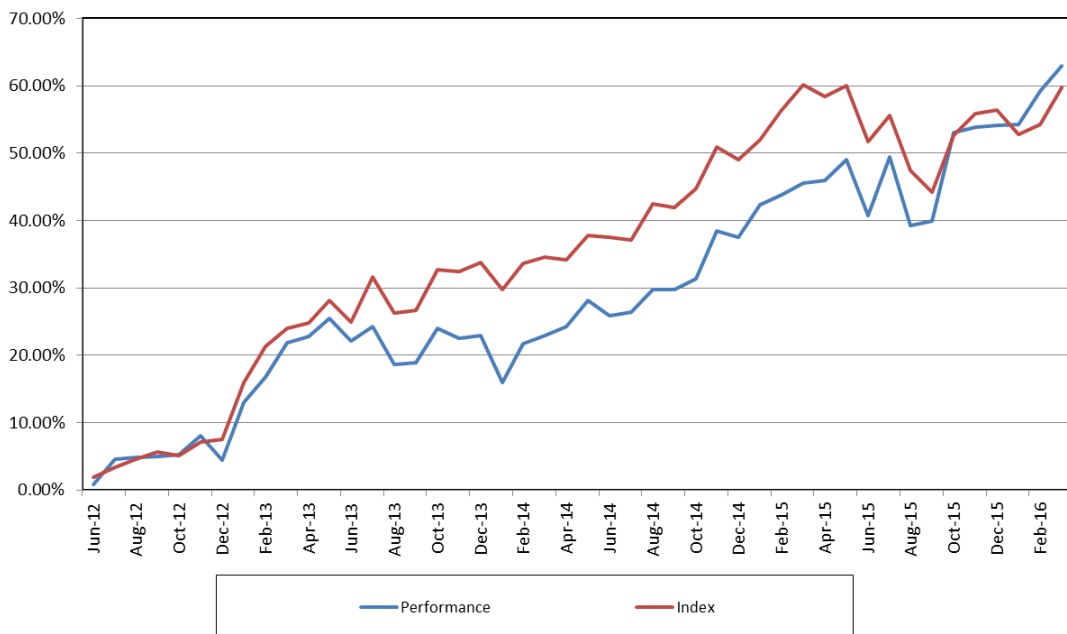
Portfolio Valuation

Value at 31.12.15	Value at 31.03.16
£93,666,116	£99,033,147

Performance

During the quarter Morgan Stanley Global Brands returned 5.7% outperforming its benchmark by 3.5%, which returned 2.2%. The outperformance for the quarter was mainly due to stock selection in consumer staples, consumer discretionary and information technology. Not owning stocks in sectors that did well such as energy, utilities, telecoms and materials detracted from performance.

Morgan Stanley Global Brands Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley Global Brands	5.7	12.0	10.2	N/A	13.6
MSCI World Index	2.2	(0.3)	8.8	N/A	13.0
Relative Performance	3.5	12.3	1.3	N/A	0.5

*annualised, inception date 18/06/2012

Purchases and Sales

During the quarter Morgan Stanley exited their position in Publicis and added to and reduced some consumer staples and consumer discretionary names, for quality or valuation reasons.

Top 3 Contributions to Return

British American Tobacco	0.83%
Reynolds American	0.63%
Reckitt Benckiser	0.60%

Bottom 3 Contribution to Return

Mondelez Int'l	(0.37%)
Walt Disney	(0.13%)
Publicis	(0.09%)

Top Ten Holdings

Company	Industry	% Weighting
Microsoft	Software	8.41
Reckitt Benckiser	Household Products	7.83
British American Tobacco	Tobacco	7.40
L'Oreal	Personal Products	6.64
Unilever	Personal Products	5.97
Accenture	IT Services	4.76
Nestle	Food Products	4.76
Altria	Tobacco	4.67
Reynolds American	Tobacco	4.52
Visa	IT Services	4.18

Hymans Robertson View

There were no relevant business issues reported over the period.

**Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report March 2016**

Investment Process

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

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

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

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

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

Portfolio Valuation at 31st March 2016

Portfolio	31.12.15 £	31.03.16 £
Corporate Bond All Stocks Index Fund	56,878,545	59,931,423
Over 5 Years UK Index-Linked Gilt Index Fund	32,987,164	35,858,495
Overseas Bond Index Fund	23,384,837	23,774,105
Cash (residual)	10	10
Total	113,250,556	119,564,033

Performance

Over all periods the portfolio has slightly outperformed the benchmark.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	5.6	2.9	4.8	7.3	7.5
Composite Benchmark	5.5	2.7	4.7	7.2	7.4
Relative Performance	0.1	0.1	0.1	0.1	0.1

*annualised since inception 28/07/10

Fees

Following work done by BCPP on passive managers across the pool, the Pension Fund Manager looked at the potential savings that could be had across the selection of passive managers available within the pool, taking into account past performance. Following this, and after discussion with Blackrock, new fee levels have been agreed from 1st April forward.

Hymans Robertson View

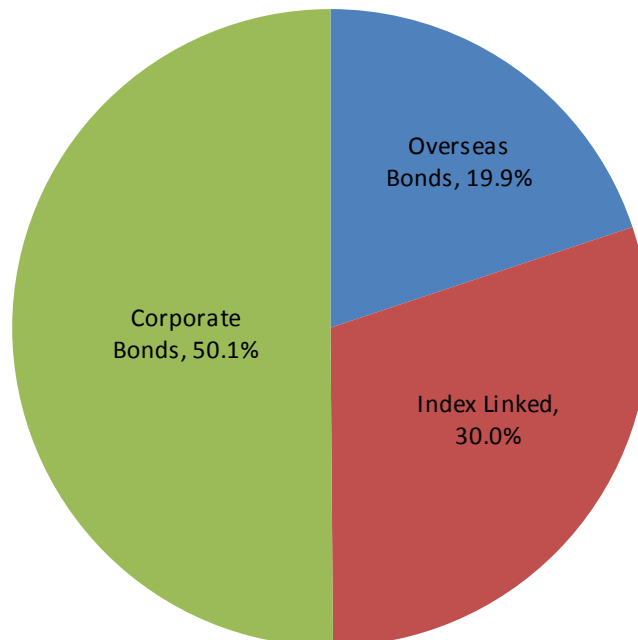
There were no significant developments within the Index Fixed Income team over the quarter; as such Hymans continue to rate Blackrock as one of their preferred passive fixed income managers.

Allocation

The target allocation between the three funds is:

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

The pie chart below shows the allocation as at 31st March 2016.



**Lincolnshire Pension Fund
Absolute Return Bonds – BMO
Quarterly Report March 2016**

Investment Process

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

Portfolio Valuation

Value at 31.12.15	Value at 31.03.16
£110,375,120	£108,035,745

Performance

BMO produced a negative return of -2.1% during the quarter which was 2.9% below target. In the quarter, Chenavari had a tough period and both Concerto and Threadneedle were also down a little. Chenavari's exposure to financial bonds and structured credit caused almost all of the underperformance. Concerto lost a little over the quarter, but BMO were very encouraged by their stock selection ability over the period.

BMO have maintained a lower level of risk within the Fund by holding on to the shorter dated bond allocation. They believe the current return potential for the Fund is the highest it has been for a long time.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
BMO	(2.1)	(3.8)	(0.8)	0.6	0.9
3 Month LIBOR + 3%	0.8	3.1	3.1	3.2	3.4
Relative Performance	(2.9)	(6.8)	(3.8)	(2.5)	(2.4)

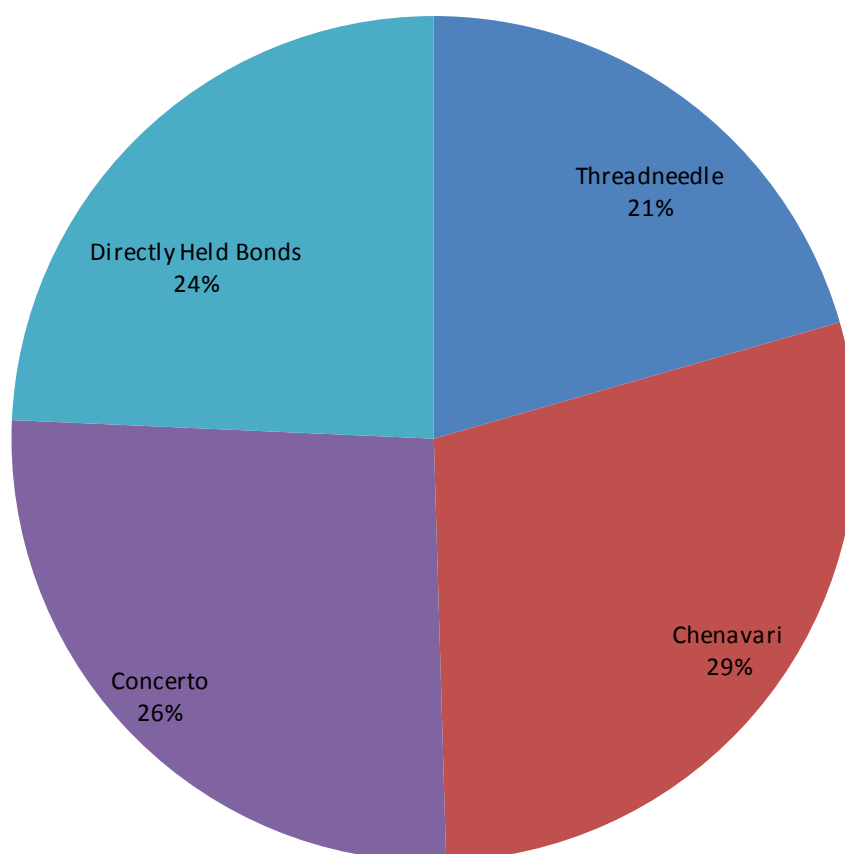
* annualised since inception date 19/07/2010

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 31st March 2016



Hymans Robertson View

Although many absolute return bond managers struggled in 2015, the disappointing returns from BMO have gone on for much longer. Hymans discussed the options for this mandate with the Committee in May, and they have changed their rating to "replace".

**Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report March 2016**

Investment Process

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

Portfolio Valuation

Value at 31.12.15	Value at 31.03.16
£183,444,113	£188,933,585

Performance

The portfolio returned -0.04% during the first quarter. Gains from credit and real assets were insufficient to offset losses in hedge funds, and to a lesser extent, convertibles. Hedge funds failed to fully participate in the market rally during the latter part of the quarter. Morgan Stanley's decision to increase their real estate allocation and re-introduce inflation linked assets in the portfolio was particularly beneficial.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley	0.1	(4.2)	(0.2)	N/A	3.6
3 Month LIBOR + 4%	1.2	4.7	4.7	N/A	5.0
Relative Performance	(1.1)	(8.5)	(4.7)	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.

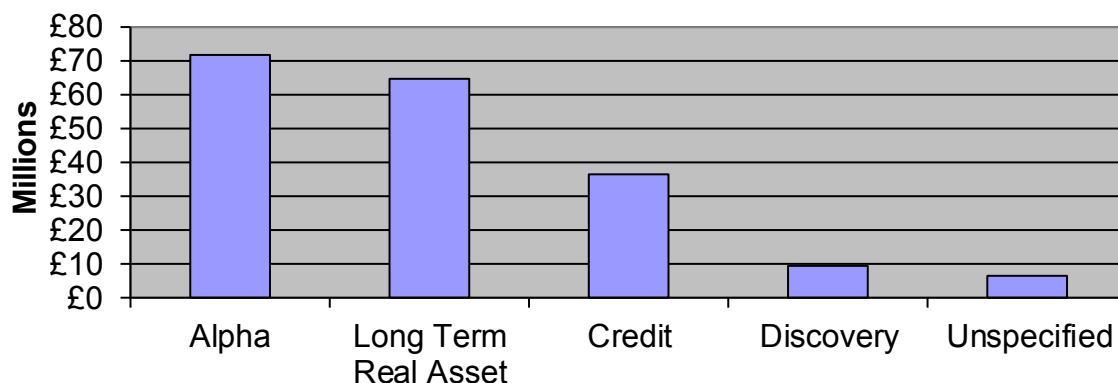
Long Term Real Asset – These are long term investments that seek to access illiquidity premium. Investments include Private Equity, Infrastructure, Real Estate, Commodities and Inflation – linked strategies.

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 March 2016



Portfolio Positioning

Growth remains weak, although Morgan Stanley believe that it should improve modestly. They anticipate a continued slow with uneven expansion in advanced economies with either stabilisation or minor recovery by several emerging/developing economies. Against a backdrop where assuming additional investment risk to generate incremental returns is limited relative to previous years, they envision an environment which is most supportive for hedge funds, inflation and credit asset classes. Despite low yields and low breakeven inflation expectations, they see stabilisation in core inflation and therefore reintroduced inflation-linked exposure in the portfolio in February. They have a modest overweight to credit, as the asset class offers risk-adjusted return potential as a consequence of substantial spread widening. 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. Although the performance of liquid infrastructure has been strong, they maintain a significant tactical underweight to the asset class in order to minimize energy equity exposure alongside the portfolio's energy high yield credit investment theme. They maintain a positive outlook for REITs in the medium term due to reasonable valuation levels, solid real estate fundamentals, and the prospect of further accommodative monetary policy. Consequently, they modestly increased their exposure this quarter. Even with signs of a bottom in oil, they continue to be cautious on the asset class as inventory and supply overhangs remain a concern.

Hymans Robertson View

Hymans don't believe that the team's approach to investing has changed and acknowledge that many of the underlying asset classes in which the portfolio invests have suffered as a result of a couple of key macro themes, notably the China slowdown and its impact on commodities and emerging markets more broadly. Nonetheless the strategy's recent performance has been disappointing.

Risk Control

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

Conclusion

Over the quarter the Fund has produced a positive return of 0.98% which is behind the benchmark which returned 1.75%.

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.

Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	14 July 2016
Subject:	UK Equity Portfolio Annual Report

Summary:

This is the annual report for the year ended 31st March 2016 covering the performance of the UK Equity index-tracking portfolio managed internally. The portfolio is managed within the Pensions Section of the Finance and Public Protection Directorate.

Recommendation(s):

That the Committee note the report.

Background

1 UK EQUITY INDEX TRACKING PORTFOLIO - INTRODUCTION

- 1.1 The objective of this portfolio is to deliver the total return of the MSCI UK IMI index +/-0.5% pa. This is to be achieved while maintaining a predicted portfolio tracking error (i.e. risk exposure) within 0.5% of the index.
- 1.2 The portfolio is managed through the Bloomberg system, which enables officers to see live valuations during the day and to monitor performance and tracking error. The number of stocks held in this portfolio normally varies between 250 and 270 (354 stocks constituted the MSCI UK IMI index as at 31 March 2016). The number of stocks held is much higher than would conventionally be held in an actively managed portfolio, to ensure limited deviation in performance relative to the total return produced by MSCI UK IMI index.

Table 1: Fund StatisticsAll data to 31st March 2016

	Fund	Benchmark
Assets	£335m	-
No. of Stocks	267	354
Turnover	0.1%	-

2 MARKET BACKGROUND

2.1 The 2015/16 financial year was fairly flat for the first six months of the year before more volatile markets resurfaced in the following six months. This resulted in positive returns for half of the year and negative returns for the other half. The monthly index returns ranged from -3% to +3.75% and the index posted a total return (capital and income combined) of +5.6% for the year.

2.2 The main market features over the year were:

- The first quarter saw UK equities fall as uncertainty over the general election initially weighed on sentiment, although the more decisive result than expected allayed market concerns. Thereafter, news flow came to be dominated by the increasingly acrimonious Greek bailout extension negotiations, ensuring a volatile end to the quarter.
- The second quarter was a disappointing time for UK equities, despite a positive start in July. China's decision to devalue its currency was particularly detrimental, prompting fears that the economy was much weaker than assumed.
- Despite weakness as it drew to a close, the third quarter was a positive period for UK equities. The bulk of returns came in October, as large cap stocks in particular rebounded after prior falls related to China's growth outlook.
- Chatter around a possible UK Brexit became increasingly audible over the review period. This weighed on sentiment, with investors both at home and abroad reluctant to buy UK equities. Sterling also came under pressure. Worries about the state of the global economy further dampened spirits. Nonetheless, the market was able to recover somewhat, thanks to European Central Bank (ECB) stimulus measures, better Chinese data and hopes that rates in the US may not be hiked as aggressively as first thought.

3 PERFORMANCE

3.1 The market value of this portfolio at 31st March 2016 was £335m, representing 19.2% of the Fund's total investments (the value at 31st March 2015 was £348m). Over the year, the portfolio made purchases of £16.3m and sales of £5.6m. Cash redemptions of £1.7m were made in the year and a further investment of £5m was made in August 2015, following a rebalance of the Lincolnshire Pension Fund.

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

Table 2: Fund Performance & Risk

All data to 31st March 2016

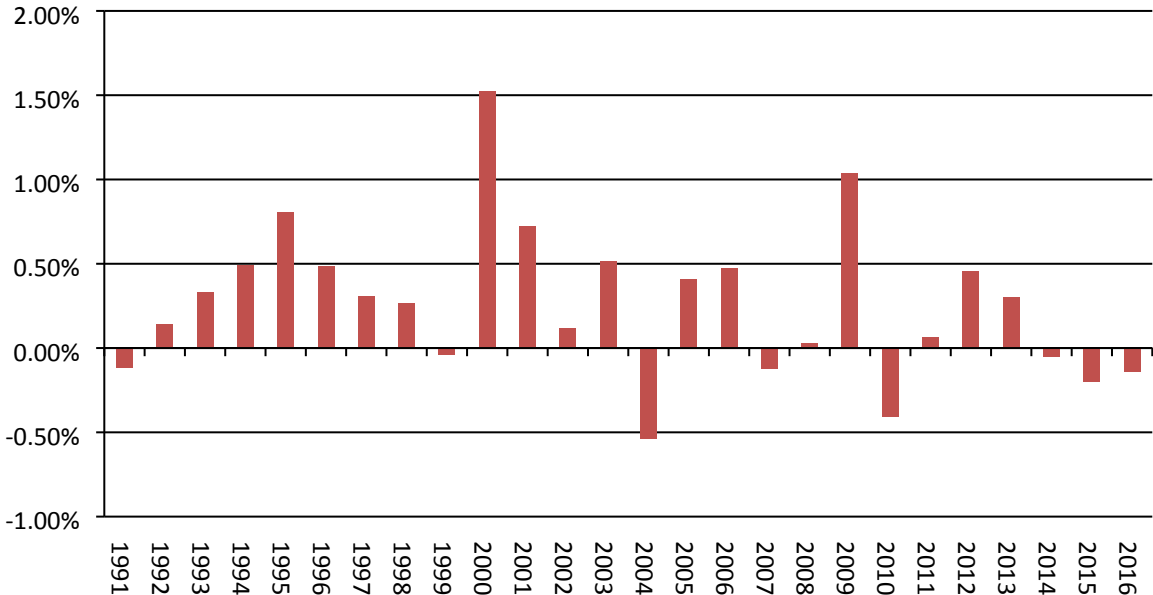
Date	Portfolio (%)	Index (%)	Relative (%)
1 Year	(4.51)	(4.38)	(0.14)
3 Year *	2.98	3.12	(0.13)
5 Year *	5.47	5.39	0.07
Since Inception *	8.03	7.73	0.28
Tracking Error	0.41	-	-

*Annualised

3.3 Chart 1 below shows the total return achieved for each year from 31st March 1991 relative to that of the index. In the 26 years since inception, the portfolio has out-performed the benchmark index in 18 years and under performed in 8 years. Performance is shown gross of fees, which equate to approximately 0.02% per annum.

**Chart 1: Returns Relative to the Index on an Annual Basis
31st March 1991 to 31st March 2016**

Annual Relative Return



3.4 Over the year, the portfolio performance ranged from -5.9% in June to +4.8% in October and the relative return to the benchmark from -0.13% in July to +0.11% in September. The predicted risk (tracking error) of the portfolio was maintained within the permitted range of 0.5% for the whole year. Chart 2, below, shows the monthly forecast tracking error of the portfolio, plotted against the actual monthly performance relative to the benchmark (index). The tracking error is the predicted annual volatility of the actual return compared to the benchmark return. This means that with a forecast tracking error of 0.20%, the return of the portfolio would statistically be expected to be +/-0.20% around the index return, e.g. if the index returned +10%, the portfolio should return between +9.80% and +10.20%. Statistically, this outcome is expected to happen in two years out of three.

Chart 2: Tracking Error and Monthly Portfolio Performance 2015/16

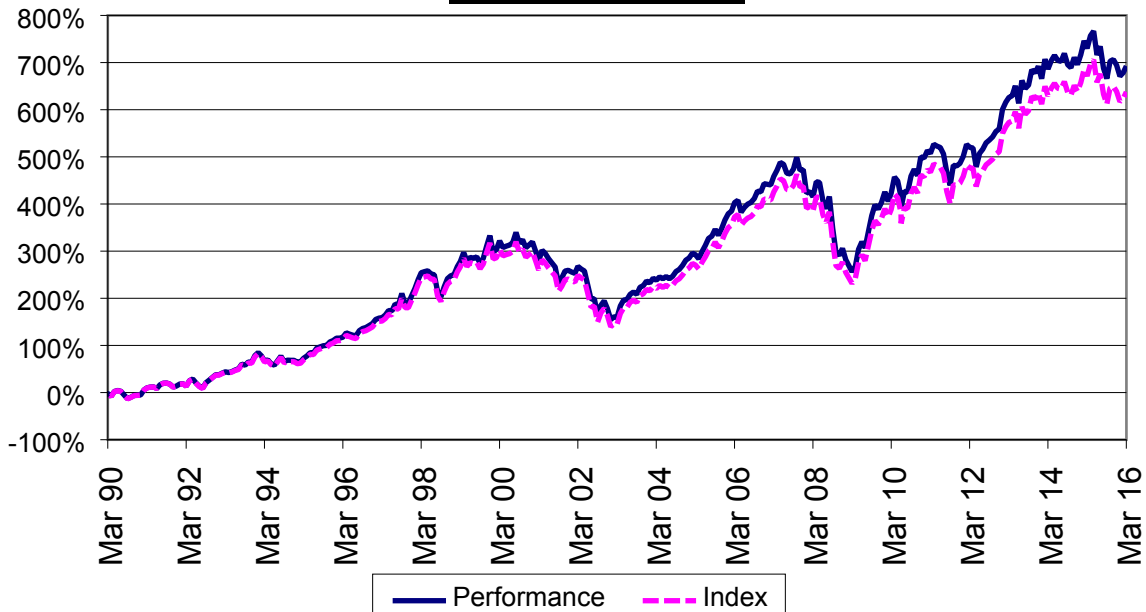


3.5 Portfolio performance over the year was -0.14%, which is within the target range of +/-0.5%. During the year the first two quarters were very volatile and the portfolio generally outperformed the benchmark when the market return was negative and underperformed when returns were positive. This was due to holding a higher than normal cash position until August, at which point £11.5m of trades were actioned, taking advantage of a drop in the market which saw the index return -5.5% in the month. The third quarter saw a positive return for the portfolio but an underperformance against the benchmark, due to the large underweight position the portfolio had in financials. The fourth quarter saw the index fall slightly. The portfolio initially outperformed the benchmark in February as an underweight position in financials and an overweight position in materials proved positive, though these returns were reduced due to the portfolio having an underweight position in energy which outperformed during the month. The

outperformance in February was wiped out in March as financials rallied and the underweight position of the portfolio produced a negative return.

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

UK Equities In House Portfolio Performance Since Inception



Conclusion

4. The UK Equity portfolio underperformed the benchmark over the last 12 months by 0.14% but was still within the target of +/- 0.5%. Since inception the Fund has outperformed the benchmark by 0.28% annualised.

Consultation

a) Policy Proofing Actions Required

n/a

Background Papers

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

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

Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	14 July 2016
Subject:	Annual Report on the Fund's Property Investment

Summary:

This report outlines the performance of the Fund's property and related investments for the year ended 31st March 2016.

Recommendation(s):

That the Committee note this report.

Background

1 Introduction

- 1.1 Investment exposure to Property is achieved via holdings in pooled vehicles. The Fund, with a strategic allocation of 11.5%, has traditionally allocated significantly more to the property asset class than the average local authority pension fund (currently 7%). The market value of holdings in pooled vehicles at 31st March 2016 was £199.3m (11.5% of the Fund). To diversify the property allocation and invest cash flow, the Fund made commitments to European Commercial Property (2002), property venture type funds (2005 and 2006), Private Finance Infrastructure Schemes (2004, 2006, 2007 and 2013) and Asian Commercial Property (2007).

Market value of property and other holdings at 31 March 2016

	Undrawn Commitments 31/3/16 £m	Market value of LCC holdings 31/3/16 £m
Property Pooled Investment Vehicle		

BALANCED UK PROPERTY		
Aviva Pooled Property Fund	n/a	41.8
Royal London Exempt Unit Trust	n/a	21.2
Blackrock – UK Property Unit Trust	n/a	20.4
Standard Life - Trustee Investment Plan	n/a	62.2
Total UK Commercial Property		145.6
PROPERTY VENTURES		
RREEF – Property Ventures Fund III	0.0	3.2
Franklin Templeton European Fund of Funds	0.4	2.3
Franklin Templeton Asian Fund of Funds	3.1	6.5
Igloo Regeneration partnership	0.0	4.4
Total Property Ventures	3.5	16.4
EUROPEAN COMMERCIAL PROPERTY		
Standard Life European Growth Fund	0.0	9.9
INFRASTRUCTURE		
Innisfree PFI Continuation Fund II	0.2	7.2
Innisfree PFI Secondary Fund	1.3	13.4
Innisfree PFI Secondary Fund 2	2.5	6.8
Total Infrastructure	4.0	27.4
TOTAL PROPERTY	7.5	199.3

2 Balanced UK Commercial Property

- 2.1 During the year income from the holdings was reinvested but no additional new money was invested and no redemptions were made.
- 2.2 The pooled investment vehicles have been selected by officers to provide diversified exposure to the UK Commercial Property asset class with the intention of achieving broad market returns. Officers are in regular contact with the various managers to monitor performance.
- 2.3 Appendix A illustrates the overall UK property sector and regional weightings of the individual pooled vehicles. Overall, the Fund's property allocation, when compared to an index of similar property funds, is overweight Shopping Centres, Retail Warehouses, Industrials in the South East, Offices in London and cash. The Fund is underweight Standard Retail, Offices in the South East and the rest of the UK, the Industrial sector in the rest of the UK and the "Other" sector (this includes properties such as leisure and residential and listed assets).

Overall UK property sector asset weightings at 31st March 2016

Property Sector	LCC Fund %	IPD %	Difference %
Retail	35.4	32.4	3.0
Offices	34.2	34.0	0.2
Industrial	19.0	20.8	(1.8)
Other	11.4	12.8	(1.4)
Total	100	100	

2.4 At an individual fund level:

- Royal London has a significant relative allocation to Standard Retail, Offices in London and the South East and the Industrial Sector in the rest of the UK. Royal London has no allocation to Shopping Centres. Property sizes are generally smaller when compared to the other managers.
- Aviva has no allocation to Shopping Centres and is overweight Standard Retail, Retail Warehouse and Offices in the South East and the rest of the UK. Underweight positions are underweight Industrial in the rest of the UK and "other" properties.
- Blackrock is overweight Retail Warehouses and heavily overweight Other Properties. They are underweight in Standard Retail and Offices in the South East and the rest of the UK.
- Standard Life is overweight Standard Retail, Shopping Centres and Offices in the rest of UK and London, and underweight Other Property, Industrials in the rest of the UK and Offices in the South East.

3 Market Environment in the Period Reported and Outlook

- Property produced total returns of 10.6% (IPD index), over the twelve months to 31st March 2016, compared to UK equity returns of -3.9% (FTSE All Share) and UK index-linked bond returns of 8.8%.
- Quarter 2 2015 – Total returns from UK commercial real estate moderated further during the second quarter but remained well ahead of their long term average. Slowing capital growth was the main contributor to the moderation in returns, with capital values increasing by 10.3% p.a. over the year compared to 11.6% p.a. in the previous quarter.
- Quarter 3 2015 - UK commercial real estate returns maintained their positive but moderating momentum, supported by the relatively strong UK economy. Prime yields fell further over the period, moving closer to their previous peak in 2007, with the most noticeable compression in certain office and industrial

sub-sectors. While the retail sector generally continued to lag, there were tentative signs of improvement here also, with rental growth starting to materialise. As money flowed into commercial real estate, forcing up prices, investors continued to search beyond London and into the regions for opportunities. Indeed, Savills estimated that nearly 60% of investment activity last year took place outside the capital.

- Quarter 4 2015 - Returns from UK commercial real estate continued to moderate during the review period. A dip in capital value growth for the fourth consecutive month was the main reason behind the fall, while rental growth generally remained steady. At a sector level, industrials and offices, particularly in the City of London, continued to lead the way. Retail remained the weakest sector, but there was some optimism as shopping centres experienced the biggest month-on-month uplift in returns of any market segment.
- Quarter 1 2016 - Returns from UK commercial real estate moderated further during Q1, with capital value growth reducing for the seventh consecutive month. Rental growth generally remained positive because of strong occupier markets, where many tenants were looking to commit for the long term or seeking additional space. From an investment perspective, volumes were 25% lower in January and February than the previous year, as investors waited for the outcome of the EU referendum.

4 Investment Performance

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

UK Commercial Property Investment returns to 31st March 2016

	2015/2016	3 years Annualised	5 years Annualised
	%	%	%
Aviva	9.7	12.0	7.5
Royal London	9.1	11.4	8.3
Blackrock	9.6	11.9	8.3
Standard Life	9.4	12.5	8.4
IPD UK PFI All Balanced Median return	10.6	13.3	9.0

- 4.2 Aviva underperformed the benchmark over one year having delivered 9.7% against a benchmark return of 10.6%. Over the last twelve months, the fund has completed a number of sales and limited purchases. In accordance with the fund strategy purchases have been focused on core-plus/value-add assets that present the opportunity to generate performance by harnessing the cyclical upswing in the occupational market through asset management, refurbishment and development. The sales have been focused on assets that have underperformed and that no longer meet the fund strategy. The volume of sales throughout the year has increased the cash position of the fund above the benchmark level for the later part of 2015 and the early part of 2016. This has been a drag on the relative performance of the fund during this period. The fund's supermarket assets dragged performance in 2015 as values were written down due to occupational issues in the grocery market. Expansion and store openings have all but ceased and the reduction of occupational demand has fed through to rental values and expectations of rental growth. This in turn has impacted the investment market with fewer purchasers for supermarket assets and poor sentiment around the tenant covenants, feeding through to pricing of assets and valuations. The Aviva fund intends to dispose of two supermarket assets in 2016, which should mitigate the impact of the weakening retail environment on the portfolio.
- 4.3 RLAM returns were not as strong as they would have liked them to be, but the Fund is well-positioned in the short to medium term for improved levels of performance. Void levels have continued to impact on performance. As at 31 March 2016 the void rate of the Fund was 12% (12.6% as at 31 March 2015), compared with a benchmark figure of 7.1%. The Fund is generally invested at the prime end of the market and the property portfolio is of good quality. It is balanced across the UK, with a substantial focus on the south-east of England. Consequently, the income return is marginally lower to reflect the quality of the occupational tenants and properties. While there has been yield compression at the prime end of the market, the significant yield movement has been seen at the more volatile secondary end of the market. Secondary properties generally provide a higher income return to reflect the riskier nature of the income secured against them. While market conditions remain strong, this most likely won't always be so. Prime properties in core locations will usually provide more stable and robust returns in times of market fluctuations.
- 4.4 The Standard Life Fund is behind the benchmark over all periods. The office and industrial sectors again drove portfolio performance. The Fund's higher weighting to the retail sector, and in particular its heavy weighting in shopping centres and supermarkets, has had the most significant impact on performance over the last year. The underweight exposure to South East offices, which has been one of the best performing segments of the market recently, has also dragged on performance over this time period. The Standard Life Fund is one of the largest pooled funds in the UK and is well diversified across sectors and geographic regions.

- 4.5 The Blackrock Fund delivered a return of 9.6% for the 12 months compared to the benchmark return of 10.6%. The Fund continues to underperform the benchmark over three and five year periods. During the year Blackrock have taken active decisions to reposition the Fund where appropriate. They have decided however to hold one particular investment, their portfolio of doctor's surgeries, despite its relative underperformance. This is due to their expectation that the investment will perform strongly in the market environment they expect to enter. The cost of re-positioning a property portfolio is significant, due mainly to stamp duty imposed on any purchase. Combined with agency and legal fees, the total cost of divesting then reinvesting is approximately 6.5%. The long term objective of the Fund is to outperform the average of similar institutional pooled vehicles by investing in a diversified range of property throughout the UK, principally, but not exclusively, in the retail, office and industrial sectors.
- 4.6 During 2014/15 the property benchmark was changed to show the split between UK Commercial Property Unit Trusts and Property Venture investments. The UK Commercial Property Unit Trusts maintained the benchmark of the IPD UK All Balanced Median Return and the Property Venture holdings benchmark was set at 7% per year. The overall return in the year for UK Commercial Property was 9.13% against a benchmark of 10.6%, whilst the return for Property Ventures for 9.06% against the benchmark of 7%. The return for property combined was 9.11% against the combined benchmark of 9.52%.

5 PROPERTY VENTURES

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

5.2 RREEF Ventures III Unit Trust

The Committee approved the commitment of £10m in January 2006 and this has now been fully drawn down to fund a number of projects, some of which have now been realised. The value of the Fund's units at 31st March 2016 was £3.2m. The Fund continues to be wound up and the management continue to work through the asset management plans and as these are completed the properties will be sold.

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

The Committee approved the investment in October 2005 of €15m. So far this Fund of Funds has made commitments to eleven underlying funds, including a portfolio of German nursing homes, a specialist French property investor, a UK real estate partnership, a pan European real estate fund and a German commercial property investor. At this stage the Fund's investment is valued at the £2.3m, but the valuation of the underlying funds is as at a terminal valuation, and therefore very prudent. The since inception Internal Rate of Return was -7.18% at 31 March 2016.

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

The Committee approved the investment in October 2007 of \$25m. The Fund has made a total of sixteen investments at this stage and has drawdown 97% of the Fund's total commitments. The value of the Pension Funds investment is £6.5m at 31st March 2016. Total distributions are 81% of total commitments to date. Managers are pleased with the portfolio assembled and the progress that has been achieved to date. The since inception Internal Rate of Return was 2.19% at 31 March 2016.

5.5 Igloo Regeneration Partnership

The Committee approved the commitment of £10m in April 2006 to a partnership with a pipeline of early stage regeneration projects in the UK. The partnership produced a return of 11.5% over the twelve months ended March 2016, behind the IPD benchmark of 14%. The Pension Fund's investment value is £4.4m at 31st March 2016. The Igloo Fund has undertaken a thorough review of its strategy from 2014 to 2018 (five years). The Fund's Business Plan is to target the delivery of 13% per annum returns. The Fund is focused on the regeneration and repositioning of ten key locations across the UK, delivering developments with market leading levels of high quality, sustainable design.

6 EUROPEAN BALANCED PROPERTY FUND

6.1 Standard Life European Property Growth Fund – Unit Trust

To diversify the Fund's balanced property exposure, a commitment of €5m was made in November 2002 to a new pooled investment vehicle created by Standard Life to invest in Continental European property. A further commitment of €10m was approved to the European Property Growth Fund in July 2005. As at the 31st March 2016, this commitment had been fully drawn and the investment in the Fund was valued at £9.9m. The Fund owns office, retail and distribution properties in France, Spain, Belgium, Portugal, Hungary, Germany, Poland, Sweden and the Czech Republic. Over the twelve months ended 31st December 2015, the European Fund produced a return (after costs), in euro terms, of 4.6%, with an annualised performance since inception of 3.5%. The strategy remains to continue to reposition the

Fund's portfolio to capture future growth by increasing the Fund's exposure to both stronger and recovering economies, focusing on asset management initiatives which increase income yield over the medium term, lengthen the term of secured income, reduce vacancies, and improve income covenants and portfolio quality.

7 INFRASTRUCTURE

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

7.2 Innisfree Continuation Fund II – partnership

The Committee approved a commitment of £8m to the Innisfree Continuation Fund II in January 2006. Following the Fund's acquisition of assets from an earlier Innisfree primary fund, and the subsequent follow on investments in Arrow Light Rail (2008), Sheffield Schools and MOD Main Building (2009), the Dutch High Speed Rail Link and West Berks Hospital (2011) and Derby Hospital and Walsgrave Hospital (2012); and the disposal of the Arrow Light Rail in December 2011. Fund 2C now has a total of £337m committed to 12 project investments, all of which are operational. From inception, the Fund's portfolio of investments has generated returns that are over 30% higher than was anticipated in the base case acquisition model, and investors have received an average net yield of 9.1%.

During the year the Pension Fund and two other existing investors purchased the investor commitment of BAE Systems Pension Fund. The total sale price was £21.8m with the proportion Lincolnshire Pension Fund being able to purchase was £539,000.

The investment is currently valued at £7.2m. The forecast long-term gross IRR of the portfolio is 11.3%, compared to the base case of 8.75%.

7.3 Innisfree Secondary Fund (ISF) - partnership

The Committee approved a commitment of £15m to the Innisfree Secondary Fund in July 2007. Secondary Funds are long term holders of PPP (public/private partnerships) and PFI projects which have typically reached their operating stage. Returns to investors are principally by way of cash generated by the projects during the remainder of their concession lives. ISF had its final closing on 30 June 2008, taking aggregate commitments to

£600.5m, with 18 limited partners. As at 31st March 2016, the Fund had total commitments of £578.3m to 34 projects. The Fund is 98% committed to investments and around 90% of investor commitments have been cash drawn.

During the year the Pension Fund and two other existing investors purchased the investor commitment of BAE Systems Pension Fund. The total sale price was £59.4m with the proportion Lincolnshire Pension Fund being able to purchase was £1,500,000.

The investment is currently valued at £6.8m. The forecast long-term gross IRR of the portfolio is 10.8%, compared to the base case of 10.5%.

7.4 Innisfree Secondary Fund 2 (ISF2) - partnership

The Committee approved a commitment of £10m to the Innisfree Secondary Fund 2 in January 2013. ISF2 had its final closing on 31st March 2013, taking aggregate commitments to £544m, with 11 limited partners. The Fund was 68% committed to investments and 67% of investor commitment had been cash drawn at 31st March 2016.

ISF2 was the other fund that bought the assets of Innisfree Fund III, acquiring 68% of each Fund III investment. This portfolio is forecast to provide a gross to fund purchase IRR of 10.8% and a ten year average yield of 10.3%.

Conclusion

- 8.1 Overall, the Pension Fund's investment in property and infrastructure generated a good absolute return of 9.11%, which was behind the benchmark (as measured by JPMorgan) return of +9.52%. The property allocation, at 11.5%, matched the benchmark allocation, with a further £7.5m in undrawn commitments.
- 8.2 The performance since inception, which is not directly comparable due to different start dates, shows that good long term returns have been achieved by most of the Funds, at over 7% per annum.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	UK Balanced Property Allocation at 31st March 2016

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.

APPENDIX A

UK BALANCED PROPERTY ALLOCATION AT 31st MARCH 2016

	Retail %			Offices %			Industrial %		Other %			Total %
	Standard Retail	Shopping Centres	Retail Ware House	London	Rest SE	Rest UK	SE	Rest UK	Other Prop.	Listed Assets	Cash	
Aviva	16.5	0.0	19.1	14.6	17.2	7.4	14.1	3.9	2.2	0.0	5.0	100
Royal London	17.9	0.0	16.1	14.5	10.0	1.7	10.4	10.2	12.2	0.0	7.0	100
Blackrock	2.9	6.3	19.0	16.6	10.1	5.5	13.0	8.0	14.7	0.0	3.9	100
Standard Life	14.5	11.9	16.4	27.4	2.1	5.8	15.2	2.0	0.2	0.0	4.5	100
Weighted Average	10.3	7.3	17.8	20.5	7.9	5.7	13.9	5.1	6.9	0.0	4.4	100
IPD UK Pooled Property Fund Indices	11.3	4.8	16.3	15.5	11.9	6.6	12.4	8.4	8.8	0.0	4.0	100
Difference (absolute)	(1.0)	2.5	1.5	5.0	(4.0)	(0.9)	1.5	(3.3)	(1.9)	0.0	0.4	

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Regulatory and Other Committee

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

Report to:	Lincolnshire Pension Board
Date:	22 July 2016
Subject:	Pension Fund Draft Annual Report and Accounts

Summary:

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

Recommendation(s):

That the Board consider the draft Pension Fund Annual Report and Accounts.

Background

1. The Pension Fund Annual Report and Accounts for the year ended 31st March 2016 (included as Appendix A) has been completed and is in the process of being independently audited by the Council's external auditors, KPMG. These accounts form part of the Lincolnshire County Council Statement of Accounts.
2. The Annual Report and Accounts have been produced taking into account the guidance produced by CIPFA.
3. The Annual Report needs to be approved by the Pensions Committee before external audit can issue their formal opinion on the Pension Fund accounts, and this was done at the meeting held on 14th July. The draft annual report will be finalised once the external auditor has issued his formal opinion and this has been incorporated into the report. This will then be taken to the Council's September Audit Committee, alongside the Council's Statement of Accounts.
4. When finalised, a copy of the annual report will be put on both the Pension Fund and the County Council websites, and all Fund employers will be notified. In addition, the link will be emailed to all County Councillors, trade unions who represent contributing members of the Fund and on request to

any other individuals or organisations. A summary of the annual report will be sent to all scheme participants in due course.

Conclusion

5. The Lincolnshire Pension Fund Report and Accounts has been produced for the year ended 31st March 2016. The Pensions Committee approved this document on 14th July 2016, and external audit will offer an opinion on the accounts by the end of September, to go to the Council's Audit Committee. Once the formal opinion has been received, a copy of the Pension Fund Annual Report and Accounts will be distributed to interested parties.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund Annual Report and Accounts 2016

Background Papers

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

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

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Annual Report
and Accounts

For the Year Ended 31st March

2016

**Lincolnshire Pension
Fund**

LINCOLNSHIRE COUNTY COUNCIL
LOCAL GOVERNMENT PENSION SCHEME
ANNUAL REPORT FOR THE YEAR ENDED 31st MARCH 2016

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MANAGEMENT ARRANGEMENTS

Administering Authority Lincolnshire County Council

Pensions Committee Members at 31st March 2016

County Councillors

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

District Council Representatives

Cllr J Summers

Representatives of Other Employers

J Grant

Employee Representative

A Antcliff (Unison)

Professional Advisors

County Council Officers

Executive Director of Finance and Public Protection P Moore BA FCPFA

County Finance Officer D C Forbes BSc CPFA

Independent Advisor P Jones

Fund Actuary Hymans Robertson

Fund Consultant Hymans Robertson

Voting Advisor Manifest Voting Agency

External Investment Managers of Segregated Portfolios (all Global Equities)

Invesco Asset Management Ltd
Neptune Investment Management

Schroder Investment Management Ltd
Threadneedle Asset Management Ltd

Auditors

Investment Custodian

AVC Provider

Fund Banker

Benefits Administration

KPMG

JP Morgan Securities Services

Prudential

Barclays

West Yorkshire Pension Fund

REPORT OF THE PENSIONS COMMITTEE

Introduction

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

Members of the Committee as at 31st March 2016 are listed on page 2.

All members of the Committee can exercise voting rights.

Corporate Governance and Social Responsibility

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

Investment Performance

The Fund has an investment objective to meet its liabilities over the long term and to produce a return of 0.75% p.a. over the return produced by the strategic asset allocation benchmark.

The twelve months to 31st March 2016 produced a small positive return to the Fund. The twelve month period ended 31st March 2016 saw the value of the Fund increase by £2.8m to £1,759m. The Fund saw mixed performance from its managers, with returns ranging from -12% to +12%. The overall investment return of 1% was marginally behind the Fund's specific benchmark return of 1.8%. Over the last ten years, the Fund's annualised investment performance of 4.8% is slightly behind the benchmark return of 5.3%.

Global equity markets ended the reporting period flat (in GBP terms), with US stocks being among the best performers, while European stocks underperformed the broad market. Equity returns, as measured by FTSE, ranged from +3.6% in the US to -9.1% in the Emerging Markets. Bond markets delivered strong returns with falling inflation expectations and disappointing economic growth in the Eurozone being the main drivers of performance. There was also a divergence across bond assets, with Overseas Bonds returning 9.8% and UK Gilts returning 0.8%.

Manager Arrangements

There were no manager changes made during the year.

Pensions Administration

On 1st April 2015 Lincolnshire County Council entered into a shared service arrangement with West Yorkshire Pension Fund (WYPF) to provide Pensions Administration services. A satellite office for WYPF is based in Lincoln, co-located with the LCC Pension Fund team. This new arrangement will improve efficiency and reduce costs in the provision of the Pensions Administration service. It has been a difficult year for the Administration team. Alongside the normal issues found with a large data transition, the Fund's largest employer, Lincolnshire County Council, changed its back office service provider from Mouchel to Serco. This has caused considerable problems for the team with long delays in data provision and large backlogs to manage. However, generally feedback from scheme members and employers has been very positive about the service provided by WYPF.

Local Pension Board

April 2015 saw the introduction of the requirement for a Local Pension Board for the Lincolnshire Pension Fund, as prescribed in the Public Service Pensions Act 2013 and the Local Government Regulations 2013. This is a welcome addition to the governance structure of the Pension Fund, and its role is an oversight position to ensure that the Fund is meeting all the requirements for administration and governance set out in the various regulations and by the Pensions Regulator. The first annual report of the Board can be found on p15.

Fund Governance and Communication Statements and the Statement of Investment Principles

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

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

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

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

Councillor Mark Allan

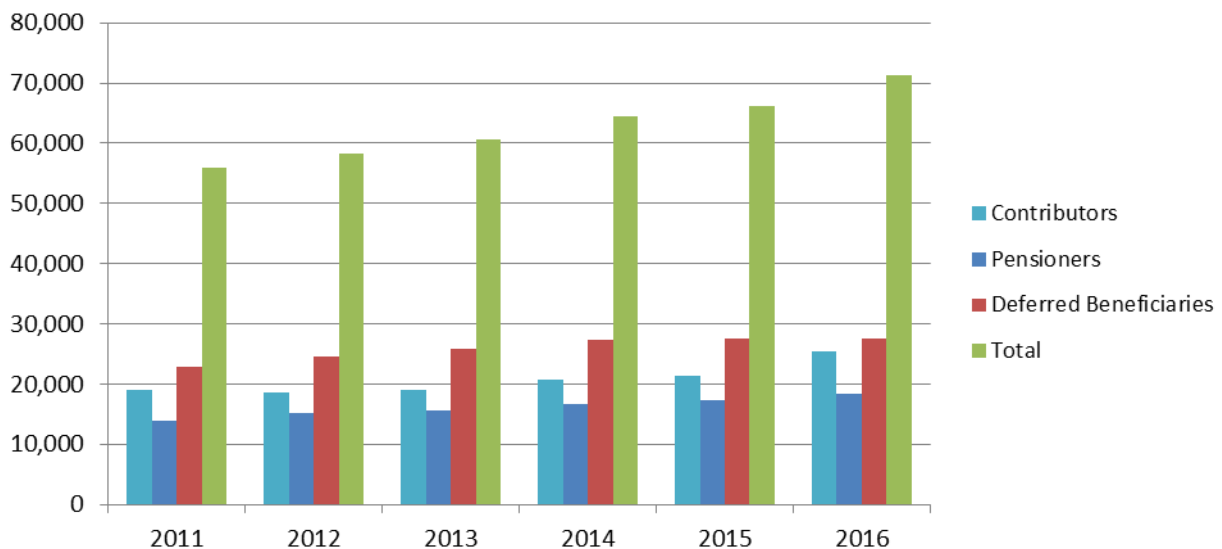
**CHAIRMAN
PENSIONS COMMITTEE**

MANAGEMENT REPORT OF THE ADMINISTERING AUTHORITY

The Local Government Pension Scheme (LGPS) is a national scheme administered on a local basis by Lincolnshire County Council, providing current and future benefits for over 71,000 scheme members.

Local Government Pension Scheme Membership

As can be seen from the chart below, the membership is still increasing, and the fall in active membership seen over the last few years has reversed. The Fund has matured considerably over the last five years, with deferred members (those that are no longer in the Scheme but will be entitled to a pension at some point in the future) making up 38.7% of the overall membership.



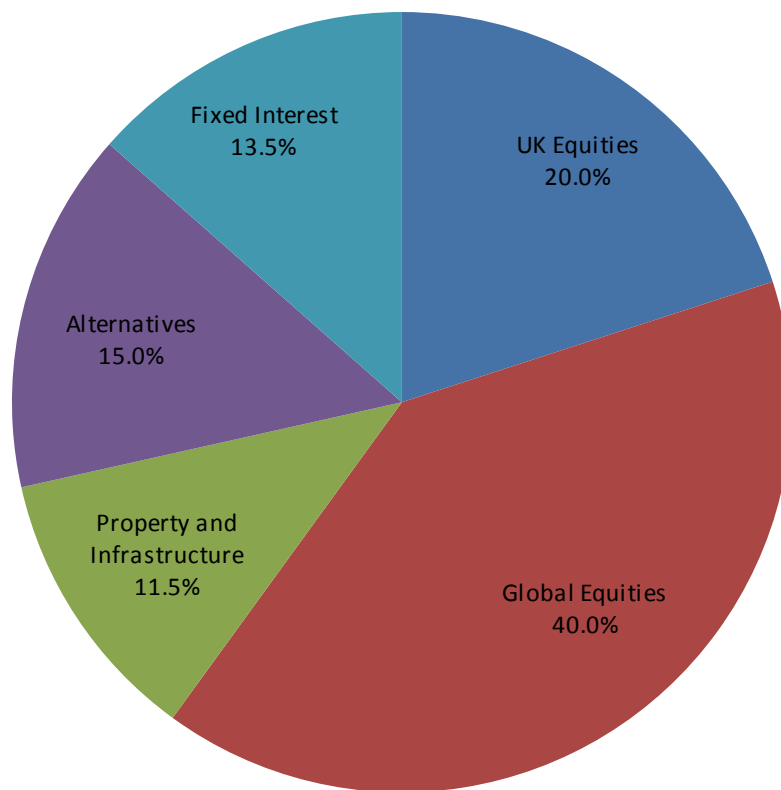
Year ended 31 st March	2012	2013	2014	2015	2016
Contributors	18,527	19,102	20,697	21,262	25,451
Pensioners	15,143	15,702	16,577	17,264	18,281
Deferred Beneficiaries	24,620	25,799	27,246	27,577	27,618
Total	58,290	60,603	64,520	66,103	71,350

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

Investment Policy

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

Strategic Asset Allocation Benchmark



Asset class	Strategic Benchmark 31 st March 2016 %	Actual Asset Allocation 31 st March 2016 %
UK Equities	20.0	18.5
Global Equities	40.0	41.3
Total Equities	60.0	59.8
Property and Infrastructure	11.5	11.3
Alternative (incl. Private Equity)	15.0	13.6
Fixed Interest	13.5	13.0
Cash (incl. current assets)	0.0	2.3
Total	100	100

Investment Performance

The twelve month period ended 31st March 2016 saw the value of the Fund increase by £2.8m to £1,759m. The Fund saw mixed performance from its managers, with returns ranging from -12% to +12%. The overall investment return of 1% was marginally behind the Fund's specific benchmark return of 1.8%. Over the last ten years, the Fund's annualised investment performance of 4.8% is slightly behind the benchmark return of 5.3%.

Annual investment performance over the previous ten years is set out in the table below. The Fund's annual return of 1% compares to a rise in retail prices of 1.6% and an increase in public sector earnings of 1.9%.

Investment Performance of the Fund 1st April 2006 to 31st March 2016

	Lincolnshire Fund Return	Comparative Benchmark Return	Retail Price Inflation	Public Sector Increase in earnings
	%	%	%	%
2006/07	6.9	6.5	4.8	3.1
2007/08	(4.4)	(3.3)	3.8	3.7
2008/09	(18.6)	(20.0)	(0.4)	3.4
2009/10	29.7	36.7	4.4	4.0
2010/11	7.9	7.8	5.3	2.2
2011/12	1.5	2.4	3.6	1.8
2012/13	12.6	11.3	3.3	1.1
2013/14	6.3	6.2	2.5	1.1
2014/15	12.3	12.4	0.9	(0.9)
2015/16	1.0	1.8	1.6	1.9
10 years annualised	4.8	5.3	3.0	2.2

Investment Management Arrangements

The arrangements for segregated management of the Fund's assets, in place at 31st March 2016, are set out below. Portfolio values include cash at the balance sheet date.

Segregated Investment Management Mandates

Asset Class	Manager	Market value £m's	% of the Fund
UK Equities	Lincolnshire County Council	332.9	18.9
Global Equities - (Ex UK)	Invesco	365.3	20.8
Global Equities – All Countries	Neptune	81.7	4.6
Global Equities – All Countries	Schroders	88.5	5.0
Global Equities – All Countries	Threadneedle	94.7	5.4
Total Segregated Equities		963.1	54.8

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

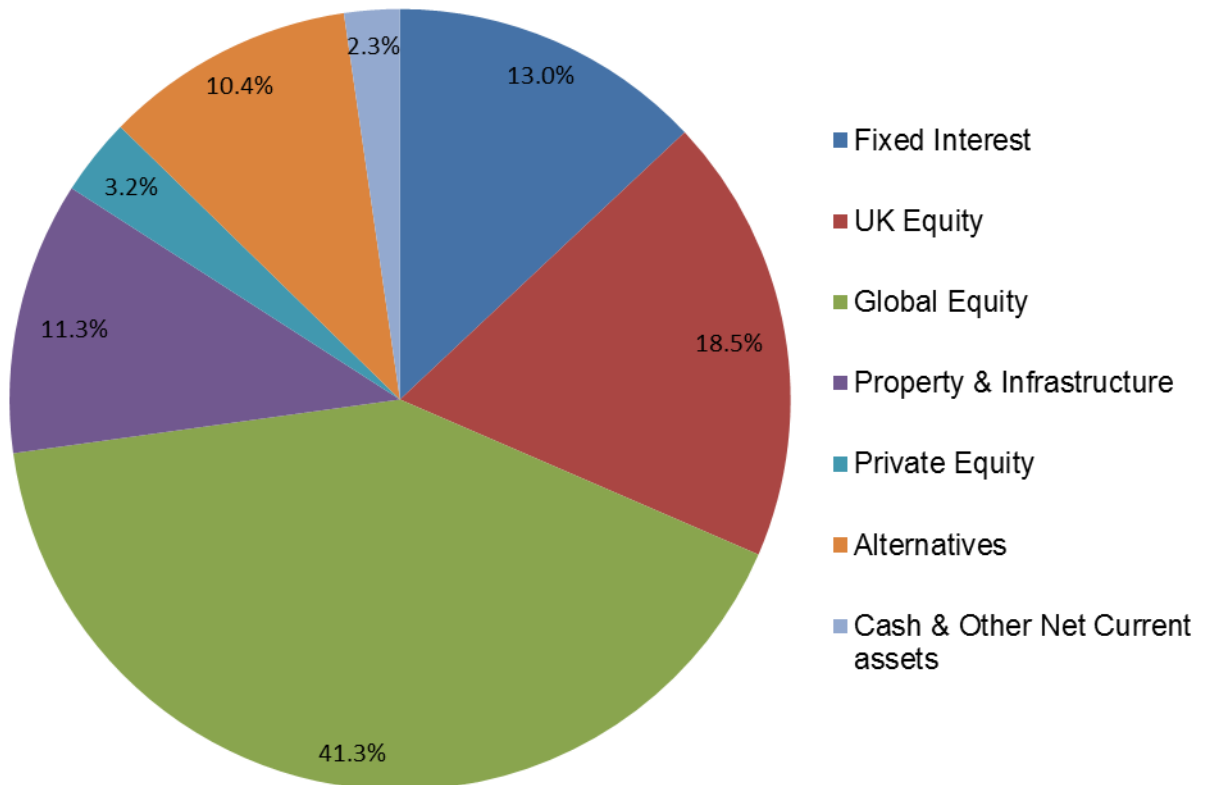
Pooled Funds

Asset Class	Manager	Market value £m's	% of the Fund
Property and Infrastructure	Franklin Templeton	8.9	0.5
	Igloo	4.4	0.3
	Innisfree	27.4	1.6
	Aviva	41.8	2.4
	Royal London	21.2	1.2
	Rreef	3.2	0.2
	Blackrock	20.4	1.2
	Standard Life	72.1	4.1
Total UK Property		199.3	11.3
Private Equity	Capital Dynamics	15.8	0.9
	Pantheon	27.2	1.5
	Standard Life	12.1	0.7
	EIG	1.2	0.1
Total Private Equity		56.3	3.2
Alternatives	Morgan Stanley	183.4	10.4
Total Alternatives		183.4	10.4
Global Equities	Morgan Stanley	99.0	5.6
Total Global Equities		99.0	5.6
Fixed Interest	Blackrock	119.6	6.8
	F&C/Goodhart	108.0	6.1
Total Fixed Interest		227.6	13.0

Total Asset Distribution

The distribution of the assets in the Pension Fund is shown in the table and pie chart below.

Asset class	Market Value	31/3/16	31/3/15
	£'000	%	%
Fixed Interest	227,600	13.0	13.0
UK Equity	325,544	18.5	19.6
Global Equity	725,328	41.3	40.8
Property and Infrastructure	199,306	11.3	10.8
Private Equity	56,339	3.2	4.2
Alternatives	193,434	10.4	9.4
Cash & Other Net Current assets	39,602	2.3	2.2
Total	1,756,283	100	100



Top Holdings

Listed below are the top twenty holdings in the Pension Fund, including pooled investments, as at 31st March 2016. These account for £801.4m and make up 45.6% of the Fund's investments.

	Market Value £'000	Proportion of Fund %
Morgan Stanley Alternatives	183.4	10.4
BMO Absolute Return Bond Fund	108.0	6.1
Morgan Stanley Global Brands Fund	99.0	5.6
Standard Life Property Fund	62.2	3.5
Blackrock Aquila Life Corporate Bond Fund	59.9	3.4
Aviva Pooled Property Fund	41.8	2.4
Blackrock Aquila Life Over 5 Year Index Linked Gilt Fund	35.8	2.0
Royal Dutch Shell	25.1	1.4
Blackrock Aquila Life Overseas Bond Fund	23.8	1.4
Royal London	21.2	1.2
Blackrock Property Fund	20.4	1.2
Apple	16.9	1.0
HSBC	16.2	0.9
Alphabet	14.0	0.8
British American Tobacco	13.8	0.8
Innisfree Secondary Fund	13.4	0.8
GlaxoSmithkline	12.6	0.7
Vodafone	11.7	0.7
BP	11.3	0.7
JPMorgan Chase	10.9	0.6
Total	801.4	45.6

Stewardship Responsibilities

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

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

The Fund votes on all company holdings in the UK, developed Europe, US, Canada and Japan. Votes are filed via a third party agent, Manifest Voting Agency, in accordance with a template agreed by the Pensions Committee. The votes cast are reported to the Pensions Committee on a quarterly basis, and this information is available on the Lincolnshire County Council website in the relevant Committee documents. Over the year, the Fund voted at 795 company meetings, and cast votes in respect of 11,788 resolutions.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation of 70 public sector Pension Funds based in the UK. LAPFF exists to promote the investment interests of Local Authority Pension Funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance in the companies in which they invest. Further information on the work of the LAPFF can be found on their website at www.lapfforum.org. A brief overview of some of the work done in the year is shown below.

- Co-filed a number of shareholder resolutions at companies including BP, Shell and National Express.
- Continued engagement with companies to discuss issues such as remuneration, gender diversity, carbon emission reductions and board and auditor independence.
- Participated in an Equality and Human Rights Commission Inquiry roundtable on the recruitment and appointment of board directors, including the appointment of women.
- Co-signed a letter to support the Business Supply Chain Transparency on Trafficking and Slavery Act of 2015 being proposed at a federal level in the United States.
- Submitted a consultation response to the Hong Kong Stock Exchange, and advocated for mandatory reporting on carbon emissions.

Risk Management

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

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

Key risk identified:	A range of controls are in place including:
Assets do not cover liabilities	Triennial valuation, diversification of investments, regular monitoring and reporting, professional advisors.
The inability to deliver the Pensions Administration Service, due to failure in the shared service agreement.	Performance and management indicators, regular meetings, internal and external audits, service level agreement and benchmarking.
Paying pensions correctly	Process controls, checking, audits, reconciliations, tracing bureau, task management.
Collecting contributions correctly	Employer contribution monitoring, monthly contribution data returns, audits, employer training, reconciliations.
Not meeting statutory requirements	Pension Board oversight, checklist against the Pensions Regulator requirements, regular reporting to Committee and Board
Loss of key staff, knowledge and skills	Diversified staff/team, pensions user groups, procedural notes, section meetings, appraisals.
Lack of resource as a result of increased workloads	Monthly meetings with County Finance Officer, regular updates to Committee and Pension Board to highlight issues.

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

ACTUARIAL POSITION AND STATEMENT

The employers' contribution rates (including deficit cash amounts where applicable) applying in the year ended 31st March 2016, for employers with more than 100 employees participating in the LGPS, are set out below.

Employers' Contribution Rates 2015/16

Employer	Rate as a % of pay	Deficit cash payment £'000
Lincolnshire County Council	19.7	1,118
Boston Borough Council	16.9	334
City of Lincoln Council	16.9	1,015
North Kesteven District Council	16.4	442
South Holland District Council	17.5	375
South Kesteven District Council	17	604
East Lindsey District Council	16	504.4
West Lindsey District Council	16.1	573
Lincolnshire Police	19.9	407
G4S	19.9	
Magna Vitae	16	134.5
Compass Point Business Services	18.8	37
Serco	20.9	
Bishop Grosseteste University	18	151
Boston College	20.1	53
Grantham College	19.4	15
Lincoln College	21.1	562
Stamford College	20.7	25
Abbey Academies Trust	22.8	7.6
Boston Witham Federation	20.9	
Branston Community Academy	20.9	
Deepings School (Academy)	20.9	
Gainsborough Parish Church Academy	20.9	
Lincoln Christ Hospital Academy	20.9	
Phoenix Family of Schools	20.9	
Priory Federation of Academies	19.9	6
Sleaford St Georges Academy	22.5	
Spalding Sir John Gleed Academy	20.9	
University Academy Holbeach	21	58
Welton William Farr CE School (Academy)	22.7	
West Grantham Academy	21.6	

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

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

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

LINCOLNSHIRE LOCAL PENSION BOARD

April 2015 saw the introduction of the requirement for a Local Pension Board for the Lincolnshire Pension Fund, as prescribed in the Public Service Pensions Act 2013 and the Local Government Regulations 2013. The role is an oversight one to ensure that the Fund is meeting all the requirements for administration and governance set out in the various regulations and by the Pensions Regulator. Below is the first annual report of the Board.

ANNUAL REPORT OF THE LGPS LOCAL PENSION BOARD – 2015/2016

INTRODUCTION

I am pleased to present the first report of the Local Pension Board of Lincolnshire County Council (LCC) for the year 2015/2016.

Pension Boards were introduced in to the Local Government Pension Scheme (LGPS) from April 2015 under the Public Sector Pensions Act 2013 with the responsibility to assist administering authorities, in particular pension managers, and to secure compliance with the LGPS regulations.

The Lincolnshire Local Pension Board was established by the Administering Authority in June 2015 and operates independently of the Pensions Committee.

PURPOSE

The Board's role is to work closely in partnership and assist the Administering Authority in its role as Scheme Manager in relation to the following matters:

- a) Securing compliance with the Scheme Regulations and any other legislation relating to the governance and administration of the Scheme.
- b) Securing compliance with the requirements imposed by the Pension Regulator (tPR) in relation to the Scheme.
- c) Ensuring any breach of duty is considered and followed under the Scheme's procedure for reporting to tPR and to the Scheme Manager.
- d) Assisting the Scheme Manager to ensure the effective and efficient governance and administration of the Scheme.
- e) Such other matters as the Scheme Regulations may specify.

Further detailed information on the Board's functions is set out in the Terms of Reference.

CONSTITUTION AND MEMBERSHIP

The membership of the Board during the period was as follows:

Independent Chair (non-voting)
Roger Buttery

2 Employer Representatives (both voting)

Councillor Mark Jones (until 6 January 2016); replaced by Councillor Mark Whittington (Lincolnshire County Council)
Kirsty McGauley (Grantham College)

2 Member Representatives (both voting)

David Vickers
Ian Crowther

Four meetings were held within the period – 20 July, 30 July, 7 October and 2 December, 2015. The Committee also met on 15 April 2016 because the final meeting of the year scheduled in March had to be re-arranged.

The meeting on 20 July was devoted to a full day's training covering the LGPS, Lincolnshire Fund specifics, the role of the Pension Board, knowledge and skills, role of advisers, policies, internal and external investments, safeguarding the fund's assets, performance measurement, corporate governance, the Pensions Team and pensions administration. There was another training day in January 2016 with a specific emphasis on the actuarial valuation due at the 31 March 2016 and LGPS asset pooling. In addition, some members of the Board attended the LGA Pension Fundamentals training seminars.

At the meeting on 30 July, the Board agreed a programme of work for the year.

THE WORK PROGRAMME

At the meeting in October, the Board considered a report which demonstrated Lincolnshire's compliance to a Code of Practice produced by tPR.

The Board considered the eleven elements in detail, namely:

- a) Reporting duties
- b) Knowledge and understanding
- c) Conflicts of interest
- d) Publishing information about schemes
- e) Managing risk and internal controls
- f) Maintaining accurate member data
- g) Maintaining contributions
- h) Providing information to members and others
- i) Internal dispute resolution
- j) Reporting breaches of the law
- k) Scheme advisory board

A checklist of 99 items covering the above was produced in a traffic lights format. It is pleasing to report that Lincolnshire was largely compliant with 71 green or items not yet relevant. There were 17 partly compliant and 8 where further information was required. There were 3 reds all of which were "work in progress" and not critical. Given the recent appointment of West Yorkshire Pension Fund (WYPF) as the new Pensions Administrator to

the Scheme and LCC's decision to appoint Serco for a range of "back office" support functions, the Board considered that the compliance to the tPR's code was very good. Indeed, at the meeting in April 2016, the Board received a further report and the position had improved with 84 green or not yet relevant. There were 14 partly compliant and 1 red which is work in progress.

At its December meeting, the Board received a presentation from a representative of the WYPF on the pensions administration service. The Board noted that there had been some teething problems with the Fund's largest employer, LCC, which had arisen largely as a result of the introduction of a new accounting system. There were some failures against the pensions administration performance targets but this was largely as a consequence of the transition. Of particular concern to the Board was the delay in the payment of the monthly employer and employee contributions by the due date in the early months of the financial year but tPR was advised at the time. The contributions are now being paid on time. The Board noted that 95% of the benefits statements had been sent to members by tPR's revised deadline of 30 November 2015. In addition, there were still issues over the supply of data by the Council's contractor.

Considering the obstacles and problems faced by WYPF, the Board concluded that the administration was sound and more importantly would improve. Despite certain teething problems, it was felt that WYPF had been the correct choice for LCC. The Board also noted that the partnership between LCC and WYPF was developing well.

At the final meeting of the year, the Board considered several issues:

- a) Recent reports from both internal and external audit on pension related issues
- b) Communications
- c) Update on administration and complaints

The Board considered a report on the latest internal and external audit reports for the Lincolnshire Pension Fund and details of the audit process. The Pension Fund is managed within a strong control environment and is audited regularly by both the Council's internal audit team and the external auditors. Any issues raised by the auditors were considered and responded to by management, and where necessary, an action plan was put in place to improve controls. The external auditor provided an unqualified opinion on the 2014/2015 pension statements.

The Board received a comprehensive presentation on how the communication to members and other stakeholders was managed by the Pension Fund. After various questions, the Board concluded that the communication to both members and employers is good.

Finally, the Board received a further update on current pension administration issues including complaints. It was noted that some cases have again exceeded the target days as to some extent expected, primarily as a result of the continued ripple effect of the new scheme regulations, particularly where cases have been stockpiled awaiting Government Actuaries Department (GAD) Guidance. In the context of the various on-going issues with LCC's back office provider, to have only eight complaints was considered to be good.

The Board has already considered its work programme for the 2016/2017 year – specific areas agreed so far are the Report & Accounts, investment pooling, the 2016 valuation results and a further review of compliance with tPR’s Code.

CONCLUSION

This is the first report of the Board. Despite the change of Administrator and the issues arising from LCC’s decision to appoint Serco, I consider the governance and administration of the Scheme to be sound. I am particularly impressed with Lincolnshire’s compliance to the vast majority of tPR’s Code of Practice. Both internal and external audit have confirmed that the Pension Fund is managed within a strong control environment. Communications with members and employers is also good. There is always scope for improvement and I am confident that the governance and administration will be even better in 2016/2017.

I would like to express my thanks to Jo Ray, Pensions Manager, her Team and the staff of the WYPF for the huge amount of work undertaken during the year, some in difficult circumstances because of the dependency on the Council’s back office provider. Finally, I should like to thank the four Board Members for their considerable input and support during the year.

ROGER BUTTERY
CHAIR
JUNE 2016

Any questions regarding the Pensions Board or its work can be addressed through the Pension Fund Manager.

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

Lincolnshire County Council Pension Fund (“the Fund”) Actuarial Statement for 2015/16

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

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

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

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

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

Funding Position as at the last formal funding valuation

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

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

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

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

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

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

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

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

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

Experience over the period since April 2013

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

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



Peter Summers

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

28 April 2016

Hymans Robertson LLP, 20 Waterloo Street, Glasgow, G2 6DB

INVESTMENT BACKGROUND

Returns for Major Markets

The twelve months to 31st March 2016 ended with a mixture of returns across asset classes.

Equity markets had a large difference in returns ranging from -9.1% in Japan to 3.6% in North America.

There was also a divergence across bond assets, with Overseas Bonds returning 9.8% and UK Gilts returning 0.8%.

Property was the best performing asset class, returning 11.7% for investors.

Investment Returns to sterling based investors 1st April 2015 to 31st March 2016

Asset Class	Index	Index return to sterling investors %
Equities		
United Kingdom	FTSE All Share	(3.9)
Global Equities	FTSE World (ex UK)	0.4
United States	FTSE North America	3.6
Europe	FTSE Europe (ex UK)	(4.2)
Japan	FTSE Japan	(3.3)
Far East	FTSE Pacific (ex Japan)	(5.4)
Emerging Markets	FTSE Emerging	(9.1)
Fixed Interest		
UK Index Linked Gilts	FTSE Index-Linked All Stocks	1.7
UK Gilts over 15 yrs	UK Gilts and All Stocks	0.8
Overseas Bonds	JP Morgan World ex UK	9.8
UK Corporate Bonds	IBOxx Sterling Non-Gilts All Stocks	3.2
Property		
	IPD Index	11.7
Cash		
	LIBID Seven Day Rate (compounded)	0.4

World Equity Markets

Global equity markets ended the reporting period flat (12 months until March 2016 in GBP terms), with US stocks being among the best performers while European stocks underperformed the broad market. From a factor perspective, higher quality stocks and stocks with a strong price momentum were preferred while value stocks underperformed.

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

Q2 2015

In the second quarter of 2015, the Greek crisis and concerns about a “Grexit” as well as fears over a stock market bubble in China, a struggling US economy and several geopolitical risks kept the stock market in suspense. Global equity markets produced mixed returns in April. Prior to the launch of the European Central Bank’s (ECB’s) bond-buying program, many investors had invested more money into European equity markets. As the month drew to a close, Greece failed to come to an agreement with its creditors, and the ECB’s decision to end the emergency liquidity assistance forced the Greek Government to impose capital controls. In June this caused turbulence in the financial markets, affecting equity markets worldwide. Chinese equity markets showed a significant drop after months of soaring prices due to fears of overvaluation of the whole stock market.

Q3 2015

The declines in global equity markets in the third quarter of 2015 contributed to the worst quarter since the 2011 euro zone crisis. In July divergent tendencies were observable in developed equity markets and those of the developing world. During the quarter China pushed international equity markets into fear mode due to a devaluation of its currency, and caused the highest volatility in August and September since the global financial crisis. Even though China tried to stimulate its economy with this recent intervention, concerns about a cool down remained. Consequentially, most international stock markets were heavily impacted. Despite positive European macroeconomic data in August and September and a progressively healthier looking US economy, the equity markets in both regions were negatively affected by the adverse market sentiment. Furthermore, the US Federal Reserve’s (the Fed’s) decision to keep the interest rates low suppressed the market. The declining commodity prices also negatively affected the UK market.

Q4 2015

Global equity markets in the fourth quarter of 2015 were mainly affected by two dominant topics: diverging central bank policy and the continued decline in oil prices. There had been much speculation over the likely timing of an interest rate hike by the Fed for much of the year, and this cloud of uncertainty was eventually lifted, as the Fed raised short-term interest rates by 0.25%, a move that ended an extraordinary seven-year period of close-to-zero interest rates. On the contrary, the ECB extended the length of its asset purchase programme until March 2017, signalling its willingness to consider further measures to tackle low inflation and spur growth in the Eurozone, if needed. There seemed to be no end in sight of the raging price war between the OPEC and the US shale industry amidst

decreasing global demand. As a result of these factors, equity markets around the globe were highly volatile and produced mixed returns.

Q1 2016

Global equity markets had a gloomy start to 2016, as sell-offs ensued from rekindled concerns over global growth and the state of China's economy, coupled with the fresh lows in commodity prices. However, a new wave of further economic stimulus measures announced by central banks and a recovery in commodity prices helped equity markets to regain some ground in the second half of the quarter. The ECB announced its commitment to a very loose monetary policy setting and announced another bold stimulus package during March. However, the subsequent rally did not last long as investors were concerned that the central bank may have exhausted its policy options. A dovish Federal Reserve helped to improve sentiment as well, as the central bank indicated that it would raise interest rates only twice in 2016.

Fixed Interest

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

Q2 2015

The Government bond (gilt) market had a negative quarter as global deflation worries eased and UK economic growth remained buoyant. Index-linked gilts outperformed conventional gilts but still made negative returns. Investment grade corporate bonds had a difficult quarter and were not helped by the rising risk aversion caused by Greece. Bond markets have given back some of their gains from the strong rally in 2014, but yields still remain close to historic lows. Future returns were expected to be fairly lacklustre but it was not anticipated that there would be a major correction, with Central Banks likely to only raise interest rates very gradually.

Q3 2015

Gilts made strong returns during the third quarter, as economic growth in China and the emerging markets looked to be slowing markedly. Index-linked gilts underperformed conventional gilts but still made positive returns. Investment grade corporate bonds lagged behind gilts, held back by general risk aversion as well as problems in the energy sector. Government bond yields were low by historic standards but they were likely to remain so with global growth slowing, inflation virtually non-existent and major central banks in no hurry to raise rates.

Q4 2015

Conventional gilt yields rose during the fourth quarter as global economic data improved modestly and the US Federal Reserve raised interest rates. Index-linked gilts underperformed conventional gilts, as the low oil price dented inflation expectations.

Investment grade corporate bonds produced positive returns, but US High Yield had another bad quarter due to further stress in the energy sector. Gilt yields were expected to remain low for the time being, given the lacklustre global economic backdrop and ongoing Eurozone quantitative easing (QE). However, the market was expected to face a couple of key challenges through 2016 that required close attention, in particular higher US interest rates and the expected referendum on EU membership.

Q1 2016

Conventional gilt yields fell during the quarter, as doubts over global economic growth persisted and central banks remained dovish. Index-linked gilts outperformed conventional gilts due mainly to the long duration nature of the sector. Investment grade corporate bonds and high yield both produced positive returns, although lagged behind sovereign debt. Gilt yields were still expected to remain low for the time being due to lacklustre global growth and the unconventional policies being pursued by central banks in Europe and Japan. However, some volatility was expected ahead of the EU referendum and index-linked gilts were considered to be an attractive hedge against the potential for a weaker sterling feeding through to inflation.

UK Commercial Property

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

Q2 2015

UK commercial real estate continued to deliver positive returns in the second quarter. The asset class was helped by the robust domestic economy, which made a better start to 2015 than previously thought, boosted by lower inflation and unemployment. A clear result in the general election was also positive, providing a fillip for occupier and investor confidence. Meanwhile, IPD data showed that capital value growth slowed from a peak of nearly 13% in October 2014 to just over 11% for the year to end-May 2015. This indicated that income and rental growth are likely to drive future returns rather than just capital values.

Q3 2015

UK commercial real estate returns maintained their positive but moderating momentum, supported by the relatively strong UK economy. Prime yields fell further over the period, moving closer to their previous peak in 2007, with the most noticeable compression in certain office and industrial sub-sectors. While the retail sector generally continued to lag, there were tentative signs of improvement here also, with rental growth starting to materialise. As money flowed into commercial real estate, forcing up prices, investors continued to search beyond London and into the regions for opportunities. Indeed, Savills estimated that nearly 60% of investment activity in 2014 took place in the outside the capital.

Q4 2015

Returns from UK commercial real estate continued to moderate during the review period. A dip in capital value growth for the fourth consecutive month was the main reason behind the

fall, while rental growth generally remained steady. At a sector level, industrials and offices, particularly in the City of London, continued to lead the way. Retail remained the weakest sector, but there was some optimism as shopping centres experienced the biggest month-on-month uplift in returns of any market segment.

Q1 2016

Returns from UK commercial real estate moderated further during Q1, with capital value growth reducing for the seventh consecutive month. Rental growth generally remained positive because of strong occupier markets, where many tenants were looking to commit for the long term or seeking additional space. From an investment perspective, volumes were 25% lower in January and February than the previous year, as more investors waited for the outcome of the EU referendum.

ADMINISTRATION OF BENEFITS

Lincolnshire County Council has a shared service arrangement with West Yorkshire Pension Fund to administer LGPS benefits and other services. The service is monitored through a number of performance indicators. These are detailed in the table below, showing the performance achieved over the last year against the expected performance, and highlighted with a red, amber or green to show where expectations have not been met. Performance is reported quarterly to the Pensions Committee, and regular meetings are held between LCC and WYPF to understand and manage any performance issues.

Event	No. Cases	Target Days to Complete	No. Cases Target Met	Minimum Target %	Target Met %
Retirement actual	3,544	3	3,398	85	95.9
Death notification	3,478	5	3,361	85	96.6
Pension estimate	9,571	10	7,025	85	73.4
Deferred benefits set up on leaving	8,640	10	6,631	85	76.8
Deferred benefits into payment	2,593	5	2,461	85	94.9
Transfer in - quote	789	35	575	85	72.9
Transfer in - payment received	575	35	529	85	92.0
Transfer out - quote	1,243	35	319	85	25.7
Transfer out – payment	345	35	329	85	95.4
Divorce quote	751	35	740	85	98.5
Refund quote	2,796	35	1,417	85	50.7
Refund payment	1,499	10	1,488	85	99.3
Death grant single payment	773	5	762	85	98.6
Death grant nomination received	9,783	20	4,489	85	45.9
Life certificate received	4,904	20	4,813	85	98.1
Change of address	16,032	20	15,924	85	99.3
Pensioner payroll changes	3,356	20	3,345	85	99.7
Change to bank details	4,084	20	4,056	85	99.3
Potential spouse	142	10	121	85	85.2
AVC In-house (general)	1,363	10	1,278	85	93.8

As can be seen from the table above, three areas are highlighted in red. These are:

- 1) Transfer out quotes - where 25.7% of cases were completed in 35 days, against a target of 85%. This was due to having to stockpile cases because of the delay in guidance from DCLG regarding changes to the Regulations, factors and discount rates used.
- 2) Refund quotes – where 50.7% of cases were completed against a target of 85%. This was given a lower priority over other events due to the workload following the transition.

- 3) Death Grant nomination received – where 45.9% of cases were completed in 20 days, against a target of 85%. Whilst the nomination form has been attached to a member's record automatically upon receipt, this is where the manual update of certain details hasn't been completed – again, this was given a lower priority over other events due to the workload following the transition.

The Pensions Administration service transferred from Mouchel to WYPF on 1st April 2015, when the Council's contract with Mouchel ended and a shared service arrangement was agreed with WYPF. A satellite office for WYPF administration staff is based in Lincoln, co-located with the LCC Pension Fund team at County Offices.

This has been a particularly challenging year for the Pensions Administration team. The transfer of the service involved changing pensions administration systems and transferring the data for around 70,000 scheme members. All employers in the Fund have had to learn the new processes required by WYPF, and now send monthly returns to the team to ensure that changes are updated in a timely manner.

In addition to the Pensions Administration transition, a major impact on workloads for the team has been caused by the Council's move of its back-office functions, including payroll and HR, from Mouchel to Serco and the change in its accounting system from SAP to Agresso. This caused large data backlogs and incorrect postings to WYPF, impacting their ability to calculate and pay pensions. The Pensions Committee and Pension Board have been fully informed about these issues throughout the year.

After much hard work from WYPF, Serco and LCC, the bulk of the issues relating to the pensions information has been corrected and monthly data returns are now much improved. Therefore the performance figures going forwards will begin to reflect this.

This new arrangement will, over time, improve efficiency and reduce costs in the provision of the Pensions Administration service.

**SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS
FROM 1ST APRIL 2014**

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

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

Contributions

Employee's contribution rates from 1st April 2014 are based on actual pensionable pay using the pay band table below. The bands are increased each April in line with inflation by the Department for Communities and Local Government. The bands, as they stood at 31st March 2016, are shown below.

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

Benefits

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

Annual Pensions

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

Lump Sum Payments

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

Ill Health Retirement

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

Death-benefits

Death in service attracts a tax free lump sum of three times final pensionable pay. An annual pension is payable to a spouse/civil partner/co-habiting partner (when meeting certain criteria) and eligible children, however civil partners and co-habiting partners pensions are based on post 5th April 1988 membership only. If a member dies within ten years of their retirement (or up to age 75), a single lump sum payment is made of ten times the member's annual pension, less any pension paid since retirement. For a member who retired prior to 1st April 2008 and dies within five years of their retirement, a single lump sum payment is made of five times the member's annual pension less any pension paid since retirement. The surviving spouse is entitled to an annual pension based on 1/160ths accrual of the member's membership.

Supplementary Pensions

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

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

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

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

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

Contributions

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

Benefits

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

Annual Pensions

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

Lump Sum Payments

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

Ill Health Retirement

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

Death-benefits

Death in service attracts a tax free lump sum of three times final pensionable pay. An annual pension is payable to a spouse/civil partner/co-habiting partner (when meeting certain criteria) and eligible children, however civil partners and 'nominated' dependent partners pensions are based on post 5th April 1988 membership only. If a member dies within ten years of their retirement (or up to age 75), a single lump sum payment is made of ten times the member's annual pension, less any pension paid since retirement. For a member who retired prior to 1st April 2008 and dies within five years of their retirement, a single lump sum payment is made of five times the member's annual pension less any pension paid since retirement. The surviving spouse is entitled to an annual pension based on 1/160ths accrual of the member's membership.

Supplementary Pensions

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

SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS TO 31st MARCH 2008

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

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

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

Contributions

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

Benefits

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

Annual Pensions

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

Lump Sum Payments

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

Ill Health Retirement

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

Death-benefits

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

Supplementary Pensions

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

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

**Pension Fund
and
Investments** Jo Ray, Pension Fund Manager
Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL
Tel: 01522 553656
Email : jo.ray@lincolnshire.gov.uk

**Pensions
Administration** West Yorkshire Pension Fund
WYPF, PO Box 67, Bradford, BD1 1UP
Tel: 01274 434999
Email: pensions@WYPF.org.uk

PENSION FUND KNOWLEDGE AND SKILLS – POLICY AND REPORT

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

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

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

Activity in 2015/16

A full training plan was taken to Pensions Committee in April 2015 to identify training requirements over the coming year. The training plan was linked to specific areas within the CIPFA Knowledge and Skills Framework.

The 6 areas within the Knowledge and Skills Framework are:

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

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

Date	Topic	KSF area(s)
28th May 2015 Committee topics	External Manager Presentations	1 4,5
16th Jul 2015 Committee topics	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report Annual Report and Accounts Internal Manager Presentation Annual Property Report Draft Fund Report and Accounts Policies Review Report Risk Register Annual Review	4,5 1,3,4 4,5 1 2 4 4,5 2 1 1,4
8th Oct 2015 Committee topics	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report External Manager Presentation Audit Governance Report Annual Fund Performance Report	4,5 1,3,4 4,5 1 4 2 4
10th Dec 2015 Committee topics	External Manager Presentations	4,5
7th Jan 2016 Committee topics	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report Pension Fund Policies TPR's Code of Practice LGPS Asset Pooling	4,5 1,3,4 4,5 1 1 1 1
28th Jan 2016 Training	Triennial Valuation	6

	LGPS Asset Pooling	1
7th Apr 2016 Committee topics	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report Annual Training Plan and Policy LGPS Asset Pooling	4,5 1,3,4 4,5 1 1 1

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

**LINCOLNSHIRE COUNTY COUNCIL PENSION FUND ACCOUNT & NET ASSETS
STATEMENT FOR THE YEAR ENDED 31st MARCH 2016**

	See Note	2014/15 £000	2015/16 £000
Contributions and Benefits			
Contributions Receivable	8	82,503	85,292
Transfers in	9	6,372	7,077
		88,875	92,369
Benefits Payable	10	78,057	80,745
Leavers	11	34,458	2,649
		112,515	83,394
Net additions from dealings with fund members		(23,640)	8,975
Management Expenses	12	10,992	11,035
Returns on Investments			
Investment Income	13	26,619	27,895
Profit (Loss) on Forward Deals & Currency Deals	17	(4,419)	(18,003)
Change in Market Value of Investments	15	177,023	(5,058)
Net returns on investments		199,493	4,834
Net increase in the Fund during the year		164,861	2,773
Opening net assets of the Fund		1,591,422	1,756,283
Closing net assets of the Fund		1,756,283	1,759,056
Net Assets statement as at 31st March 2014			
Investments	15		
Equities		972,857	951,839
Pooled Investments:			
Property		189,640	199,306
Private Equity		73,692	56,339
Fixed Interest		194,083	191,741
Index Linked Bonds		34,466	35,858
Equities		88,445	99,033
Alternatives		164,801	183,434
Cash Deposits		25,695	25,570
Other Investment Balances	18	473	2,021
		1,744,152	1,745,141
Current Assets and Liabilities			
Cash Balances		7,855	8,328
Debtors	19	4,005	7,417
Long Term Debtors	19	2,132	1,706
Creditors	19	(1,861)	(3,536)
		12,131	13,915
		1,756,283	1,759,056

Notes to the Pension Fund Account

1 Pension Fund Account

The Lincolnshire Pension Fund (the Fund) is part of the Local Government Pension Scheme and Lincolnshire County Council is the Administering Authority. Benefits are administered by West Yorkshire Pension Fund (WYPF) in a shared service arrangement.

General

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

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

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

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

Membership

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

Organisations participating in the Fund include:

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

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

There are 197 contributing employer organisations in the Fund including the County Council (a list of scheduled employers is shown at note 28) and the membership numbers are shown below:

	31 Mar 2015	31 Mar 2016
Number of employers with active members	185	197
Number of employees in the scheme		
Lincolnshire County Council	10,679	12,868
Other employers	10,583	12,583
Total	21,262	25,451
Number of pensioners		
Lincolnshire County Council	10,664	12,232
Other employers	6,600	6,049
Total	17,264	18,281

Number of deferred pensioners		
Lincolnshire County Council	18,872	20,752
Other employers	8,705	6,866
Total	27,577	27,618

Funding

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

Following the EU Referendum on 23rd June 2016, and the vote to leave the EU (Brexit), assurance has been gained from the Fund's Actuary that the approach to the 2016 valuation will progress as normal. It will continue to be transparent about measurement but to take a long term view of the management of the investments. Measurement will not be impacted as market conditions as at 31 March 2016 are used.

It is be impossible to predict what will happen in the medium term with any degree of accuracy. However, LGPS funds have the advantage of being long term investors and are therefore better equipped to ride out short term volatility.

Benefits

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

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

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

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

2 Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position at year end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

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

3 Significant Accounting Policies

Fund account - revenue recognition

Contributions income

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

Transfers to and from other schemes

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

Investment Income

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

Fund account - expense items

Benefits payable

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

Taxation

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

Management expenses

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

Administrative expenses

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

Oversight and Governance

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

Investment expenses

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

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

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

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

During the year, the fee terms with Neptune Investment Management, who manage a Global Equities mandate, were amended to remove the performance fee element.

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

The costs of the Council's in-house fund management team are charged to the Fund.

Fees on investments where the cost is deducted at source have been included within investment expenses and an adjustment made to the change in market value of investments.

Net assets statement

Financial assets

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

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

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

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

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

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

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

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

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

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

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

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

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

Foreign currency transactions

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31st March 2016 are shown in note 29.

Derivatives

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

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

Prior Period Adjustments

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

The following disclosures will be made:

- the nature of the prior period error;
- for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and
- the amount of the correction at the beginning of the earliest prior period presented.

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

Changes in Accounting Policies

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

4 Actuarial Valuation

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

	Nominal per annum %	Real per annum %
Investment Return		
- Equities	4.6	2.1
- Bonds	3.0	
Rate of Pensionable pay inflation	3.8	1.3
Rate of Price inflation	2.5	

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

5 Actuarial Present Value of Promised Retirement Benefits

Below is the note provided by the Fund's Actuary, Hymans Robertson, to provide the Actuarial present value of the promised retirement benefits, as required under the Code. The report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' referred to in the note can be obtained from the Pensions and Treasury Management section at the County Council.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2015/16 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

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

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

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

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

Balance sheet

Present value of Promised Benefits	31 Mar 2016	31 Mar 2015
	£m	£m
Active members	1,373	1,400
Deferred pensioners	491	557

Pensioners	900	996
Total	2,764	2,953

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

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £278m.

Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2016 % p.a.	31 Mar 2015 % p.a.
Inflation/Pension Increase rate	2.2	2.4
Salary Increase Rate*	3.2	3.8
Discount Rate	3.5	3.2

Longevity assumption

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

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

*Future pensioners are assumed to be aged 45 at the most recent formal valuation as at 31 March 2013.

Please note that the assumptions are identical to last year's IAS26 disclosure for the Fund.

Commutation assumption

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2016 for IAS19 purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.



Anne Cranston AFA
28 April 2016
For and on behalf of Hymans Robertson LLP

6 Assumptions Made and Major Sources of Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the accounts for the year ended 31st March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Actual present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on investments. A firm of consulting actuaries are engaged to provide expert advice about the assumptions to be applied.	The effects of changes in the individual assumptions can be measured. For example: 1) a 0.5% increase in the discount rate assumption would result in a decrease of the pension liability of £267m. 2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £49m. 3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £194m.

		4) a one-year increase in assumed life expectancy would increase the liability by approximately £83m.
Private Equity	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Fund are £56m. There is a risk that these may be over or understated in the accounts.

7 Pension Fund Investments 2015/16

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

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

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

Fund manager	31-Mar 2015		31-Mar 2016	
	£m	%	£m	%
EXTERNALLY MANAGED				
Invesco	362	21	367	21
Neptune	92	5	82	5
Schroders	90	5	89	5
Threadneedle	91	5	95	5
Morgan Stanley (Global Brands)	89	5	99	6
Morgan Stanley (Alternatives)	175	8	187	10
Morgan Stanley (Private Equity)	77	7	62	4
Blackrock	116	7	120	7
BMO	112	6	108	6
INTERNALLY MANAGED				
Pooled Investments:				
Property	194	11	202	12
UK Equity	346	20	333	19

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

Fund Manager	Valuation Pricing
EXTERNALLY MANAGED	
Invesco	Bid
Neptune	Bid
Schroders	Bid
Threadneedle	Bid
Morgan Stanley	Bid/Fair Value
Blackrock	Bid
BMO	Bid
INTERNALLY MANAGED	
Property	Bid/Fair Value
UK Equity	Bid

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, JP Morgan. The total amount of stock on loan at the year-end was £38,865,694 and this value is included in the net assets statement to reflect the Funds continuing economic interest in the securities on loan. As security for the stocks on loan, the Fund was in receipt of collateral at the year end valued at £42,486,145, which represented 109.3% of the value of securities on loan.

Income received from stock lending activities, before costs, was £476,966 for the year ending 31 March 2016 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

8 Contributions Receivable

Contributions receivable are analysed below:

	2014/15 £000	2015/16 £000
Employers		
Normal	56,897	57,734
Deficit Funding	5,465	7,793
Additional - Augmentation	1,446	1,119
Members		
Normal	18,577	18,551
Additional years	107	95
	82,503	85,292

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

	2014/15 £000	2015/16 £000
Lincolnshire County Council	35,356	36,864
Scheduled Bodies	40,522	42,713
Admitted Bodies	4,695	5,715

82,503	85,292
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9 Transfers In

	2014/15 £000	2015/16 £000
Individual transfers from other schemes	6,732	7,077
Bulk transfers in from other schemes	0	0
	6,732	7,077

There were no material outstanding transfers due to the Pension Fund as at 31 March 2016

10 Benefits Payable

	2014/15 £000	2015/16 £000
Pensions	63,097	64,624
Commutations & Lump Sum Retirement Benefits	12,337	14,405
Lump Sum Death Benefits	1,266	1,716
	78,057	80,745

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

	2014/15 £000	2015/16 £000
Lincolnshire County Council	41,623	43,281
Scheduled Bodies	32,477	34,512
Admitted Bodies	3,957	2,952
	78,057	80,745

11 Payments to and on account leavers

	2014/15 £000	2015/16 £000
Individual transfers to other schemes	3,726	2,574
Bulk transfers to other schemes	30,638	0
Refunds to members leaving service	94	75
	34,458	2,649

There were no material outstanding transfers due from the Pension Fund as at 31 March 2016.

12 Management Expenses

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

The external Audit fee for the year was £27,915 and is included within the oversight and governance costs below.

	2014/15	2015/16
	£000	£000
Administrative Costs	1,289	1,654
Investment Management Expenses	3,127	9,030
Oversight and Governance Costs	391	351
Total Management Expenses	4,807	11,035

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

	2014/15	Restatement	2014/15	2015/16
	£000		restated	£000
Transaction Costs	0	839	839	664
Management Fees	3,027	4,105	7,132	7,397
Performance Related Fees	0	962	962	531
Custody Fees	100	279	379	438
Total Investment Management Expenses	3,127	6,185	9,312	9,030

The comparator figures for 2014/15 were restated to comply with CIPFA's Accounting for Local Government Pension Scheme Costs. The restatement reflects:

- reclassifying £0.962m to the new expense category of Performance Related Fees for costs previously charged to Management Fees.
- grossing up for investment management fees, transaction costs and custody fees previously netted off against asset values.

13 Investment Income

	2014/15	2015/16
	£000	£000
Equities	25,369	26,458
Pooled Investments		
Property	895	899
Alternatives	(6)	0
Cash deposits	59	55
Stock Lending	302	483
	26,619	27,895

Analysis of Investment Income Accrued 31 March 2016

	UK	Non-UK	Global	Total
Equities	2,602	1,463	841	4,907
Bonds	0	0	0	0
Property (direct holdings)	0	0	0	0
Alternatives	287	0	0	287
Cash and Equivalents	0	0	0	0
Other	0	0	0	0
Total	2,889	1,463	841	5,194

Analysis of Investment Income Accrued 31 March 2015

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

14 Taxes on Income

	2014/15 £000	2015/16 £000
Withholding tax - Equities	1,114	1,057
	1,114	1,057

15 Investments

	Value at 31/03/2015 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2016 £000
Equities	972,857	302,531	280,881	(42,668)	951,839
Pooled Investments					
Property	189,640	2,766	8,972	15,872	199,306
Private Equity	73,692	3,450	32,271	11,467	56,338
Fixed Interest	194,083	1,926	2,986	(1,282)	191,741
Index Linked Bonds	34,466	0	0	1,393	35,859
Equities	88,445	0	906	11,494	99,033
Alternatives	164,801	81,006	61,039	(1,334)	183,434
	1,717,984	391,679	387,055	(5,058)	1,717,550
Cash Deposits	25,695				25,570

Other Investment Balances	473				2,021
Current Assets & Liabilities	12,131				13,915
	1,756,283	391,679	387,055	(5,058)	1,759,056

	Value at 31/03/2014 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2015 £000
Equities	880,027	334,616	349,377	107,591	972,857
Pooled Investments					
Property	174,701	3,323	12,329	23,945	189,640
Private Equity	83,313	1,555	23,767	12,591	73,692
Fixed Interest	168,971	21,392	3,232	6,952	194,083
Index Linked Bonds	29,623	1,845	3,338	6,336	34,466
Equities	74,715	0	803	14,533	88,445
Alternatives	125,936	122,982	89,192	5,075	164,801
	1,537,286	485,713	482,038	177,023	1,717,984
Cash Deposits	38,836				25,695
Other Investment Balances	4,365				493
Current Assets & Liabilities	10,935				12,131
	1,591,422	485,713	482,038	177,023	1,756,283

Geographical Analysis of Fund Assets as at 31 March 2016

	UK £'000	Non-UK £'000	Global £'000	Total £'000
Equities	325,544	346,828	360,500	1,050,872
Bonds	35,858	23,774	167,967	227,599
Property (direct holdings)	0	0	0	0
Alternatives	181,013	71,757	186,309	439,079
Cash and Equivalents	23,667	0	0	25,570
Other	0	0	0	0
Total	566,082	460,359	714,776	1,743,120

Geographical Analysis of Fund Assets as at 31 March 2015

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

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

		2014/15 £000	2015/16 £000
Property			
	Unit Trusts	133,426	145,608
	Other managed funds (LLP's)	56,214	56,698
Private Equity			
	Other managed funds (LLP's)	73,692	56,338
Fixed Interest			
	Other managed funds	194,083	191,741
Index linked gilts			
	Other managed funds	34,466	35,859
Equities			
	Other managed funds	88,445	99,033
Alternatives			
	Other managed funds	164,801	183,434
Total Pooled Vehicles		745,127	765,711

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

Investment	2014/15	% of net assets	2015/16	% of net assets
	Value (£000)		Value (£000)	
BMO Absolute Return Bond Fund	112,371	6.4	108,036	6.2
Morgan Stanley Alternative Investments	164,801	9.4	183,434	10.7
Morgan Stanley Global Brands	88,445	5.0	99,033	5.7

16 Analysis of Derivatives

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

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

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000	
Up to one month	EUR	288	GBP	227	1	-	
	GBP	13	AUD	24	-	-	
	GBP	16	HKD	183	-	-	
	GBP	24	JPY	3,856	-	-	
Over one month	CHF	39,900	GBP	27,991	1,171	-	
	EUR	116,600	GBP	86,800	5,996	-	
	GBP	882	CAD	1,669	-	(16)	
	GBP	27,712	CHF	39,900	-	(1,451)	
	GBP	101,430	EUR	136,376	-	(7,054)	
	GBP	82,524	JPY	14,108,080	-	(5,030)	
	GBP	452,892	USD	663,062	-	(8,079)	
	JPY	8,947,070	GBP	51,403	4,139	-	
	USD	404,800	GBP	273,399	7,969	-	
Total					19,276	(21,630)	
Net forward currency contracts at 31 March 2016						(2,354)	
Prior year comparative							
Open forward currency contracts at 31 March 2015						18,669	(23,494)
Net forward currency contracts at 31 March 2015						(4,825)	

17 Profit (Loss) on Forward Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of the normal trading of the Fund's managers who manage multi-currency portfolios. It also includes the unrealised loss of £3.8m (unrealised loss of £0.5m in 2014/15) from the Fund's two Currency Overlay Managers.

18 Other Investment Balances

		2014/15 £000	2015/16 £000
Dividends Receivable		3,830	3,627
Recoverable Tax		1,100	1,521
Outstanding Foreign Exchange		(4,825)	(2,354)
Outstanding Stock Lending		30	35
Unsettled Trades	Purchases	(1,796)	(1,307)
	Sales	2,134	499
		473	2,021

19 Current Assets and Liabilities

Debtors are recorded in the accounts when income due to the Pension Fund, for example from sales of investments or dividend payments, has not actually been received. Debtors include a figure of £4,017,538 for contributions due from employers (2014/15 £2,495,177). Long term debtors are amounts due to the Pension Fund that will not be received within 12 months. The Pension fund only has one long term debtor, the Magistrates Court, who are funding the cost of their pensioner and deferred member liabilities over a 10 year period. Similarly, creditors are recorded where services supplied to the Pension Fund, or purchases of investments have been made by 31 March, but payment is not made until the following financial year.

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

	2014/15	2015/16
	£000	£000
Debtors		
Central Government Bodies	1,683	1,512
Other Local Authorities	1,466	5,079
NHS Bodies	0	0
Public Corporations and Trading Funds	141	133
Other Entities and individuals	715	693
	4,005	7,417
Long Term Debtors		
Central Government Bodies	2,131	1,705
Other Local Authorities	0	0
NHS Bodies	0	0
Public Corporations and Trading Funds	0	0
Other Entities and individuals	0	0
	2,131	1,705
Creditors		
Central Government Bodies	(667)	(560)
Other Local Authorities	(87)	(1,291)
NHS Bodies	0	0
Public Corporations and Trading Funds	(1,106)	(1,664)
Other Entities and individuals	(1)	(21)
	(1,861)	(3,536)

20 Contingent Liabilities and Contractual Commitments

Investment commitments have been made to a number of pooled vehicles that make private equity or property investments. At the year end, the value of outstanding commitments to the 23 investment vehicles amounted to £21,218,559.

21 Contingent Assets

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

22 Impairment Losses

The Fund has no recognised impairment losses.

23 Additional Voluntary Contributions

Scheme members may make additional contributions to enhance their pension benefits. All Additional Voluntary Contributions (AVC) are invested in a range of investment funds managed by the Prudential plc. At the year end, the value of AVC investments (excluding any final bonus) amounted to £9,094,945 (£9,233,388 in 2014/15). Member contributions of £993,508 (£1,217,147 in 2014/15) were received by the Prudential in the year to 31st March and £1,512,818.50 (£1,135,251 in 2014/15) was paid out to members. The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

24 Dividend Tax Claims

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

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

During the financial year 2011/12, the County Council lodged a claim with the relevant tax authorities for the recovery of withholding tax suffered on overseas dividends from Spain (approx. £101,000) and Germany (approx. £165,000), covering the periods from 2007-2010. In Spain repayments are increasingly being seen and a repayment of €79,565 was received in April 2015. After this repayment, the only quarter outstanding is Q4 2007.

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

25 Related Party Transactions

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

Under legislation introduced in 2003/04, Councillors have been entitled to join the Scheme, however this changed from the 1st April 2014 and no new Councillors are now able to join the scheme. Councillors who are current members will cease to be in the scheme following the end of

their term as Councillor. Committee member M Leaning of the Pensions Committee currently receives pension benefits from the Fund. Committee members M Allan, R Phillips P Wood and A Antcliff are contributing members of the Pension Fund as at 31st March 2016.

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

The Treasury Management section of the County Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the County Council's cash and lent out in accordance with the Council's Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £6,981.6m and interest of £52k was earned over the year.

Lincolnshire County Council paid contributions of £26.3m into the Pension Fund during the year.

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

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

26 Financial Instruments

Classification of financial instruments

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

	2014/15		2015/16	
	Designated as fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000	Designated as fair value through profit & loss £000
			Financial liabilities at amortised cost £000	
Financial Assets				
Equities	972,857			951,839
Pooled Investments:				

Property	189,640			199,306		
Private Equity	73,692			56,339		
Fixed Interest	194,083			191,741		
IL Bonds	34,466			35,858		
Equities	88,445			99,033		
Alternatives	164,801			183,434		
Cash		33,550			33,898	
Other Inv. Balances	25,763			24,958		
Debtors		6,137			9,123	
	1,743,747	39,687	-	1,742,508	43,021	-
Financial Liabilities						
Other Inv. Balances	(25,290)			(22,937)		
Creditors			(1,861)			(3,536)
	(25,290)	-	(1,861)	(22,937)	-	(3,536)
	1,718,457	39,687	(1,861)	1,719,571	43,021	(3,536)

Net gains and losses on financial instruments

	2014/15 £000	2015/16 £000
Financial Assets		
Fair value through profit & loss	170,838	(5,058)
Loans and receivables		
Financial liabilities measured at amortised cost		
Financial Liabilities		
Fair value through profit & loss	(4,825)	(2,354)
Loans and receivables		
Financial liabilities measured at amortised cost		
	166,013	(7,412)

Valuation of financial instruments carried at fair value

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

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

Values at 31 st March 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit & loss	1,303,429	199,306	293,773	1,742,508
Loans and receivables	43,021			43,021
Financial liabilities measured at amortised cost				
Total Financial Assets	1,346,450	199,306	293,773	1,785,529
Financial Liabilities				
Fair value through profit & loss		(22,937)		(22,937)
Loans and receivables				
Financial liabilities measured at amortised cost	(3,536)			(3,536)
Total Financial Liabilities	(3,536)	(22,937)		(26,473)
Net Financial Assets	1,342,914	176,369	293,773	1,759,056

Values at 31 st March 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit & loss	1,315,614	189,640	238,493	1,743,747
Loans and receivables	39,687			39,687
Financial liabilities measured at amortised cost				
Total Financial Assets	1,355,301	189,640	238,493	1,783,434
Financial Liabilities				
Fair value through profit & loss		(25,290)		(25,290)
Loans and receivables				-
Financial liabilities measured at amortised cost	(2,800)	(1,861)		(4,661)
Total Financial Liabilities	(1,861)	(25,290)	-	(27,151)
Net Financial Assets	1,353,440	164,350	238,493	1,756,283

27 Nature and Extent of Risks Arising from Financial Instruments

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

Market Risk

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

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

Price risk

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

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

Price risk - sensitivity analysis

Following analysis of historical data and expected investment return during the financial year, in consultation with a fund manager, the Fund has determined that the following movements in market price are reasonably possible for the 2016/17 reporting period.

Asset Type	Potential market movements (+/-)
UK Equities	18.4%
Overseas Equities	14.6%
UK Bonds	6.7%
UK Index Linked	8.5%
Overseas Bonds	8.0%
Private Equity	18.4%
Alternative Investments	10.0%
Property	5.8%

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

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

Asset Type	Value at 31/03/2016 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	25,270	0.0	25,570	25,570
UK Equities	347,676	18.4	411,648	411,648
Overseas Equities	703,195	14.6	805,861	805,861
UK Bonds	83,706	6.7	89,314	89,314
UK Index Linked	35,858	8.5	38,906	38,906
Overseas Bonds	108,036	8.0	116,679	116,679
Private Equity	56,339	18.4	66,705	66,705
Alternative Investments	183,434	10.0	201,777	201,777
Property	199,306	5.8	210,866	210,866
Dividends Accrued	3,628	0.0	3,628	3,628
Recoverable Tax	1,521	0.0	1,521	1,521
Outstanding FX	(2,354)	0.0	(2,354)	(2,354)
Outstanding Stock Lending	35	0.0	35	35
Unsettled Purchases	(1,307)	0.0	(1,307)	(1,307)
Unsettled Sales	498	0.0	498	498
Total assets available to pay benefits	1,745,141		1,969,348	1,520,934

Asset Type	Value at 31/03/2015 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	25,695	0.0	25,695	25,695
UK Equities	361,374	12.0	404,739	318,009
Overseas Equities	699,928	10.7	774,820	625,036
UK Bonds	81,712	7.5	87,840	75,584
UK Index Linked	34,466	10.0	37,913	31,019
Overseas Bonds	112,371	9.0	122,484	102,258
Private Equity	73,692	10.7	81,577	65,807
Alternative Investments	164,801	10.0	181,281	148,321
Property	189,640	5.8	200,639	178,641
Dividends Accrued	3,830	0.0	3,830	3,830
Recoverable Tax	1,100	0.0	1,100	1,100
Outstanding FX	(4,825)	0.0	(4,825)	(4,825)
Outstanding Stock Lending	30	0.0	30	30
Unsettled Purchases	(1,796)	0.0	(1,796)	(1,796)
Unsettled Sales	2,134	0.0	2,134	2,134
Total assets available to pay benefits	1,580,487		1,917,462	1,570,842

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes to market interest rates. The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

Asset Type	31/03/2015 £000	31/03/2016 £000
Cash deposits	25,695	25,570
Cash balances	7,855	8,328
Pooled Fixed Interest Securities	228,549	227,599
Total	262,099	261,497

Interest rate risk - sensitivity analysis

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

Asset Type	Value at	Change in Year	
	31/03/2016 £000	+1% £000	-1% £000
Cash deposits	25,570	25,826	25,314
Cash balances	8,328	8,411	8,245
Pooled Fixed Interest Securities	227,599	229,835	225,283
Total	261,457	264,072	258,842

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

Currency risk

Currency risk represents the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling.

To assist in managing this risk and to reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

The following table summarises the Fund's currency exposure at 31 March 2016 and 31 March 2015.

Currency Exposure - Asset Type	31/03/2015 £000	31/03/2016 £000
Overseas Equities (quoted)	611,483	604,163
Pooled Investments:		
Overseas Property	20,098	18,747
Overseas Private Equity	72,484	55,886

Overseas Fixed Interest	112,371	108,036
Total	816,436	786,832

Currency risk - sensitivity analysis

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be 11%, as measured by one standard deviation (10% in 2014/15).

An 11% fluctuation in the currency is considered reasonable based on an analysis of long term historical movements in month-end exchange rates. This analysis assumes that all other variables, in particular interest rates, remain constant.

An 11% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	Value at	Change in Year	
	31/03/2016	+11%	-11%
	£000	£000	£000
Overseas Equities (quoted)	604,163	670,621	537,705
Pooled Investments:			
Overseas Property	18,747	20,809	16,685
Overseas Private Equity	55,886	62,033	49,739
Overseas Fixed Interest	108,036	119,920	96,152
Total	786,832	873,384	700,280

Currency Exposure - Asset Type	Value at	Change in Year	
	31/03/2015	+11%	-11%
	£000	£000	£000
Overseas Equities (quoted)	611,483	672,631	550,335
Pooled Investments:			
Overseas Property	20,098	22,108	18,088
Overseas Private Equity	72,484	79,732	65,236
Overseas Fixed Interest	112,371	123,608	101,134
Total	816,436	898,080	734,792

Credit Risk

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

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

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

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

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

Liquidity risk

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

The Fund holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed equities - instruments that can be liquidated at short notice, normally three working days. As at 31 March 2016, these assets totalled £1,278m, with a further £25.6m held in cash. Currently, the Fund is cash flow positive each month (i.e. the contributions received exceed the pensions paid). This position is monitored regularly and reviewed at least every three years alongside the Triennial Valuation.

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

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

Pensions Administration

This service is performed by West Yorkshire Pension Fund (WYPF), through a shared service agreement. WYPF present to the Pensions Committee on a quarterly basis and both the County Finance Officer and the Pension Fund Manager sit on the Collaboration Board which meets quarterly.

Custody, Accounting and Performance Measurement

JPMorgan are the Pension Fund's appointed Custodian, with responsibility for safeguarding the assets of the Fund. JPMorgan are a global industry leader, with more than \$15 trillion in assets under custody. They have been the Fund's Custodian since 2004, and were reappointed at the end of their seven year contract in March 2011. Monthly reconciliations of holdings are performed to ensure that the Custodian's records match those of the Managers. Regular meetings and conference calls are held to discuss performance, and quarterly key performance indicators are produced.

Fund Management

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

discussions are held between officers and managers.

28 Scheduled & Admitted Bodies

Analysis of Active and Ceased Employers in the Fund

	Active	Ceased	Total
Scheduled Body	180	17	197
Admitted Body	17	11	28
Total	197	28	225

County and District Councils

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

Internal Drainage Boards

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

Parish and Town Councils

Billingham PC
Bourne TC
Bracebridge Heath PC
Cherry Willingham PC
Crowland PC
Deeping St James PC
Gainsborough TC
Greetwell PC
Heighington PC
Horncastle TC
Ingoldmells PC
Langworth PC
Louth TC
Mablethorpe and Sutton TC
Market Deeping TC
Metheringham PC
Nettleham PC
North Hykeham TC
Pinchbeck PC
Skegness TC
Skellingthorpe PC

Academies

Alford Queen Elizabeth
Beacon Primary
Boston Grammar
Boston High School
Boston West Academy
Boston Witham Federation
Bourne Elsea Primary
Bourne Abbey C of E
Bourne Academy
Bourne Grammar
Bourne Westfield Primary
Bracebridge Infant and Nursery
Branston Community
Branston Junior Academy
Caistor Grammar
Caistor Yarborough
Carlton Academy
Castle Wood Academy
Charles Read Academy
Cordeaux Academy
Donington on Bain Primary School
Ellison Boulters Academy
Ermine Primary
Fosse Way
Gainsborough Benjamin Adlard
Gainsborough Parish Church
Giles Academy
Gipsey Bridge Academy
Grantham Ambergate
Grantham Isaac Newton Primary
Grantham Kings School
Grantham Sandon
Grantham Walton Girls
Harrowby C of E Infants
Hartsholme Academy
Heighington Millfield Academy
Hillcrest EY Academy
Holbeach Primary
Hogsthorpe Primary Academy
Horncastle Banovallum
Horncastle QE Grammar
Huntingtower Community Primary
Huttoft Primary Academy
Nettleham Infants Academy
North Kesteven School
North Thoresby Primary
Phoenix Family Academy
Pinchbeck East C of E Primary
Priory Federation of Academies
Rauceby C of E
Ruskington Academy
Sir John Gleed
Sir Robert Pattinson Academy
Sir William Robertson
Skegness Academy
Skegness Grammar
Skegness Infant Academy
Skegness Junior Academy
Sleaford Carres Grammar
Sleaford Our Lady of Good Counsel
Sleaford St Georges Academy
Sleaford William Alvey
Somercotes Academy
Spalding Grammar
Spalding Parish C of E Day School
Spilsby Eresby
Spilsby King Edward Academy
St Giles Academy
St John's Primary Academy
Stamford Malcolm Sargent
Stamford Queen Eleanor
Stamford St Augustine's
Stamford St Gilberts
St Bernards Academy Louth
St Lawrence Academy Horncastle
St Thomas C of E Primary Boston
Surfleet Primary
Tattershall Gartree Community
The Deepings Academy
The Gainsborough Academy
The Garth School
The Priory School
The Phoenix School
Thomas Cowley Academy
Thomas Middlecott Academy
Tower Road Academy

Sleaford TC
 Stamford TC
 Sudbrooke PC
 Washingborough PC
 Woodhall Spa PC

FE Establishments

Bishop Grosseteste College
 Boston College
 Grantham College
 Lincoln College
 Stamford College

Other Scheduled Bodies

Acorn Free School
 Compass Point
 Lincolnshire Police Chief Constable
 Police & Crime Commissioner

Ingoldsby Primary Academy
 Ingoldmells Academy
 John Spendluffe Tech. College
 Keelby Primary Academy
 Kesteven & Sleaford High
 Kesteven and Grantham Academy
 Kidgate Primary Academy
 Kirkby La Thorpe
 Lincoln Anglican Academies
 Lincoln Castle Academy
 Lincoln Christs Hospital School
 Lincoln Our Lady of Lincoln
 Lincoln St Hugh's
 Lincoln St Peter & St Paul's
 Lincoln UTC
 Lincoln Westgate Academy
 Ling Moor Academy
 Little Gonerby C of E
 Long Bennington C of E
 Louth King Edward VI Grammar
 Mablethorpe Primary Academy
 Manor Leas Infant Academy
 Manor Leas Junior Academy
 Market Rasen De Aston School
 Mercer's Wood Academy
 Mount Street Academy
 Monks Dyke Tennyson College
 Monkshouse Primary School
 National C of E Juniors

University Academy Holbeach
 Utterby Primary
 Wainfleet Magdalene Primary
 Washingborough Academy
 Welton St Mary's C of E
 Welton William Farr CE
 West Grantham Federation
 Weston St Mary
 White's Wood Academy
 William Lovell Academy
 Witham St Hughs Academy
 Woodhall Spa Academy

Admitted Bodies

Acis Group
 Active Nation
 Adults Supporting Adult
 BG (Lincoln) Ltd
 Boston Mayflower
 Edwards & Blake
 G4S
 Lincoln Arts Trust
 Lincoln BIG
 Lincs HIA
 Lincs Sports Partnership
 Kier Group (May Gurney)
 Making Space
 Magna Vitae
 New Linx Housing
 Serco
 Vinci Construction UK Ltd

29 Exchange Rates Applied

The exchange rates used at 31st March 2016 per £1 sterling were:

Australian Dollar	1.8684
Brazilian Real	5.0938
Canadian Dollar	1.8591
Swiss Franc	1.3764
Danish Krone	9.3970
Euro	1.2613
Hong Kong Dollar	11.1485
Indonesian Rupiah	19,058.5978
Israeli Shekel	5.4035
Japanese Yen	161.5453
Korean Won	1,643.6963
Mexican Peso	24.6321
Norwegian Krone	11.8883
New Zealand Dollar	2.0701
Polish Zloty	5.3495
Swedish Krona	11.6518

Singapore Dollar	1.9355
Thai Baht	50.5642
Turkish Lira	4.0470
Taiwan Dollar	46.2581
US Dollar	1.4373
South African Rand	21.1398

Independent auditor's report to the members of Lincolnshire Pension Fund on the pension fund financial statements published with the Pension fund annual report

ADDITIONAL INFORMATION AVAILABLE

Additional information regarding the Pension Fund and the scheme is available by going to the shared service website below:

www.wypf.org.uk

The following documents are included in this report, and can also be found by selecting Policy Statements on the home page, and then Lincolnshire Policies, on the WYPF shared website.

FUNDING STRATEGY STATEMENT

This document is prepared in collaboration with the Fund's actuary, Hymans Robertson, and sets out the Fund's approach to funding its liabilities. It is reviewed in detail every three years.

STATEMENT OF INVESTMENT PRINCIPLES

This document describes the key issues that govern the investment of the Pension Fund, and states the extent to which the Council's investment principles comply with six principles set out in a publication by the Chartered Institute of Public Finance and Accountancy (CIPFA), entitled 'Investment Decision Making and Disclosure in the Local Government Pension Scheme'.

COMMUNICATIONS POLICY

This document details the methods of communication that the Pension Fund uses to comply with relevant legislation and to ensure that relevant individuals and employers receive accurate and timely information about their pension arrangements.

GOVERNANCE COMPLIANCE STATEMENT

This document details how the Pension Fund is governed, and sets out where it complies with best practice guidance as published by the Department for Communities and Local Government.

Lincolnshire Pension Fund

Funding Strategy Statement

March 2015

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Lincolnshire Pension Fund (“the Fund”), which is administered by Lincolnshire County Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 1st March 2014.

1.2 What is the Lincolnshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Lincolnshire Fund, in effect the LGPS for the Lincolnshire area, to make sure it:

receives the proper amount of contributions from employees and employers, and any transfer payments;

invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth;

uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

affordability of employer contributions,

transparency of processes,

stability of employers’ contributions, and

prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's discretionary policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;

an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;

an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;

a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

to ensure that employer contribution rates are reasonably stable where appropriate;

to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);

to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Jo Ray, Group Manager – Pensions and Treasury in the first instance at jo.ray@lincolnshire.gov.uk or on 01522 553656.

2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the “*future service rate*”; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the “*past service adjustment*”. If there is a deficit the past service adjustment will be an increase in the employer’s total contribution; if there is a surplus there may be a reduction in the employer’s total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the “deficit recovery period”).

2.2 How is a deficit (or surplus) calculated?

An employer’s “funding level” is defined as the ratio of:

the market value of the employer’s share of assets, to

the value placed by the actuary on the benefits built up to date for the employer’s employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer’s deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund’s actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in [Appendix E](#).

The Fund’s actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in [Section 3](#). It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund’s Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 21 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant and likely term of membership are also considered when setting contributions: more details are given in [Section 3](#).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies – councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

capping of employer contribution rate changes within a pre-determined range (“stabilisation”)

the use of extended deficit recovery periods

the phasing in of contribution rises or reductions

the pooling of contributions amongst employers with similar characteristics

the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,

lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit.

Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and

it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies				Community Admission Bodies and Designating Employers	
Sub-type	Local Authorities, Police & Crime Commissioner	Small Scheduled Bodies	Colleges	Academies	Open to new entrants	Closed to new entrants
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)				Ongoing, but may move to “gilts basis” - see Note (a)	
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)					Attained Age approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No	No	No	No	No
Maximum deficit recovery period – Note (c)	20 years	20 years	15 years	20 years	Outstanding contract term, subject to a maximum of 15 years	Outstanding contract term, subject to a maximum of 15 years
Deficit recovery payments – Note (d)	% of payroll or Monetary Amount	% of payroll	% of payroll or Monetary Amount	% of payroll or Monetary Amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority				
Phasing of contribution changes	Covered by stabilisation arrangement	3 years - Note (e)	At the discretion of the Administering Authority. May be 3 years - Note (e)	Choice of three options ranging from LCC rate to actual rate	At the discretion of the Administering Authority. May be 3 years - Note (e)	At the discretion of the Administering Authority. May be 3 years - Note (e)
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					
New employer	n/a	n/a	n/a	Note (g)	Note (h)	
Cessation of participation: cessation debt payable	Cessation event is caused by the last active member leaving the employer. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j) ..				Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j) .	

Type of employer	Transferee Admission Bodies	Designating Bodies
Sub-type	(all)	Internal Drainage Boards
Basis used	Ongoing, assumes fixed contract term in the Fund (see Appendix E)	Ongoing, assumes long-term Fund participation (see Appendix E)
Future service rate	Approach dependent on whether contract is open or closed to new entrants (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	No	Yes - see Note (b)
Maximum deficit recovery period – Note (c)	Outstanding contract term, subject to a maximum of 15 years	20 years
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount
Treatment of surplus	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority
Phasing of contribution changes	At the discretion of the awarding authority - Note (e)	At the discretion of the Administering Authority.
Review of rates – Note (f)	Particularly reviewed in last 3 years of contract	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations
New employer	Notes (h) & (i)	n/a
Cessation of participation: cessation debt payable	Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.	Can be ceased subject to passing of resolution. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j) .

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and

the employer has no guarantor, and

the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;

there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of modelling carried out prior to the 2013 valuation exercise (see [Section 4](#)), the standard stabilisation arrangements that will apply for employers are as follows. Other stabilisation arrangements may, on occasion, be allowed if the actuary considers them to be prudent.

Type of employer	Local Authorities Council	Police and Crime Commissioner	Internal Drainage Boards
Stabilisation mechanism	Fixed % of pay plus increasing monetary amount	Fixed % of pay plus increasing monetary amount	Fixed % of pay plus increasing monetary amount
Max cont increase	+1% of pay	+1% of pay	+1% of pay
Max cont decrease	-1% of pay	-1% of pay	-1% of pay

The Administering Authority may review an employer's eligibility for stabilisation at any time in the event of significant changes in the employer's membership (due for example to redundancies or outsourcing) or if there is a significant change in the Administering Authority's assessment of an employer's security. Possible actions may include increases in contributions expressed as a percentage of pay or revised deficit contributions expressed as monetary amounts.

The stabilisation criteria and limits will be reviewed no later than at the 31 March 2016 valuation, with any changes in contribution strategy taking effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 3 years.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant. Where it is a Transferee Admitted Body, the awarding authority must act as guarantor.

Employers which have no active members at this valuation will not be phased.

The employers considered eligible for 'phasing in' were:

- Small Scheduled Bodies
- Colleges
- Lincolnshire Sports Partnership
- Lincolnshire Home Improvements Agency

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- c) The new academy will be allocated an initial asset share from the ceding council pool's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council pool's at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- d) The new academy's contribution rate will be calculated using the ongoing assumptions that applied as at the last formal valuation and the ceding council pool's funding position and membership data, all as at the day prior to conversion.

- e) As an alternative to (d), the academy will have the option to elect to pay contributions initially in line with the ceding LEA instead. However, this election will not alter its asset or liability allocation as per (b) and (c) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (c), (d) and (e) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which is may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;

redundancy and early retirement decisions.

Note (j) (Cessation)

Notwithstanding the provisions of any Admission Agreement, the following are triggers for the cessation of an employer in the scheme:

Last active member ceasing participation in the Fund;

The insolvency, winding up or liquidation of the Admission Body;

Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;

A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or

The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the employer; where there is a surplus it should be noted that current legislation does not permit a refund payment.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent

reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in [Appendix E](#);
- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing employer as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service. Normally employers with less than 50 employees would be encouraged to participate in a pool if appropriate. Similar types of employers with more than 50 employees would be allowed to participate in a pool if they requested to do so.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Transferee Admission Bodies are also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Academies will be regarded as separate employers in their own right and will not be pooled with other employers in the Fund, the only exception being when the Academy is part of a Multi Academy Trust (MAT).

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate. As at the 2013 valuation, separate pools were operated for:-

- Lincolnshire County Council and Schools;
- Small Scheduled Bodies;
- The following Multi Academy Trusts:
 - David Ross Education Trust
 - Boston Witham Academies Trust
 - Phoenix Family of Schools
 - Priory Federation of Academies
 - Tall Oaks Academy Trust
 - West Grantham Federation
- Lincolnshire Police and G4S

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

the extent of the employer's deficit;

the amount and quality of the security offered;

the employer's financial security and business plan;

whether the admission agreement is likely to be open or closed to new entrants.

The administering authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. The administering authority may, at its sole discretion, agree alternative funding approaches on a

case by case basis but will at all times take into account its responsibilities in regard to the security of the Fund.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

It is generally expected that such strain costs are paid immediately, however, in exceptional circumstances and with the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies	- up to 3 years
Community Admission Bodies and Designating Employers	- up to 3 years
Academies	- up to 3 years
Transferee Admission Bodies	- payable immediately.

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see [3.3, Note \(j\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund, which can be found within the discretionary policies document. Each case will be treated on its own merits, but in general:

The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;

The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;

The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4. Funding strategy and links to investment strategy

3.11 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

3.12 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa.

Therefore, the funding and investment strategies are inextricably linked.

3.13 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see [E3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see [A1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

3.14 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;

Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see [3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

3.15 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through Employers Forums.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

*“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in January 2014 for comment;
- b) Comments were requested within 4 weeks;
- c) There was an Employers Forum on 12th February 2014 at which questions regarding the FSS could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and approved at the Pensions Committee and then published, in March 2014.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the shared service website at www.wyph.org.uk;

Each participating employer in the Fund notified by email of its availability on the website;

All Pensions Committee members notified by email of its availability on the website, including the employee representative;

All Fund members signposted to the FSS on the website in the annual summary leaflet;

A full copy included in the annual report and accounts of the Fund;

Copies sent to investment managers and independent advisers upon request;

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

trivial amendments would be simply notified at the next round of employer communications,

amendments affecting only one class of employer would be consulted with those employers,

other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the shared service website at www.wypf.org.uk

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

operate the Fund as per the LGPS Regulations;

effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;

collect employer and employee contributions, and investment income and other amounts due to the Fund;

ensure that cash is available to meet benefit payments as and when they fall due;

pay from the Fund the relevant benefits and entitlements that are due;

invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;

communicate appropriately with employers so that they fully understand their obligations to the Fund;

take appropriate measures to safeguard the Fund against the consequences of employer default;

manage the valuation process in consultation with the Fund's actuary;

prepare and maintain a FSS and a SIP, after consultation;

notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and

monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:-

deduct contributions from employees' pay correctly;

pay all contributions, including their own as determined by the actuary, promptly by the due date;

have a policy and exercise discretions within the regulatory framework;

make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and

notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

advise on the termination of Admission Bodies' participation in the Fund; and

fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;

investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;

auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;

governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;

legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

financial;

demographic;

regulatory; and

governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this</p>

Risk	Summary of Control Mechanisms
	<p>risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p>

Risk	Summary of Control Mechanisms
	For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations.</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are</p>

Risk	Summary of Control Mechanisms
	monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>

Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See [Section 3](#) for deficit recovery periods.

The Fund’s actuary is required by the regulations to report the *Common Contribution Rate*¹, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of “peculiar” factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ **future** service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the “ongoing” valuation basis (see [Appendix E](#)), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see [Section 3](#)).

The approach used to calculate each employer’s future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

¹ See LGPS (Administration) Regulations 36(5).

² See LGPS (Administration) Regulations 36(7).

a) Employers which admit new entrants

These rates will be derived using the “Projected Unit Method” of valuation with a one year period, i.e. only considering the cost of the next year’s benefit accrual and contribution income. If future experience is in line with assumptions, and the employer’s membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers’ contributions, the “Attained Age” funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund’s actuary is required to report on the “solvency” of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

‘Solvency’ is defined to be the ratio of the market value of the employer’s asset share to the value placed on accrued benefits on the Fund actuary’s chosen assumptions. This quantity is known as a funding level.

For the value of the employer’s asset share, see [D5](#) below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix E](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer’s current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see [Section 3](#)).

D4 What affects a given employer’s valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer’s liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

the actual timing of employer contributions within any financial year;

the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis may apply: see [Note \(a\)](#) to [3.3](#).

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach, is to add around a year of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in [\(3.3\)](#), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of liabilities . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are members . There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide future service rate plus past service adjustment . It should be noted that this will differ from the actual contributions payable by individual employers .
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the liabilities value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual past service adjustment (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a liabilities value which is consistent with the present day value of the assets, to calculate the deficit . A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the future service rate and the common contribution rate .
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and liabilities values for each employer are individually tracked, together with its future service rate at each valuation .
Funding level	The ratio of assets value to liabilities value: for further details (see 2.2).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active members , excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of actuarial

assumptions.

Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit . It is calculated on a chosen set of actuarial assumptions .
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer’s position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer’s annual contribution which relates to past service deficit repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of deficit , or (if

formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see [3.4](#)).

Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% funding level , ie where the assets value equals the liabilities value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both future service rate and past service adjustment , which would be calculated on the standard actuarial basis , before any allowance for stabilisation or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Lincolnshire Pension Fund

Statement of Investment Principles

July 2016

Statement of Investment Principles – Contents

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1. INTRODUCTION

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Regulations) require Lincolnshire County Council, acting as administering authority to the Lincolnshire Pension Fund, to prepare and publish a Statement of Investment Principles (SIP) to describe the key issues that govern the investment of Pension Fund money.
- 1.2 The SIP is published on the Pension Fund's shared website at www.wyph.org.uk.
- 1.3 The Pensions Committee (the Committee) act with the delegated authority of Lincolnshire County Council, and consists of eight County Councillors, one District Council representative, one non Local Authority employer representative and one employee representative. All members of the Committee have full voting rights. The Committee meet at least quarterly.
- 1.4 Investments are monitored on a regular basis by the Committee, supported by advice from Executive Director of Finance and Public Protection and professional advisers as required.
- 1.5 The Committee has agreed a long term strategic asset allocation benchmark, reflecting the outcome of the Asset Liability Modelling following the Triennial Actuarial Valuation of the Fund. This is reviewed every three years, after each Valuation.
- 1.6 The Committee are responsible for the ongoing monitoring and review of all investments, service providers and Fund administration.
- 1.7 The SIP is reviewed annually and revised if necessary. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the SIP will be updated within six months from the date of any material change in the information detailed in this document.

2 FUND OBJECTIVES

2.1 Primary Objective

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

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

2.2 Funding Objective

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

The purpose of the Funding Strategy Statement is:

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

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

3 INVESTMENT OBJECTIVES

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

3.1 Investment Policy

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

The Committee, after seeking appropriate advice, will formulate a policy for investment, called the strategic benchmark, and in doing so consider the variety and suitability of investments. The Fund's strategic benchmark is shown in appendix A. The Fund has an objective to achieve a return of 0.75% above the return of the strategic benchmark, per annum, over the long term. This objective is being reviewed, given the changes in asset allocation over the last few years.

3.2 Investment Managers

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

3.3 Custody and Stock-Lending

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

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

3.4 Allowable Investments

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

3.5 Balance Between Types of Investment

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

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

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

3.6 Risk

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

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

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

3.7 Expected Returns

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

3.8 Realisation of Investments

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

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

4 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC'S)

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

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

5 PENSION FUND CASH

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

5.1 Cash Held in the Pension Bank Account

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

5.2 Cash Held in the Custodian Bank Accounts

Each investment manager in the Fund with a segregated account will have a number of bank accounts (of various currencies) with the Fund's Custodian. Cash held in these accounts is either frictional, and arises due to timing issues

of purchases, sales or income received; or as a strategic decision by the investment manager. Maximum cash limits are agreed with managers in their Investment Management Agreements, and managers have the discretion as to how this cash is dealt with. Other cash is held by the Custodian to fund investment draw-downs (e.g. for property investments), or currency hedging outflows.

Cash balances at the Custodian are monitored daily.

6 OTHER ISSUES

6.1 Corporate Governance

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

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

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

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

6.2 Socially Responsible Investing

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

6.3 Compliance with the Myners Principles

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

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

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

7 CONTACT DETAILS

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

Jo Ray Pension Fund Manager

Tel: 01522 553656

Email: jo.ray@lincolnshire.gov.uk

Reviewed 14th July 2016 by the Pensions Committee

APPENDIX A – STRATEGIC BENCHMARK

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

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

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

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

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

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

APPENDIX B – INVESTMENT MANAGER ARRANGEMENTS AND OTHER SERVICE PROVIDERS

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

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

OTHER SERVICE PROVIDERS

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

APPENDIX C – ACTUARIAL ASSUMPTIONS (2013 VALUATION)

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

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

	Principle	Compliance Statement
<p>1</p>	<p>EFFECTIVE DECISION MAKING</p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	<p>The Pensions Committee of the County Council is delegated with the responsibility for determining the Pension Fund’s investment policy, appointing and reviewing managers and advisers, and for considering any other matters relevant to the Fund’s management.</p> <p>The Pensions Committee makes decisions after advice from one or more of the Executive Director of Finance and Public Protection, the Fund Actuary and the Independent Advisor.</p> <p>Committee members are encouraged to attend the LGE Fundamentals training course, and are invited to the LGE Annual Conference, to keep up-to date with developments in the Local Government pension world.</p> <p>An annual training plan is agreed by the Pensions Committee, setting out what training will be covered over the coming year and relating it back to the CIPFA Pension Finance Knowledge and Skills Frameworks. Knowledge and skills are acquired and maintained through the regular Pensions Committees, as well as through additional training sessions targeting specific areas and attendance at seminars and conferences.</p>
<p>2</p>	<p>CLEAR OBJECTIVES</p> <p>An overall investment objective should be set out for the fund that takes account of the scheme’s liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these</p>	<p>The overall objective for the Fund is to achieve a return of 0.75% above the return of the strategic benchmark, per annum, over the long term.</p> <p>The Pension Fund is seeking to ensure that there are sufficient resources available to pay current pensions and to build up assets</p>

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

		<p>The results from an independent performance measurement company are reported quarterly and annually to the Pensions Committee.</p> <p>The Pensions Committee formally reviews the strategic asset allocation on a triennial basis, as a minimum.</p>
<p>5</p>	<p>RESPONSIBLE OWNER</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • Include a statement of their policy on responsible ownership in the statement of investment principles • Report periodically to scheme members on the discharge of such responsibilities. 	<p>The Fund's position on Corporate Governance and Socially Responsible Investment (SRI) is set out in the SIP.</p> <p>The Fund has appointed Manifest Voting Agency to undertake voting services. All votes are cast in accordance with a template agreed by the Pensions Committee, and voting is reported quarterly to the Committee.</p> <p>The Fund has signed up to the Financial Reporting Council's Stewardship code, and a statement is on the Fund's website.</p> <p>The individual fund managers' decision-making process on investments takes into account social, ethical, environmental and governance issues because, as investors, they seek strong, sustainable companies. Many of our managers are signed up to the UN Principles of Responsible Investment (PRI), which provides a framework for investors to consider environmental, social and corporate governance issues.</p>
<p>6</p>	<p>TRANSPARENCY AND REPORTING</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives • Provide regular communication to scheme members in the form they consider most appropriate. 	<p>The Fund's Governance Policy and Compliance Statement, Communication Policy Statement and Stewardship Code Statement can be found on the Pension Fund's shared website at www.wyph.org.uk.</p> <p>The Lincolnshire Fund has an Employer's Forum, to ensure that all employers can be updated with the issues concerning the Fund, and can feedback ideas to the Fund.</p>

		<p>This meets twice a year, and an annual employer meeting is also held.</p> <p>The Fund produces an Annual Report and Accounts, which can also be found on the Pension Fund's shared website at www.wypf.org.uk.</p> <p>The Fund communicates regularly to all scheme members. The Communication Policy detailing scheduled communication can be found on the Pension Fund's shared website at www.wypf.org.uk.</p>
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COMMUNICATION POLICY STATEMENT

LINCOLNSHIRE COUNTY COUNCIL

LOCAL GOVERNMENT PENSION SCHEME

Lincolnshire County Council, as administering authority for the Local Government Pension Scheme, is required by statute to publish a communications policy statement. The Fund communicates with around 200 employers and over 70,000 scheme members, in addition to a large number of other interested parties.

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

- a) The Fund must now prepare, maintain and publish a written statement setting out its policy concerning communications with
 - members;
 - representatives of members;
 - prospective members; and
 - employing authorities.

- b) In particular, the statement must set out the Fund's policy on
 - i. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities (including non-Scheme Employers);
 - ii. the format, frequency and method of distributing such information or publicity; and
 - iii. the promotion of the Scheme to prospective members and their employing authorities.

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

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

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

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

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

Communications events - Scheme Members

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

	Pension advice	As and when net pension varies by 25p or more	Mail
	P60	1 per year	Mail
	Social media	Constant	Web

Communications events - Councillors

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

Communications events - Employers

Communication	Format	Frequency	Method of Distribution
Employers	Pension Fund Representatives	8.30 to 4.30 Monday to Friday	Face to face Telephone E-mail
	Website	Constant	Web
	Fact card	1 per year	Mail
	Fact sheets	Constant	Web
	Employer guide	Constant	Web/electronic document
	<i>Ad hoc</i> training	As and when	Face to face

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

Reviewed 14th July 2016 by the Pensions Committee

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

LINCOLNSHIRE COUNTY COUNCIL

LOCAL GOVERNMENT PENSION SCHEME

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

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

GOVERNANCE POLICY STATEMENT

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

Pensions Committee

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

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

The 3 co-opted members comprise:

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

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

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

- approve the Annual Report and Statement of Accounts of the Fund,
- consider any other matters relevant to the operation and management of the fund, and
- respond to any relevant consultation impacting upon the Local Government Pension Scheme.

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

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

Executive Director of Finance and Public Protection

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

- authorise payment of statutory pensions and allowances,
- undertake or arrange for all necessary transactions associated with the management of the assets of the Pension Fund, and
- to agree appropriate means of securing external representation on the Pensions Committee, in consultation with relevant external bodies.

Lincolnshire Pension Board

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

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

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

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

- Assist Lincolnshire County Council as Scheme Manager;
- To secure compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;
- To secure compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator; and
- In such other matters as the scheme regulations may specify.

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

The Lincolnshire Pension Board consists of five members:

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

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

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

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

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

Any questions about the governance of the Lincolnshire Local Government Pension Fund should be addressed to Jo Ray, Pension Fund Manager (email jo.ray@lincolnshire.gov.uk or telephone 01522 553656).

Reviewed 14th July 2016 by the Pensions Committee

GOVERNANCE COMPLIANCE STATEMENT

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

	<p>structure. These include :-</p> <ul style="list-style-type: none"> • Employing authorities (including non-scheme employers, e.g. admitted bodies); • Scheme members (including deferred and pensioner scheme members), • Where appropriate, Independent professional observers, and • Expert advisors (on an ad hoc basis) 		<p>include one representing other local authorities (district councils) and one representing small scheduled bodies, currently from an Internal Drainage Board. Member related issues are dealt with by having a trade union representative on the Committee. Given the statutory guarantee that exists in respect of member benefits, this is felt to be sufficient representation. The Council will review this aspect periodically. The Committee have appointed an independent investment advisor who attends all Committees.</p>
	<p>b. That where lay members sit on the main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	Yes	<p>All members of the Committee have full voting rights and equal access to information, training, etc.</p>
<p>C – Selection and Role of Lay Members</p>	<p>a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p>	Yes	<p>Nationally customised training is available to all members and this is supplemented by locally provided induction sessions for new members of the Committee. In addition, the Committee agrees an annual training plan with specific topics covered on set dates.</p>
	<p>b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary</p>	Yes	<p>The declaration of member's interests is a standard item on the agenda of the Pensions Committee.</p>

	interest related to specific matters on the agenda.		
D - Voting	a. That the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	Full voting rights are given to all members of the Committee.
E – Training/Facility Time/Expenses	a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	See C a. above. All expenses incurred by members of the Pensions Committee are either met by the body they represent or directly by the Fund itself.
	b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	All members are treated equally in every respect.
	c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	The Committee agrees an annual training plan with specific topics covered on set dates. All training undertaken by members of the Pensions Committee is recorded and additional training opportunities are regularly brought to the attention of the Committee, either in monthly update letters or in reports taken to Committee.

F – Meetings - Frequency	a. That an administering authority’s main committee meet at least quarterly.	Yes	See Compliance Policy Statement above.
	b. That an administering authority’s secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not Relevant	As discussed above, no such forum has been established as yet.
	c. That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not Relevant	Three added members exist and have equal rights with all mainstream members in all respects.
G – Access	a. That, subject to any rules in the council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Yes	All members are treated equally in every respect.
H – Scope	a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Partial	The terms of reference of the Pensions Committee were changed a few years ago to include benefit related matters which up until that time had been dealt with elsewhere within the governance arrangements of the Council. At present the Council does not believe

			there is a strong argument in favour of appointing an independent professional observer on administration/governance issues in addition to the independent advisor already in place in respect of investment matters.
I - Publicity	a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	The County Council publishes the many governance documents and communicates regularly with employers and scheme members.

Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	14 July 2016
Subject:	Pension Fund Policies Review

Summary:

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

Recommendation(s):

That the Committee agree the policies and note the report.

Background

1. Under the various Local Government Pension Scheme Regulations, the Pensions Committee, as the Administering Authority of the Lincolnshire Pension Scheme, is required to produce and maintain a number of key policy documents. Policies are brought to the Committee annually, and the last comprehensive review of all such policies was in July 2015. This report presents the latest version of these policies for them to be formally endorsed by the Committee.

Policies for Approval

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

Appendix A – The Statement of Investment Principles

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

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

4. The new LGPS (Management and Investment of Funds) Regulations 2016 will replace the requirement for this policy with an Investment Strategy Statement. It is expected that this legislation will come into force later this year. This will cover the main points within the current SIP but must include:
 - a requirement to invest fund money in a wide variety of investments;
 - the authority's assessment of the suitability of particular investments and types of investments;
 - the authority's approach to risk, including the ways in which risks are to be measured and managed;
 - the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
 - the authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
 - the authority's policy on the exercise of the rights (including voting rights) attaching to investments; and
 - the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

Appendix B - Governance Policy and Compliance Statement

5. The Governance Policy sets out the arrangements for the management of the Pension Fund, and the Compliance Statement sets out the extent that this policy complies with best practice, on a comply or explain basis.
6. Within the compliance statement, the areas where the Fund is only partially compliance are detailed below:
 - Principle A – Structure – (b) – the Committee does not include representatives for pensioner or deferred members.
 - Principle B – Representation – (a) - the Committee does not include representatives for pensioner or deferred members.
 - Principle E – Training/Facility Time/Expenses – (c) – the Committee has an annual training plan at Committee level, but not for individual members.

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

Appendix C – Communications Policy

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

Stewardship Code Statement

8. The Stewardship Code Statement sets out how the Lincolnshire Pension Fund complies with the Financial Reporting Council's (FRC) UK Stewardship Code and is normally brought to this Committee for its annual review. The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire and operates on a 'comply or explain' basis.
9. The Fund recently received a letter from FRC that it had been reviewing all Stewardship Code statements and assessing them based on how they met the requirements of the code. Lincolnshire's statement has been assessed as currently only a Tier 2, in that it does not currently meet the full expectations of the code. They have provided a deadline of August 19th to amend the Statement to meet the requirements, before they publish a list of their assessments.
10. Officers will be working with the FRC to update the statement to meet their expectations, ahead of the deadline, and will bring the amended statement back to the October Committee.
11. The other main policy, not being reviewed at this time, is the Funding Strategy Statement, which sets out the Fund's approach to managing its solvency. This is generally updated every three years, in line with the Triennial Valuation, and is the framework that guides the Fund Actuary. It was approved last at the January 2014 meeting of this Committee and will be brought to the January 2017 Pensions Committee meeting, following the 2016 valuation results.

Conclusion

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

amended Stewardship Code Statement will be brought to the October meeting of this Committee.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

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

Background Papers

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

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

Lincolnshire Pension Fund

Statement of Investment Principles

July 2016

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1. INTRODUCTION

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Regulations) require Lincolnshire County Council, acting as administering authority to the Lincolnshire Pension Fund, to prepare and publish a Statement of Investment Principles (SIP) to describe the key issues that govern the investment of Pension Fund money.
- 1.2 The SIP is published on the Pension Fund's shared website at www.wypf.org.uk.
- 1.3 The Pensions Committee (the Committee) act with the delegated authority of Lincolnshire County Council, and consists of eight County Councillors, one District Council representative, one non Local Authority employer representative and one employee representative. All members of the Committee have full voting rights. The Committee meet at least quarterly.
- 1.4 Investments are monitored on a regular basis by the Committee, supported by advice from Executive Director of Finance and Public Protection and professional advisers as required.
- 1.5 The Committee has agreed a long term strategic asset allocation benchmark, reflecting the outcome of the Asset Liability Modelling following the Triennial Actuarial Valuation of the Fund. This is reviewed every three years, after each Valuation.
- 1.6 The Committee are responsible for the ongoing monitoring and review of all investments, service providers and Fund administration.
- 1.7 The SIP is reviewed annually and revised if necessary. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the SIP will be updated within six months from the date of any material change in the information detailed in this document.

2 FUND OBJECTIVES

2.1 Primary Objective

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

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

2.2 Funding Objective

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

The purpose of the Funding Strategy Statement is:

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

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

3 INVESTMENT OBJECTIVES

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

3.1 Investment Policy

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

The Committee, after seeking appropriate advice, will formulate a policy for investment, called the strategic benchmark, and in doing so consider the variety and suitability of investments. The Fund's strategic benchmark is shown in appendix A. The Fund has an objective to achieve a return of 0.75% above the return of the strategic benchmark, per annum, over the long term. This objective is being reviewed, given the changes in asset allocation over the last few years.

3.2 Investment Managers

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

3.3 Custody and Stock-Lending

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

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

3.4 Allowable Investments

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

3.5 Balance Between Types of Investment

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

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

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

3.6 Risk

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

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

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

3.7 Expected Returns

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

3.8 Realisation of Investments

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

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

4 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC'S)

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

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

5 PENSION FUND CASH

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

5.1 Cash Held in the Pension Bank Account

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

5.2 Cash Held in the Custodian Bank Accounts

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

Cash balances at the Custodian are monitored daily.

6 OTHER ISSUES

6.1 Corporate Governance

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

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

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation of 70 public sector Pension Funds based in the UK. LAPFF exists to promote the investment interests of Local Authority Pension Funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance in the companies in which they invest.

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

6.2 Socially Responsible Investing

Whilst the Fund does not have an explicit policy on socially responsible investing (SRI), most of the fund is managed externally by managers who incorporate a strategic commitment to SRI. Their decision-making process on investments takes into account social, ethical, environmental and governance issues because, as investors, they seek strong, sustainable companies with

good all-round credentials. Many of these managers are signed up to the UN Principles of Responsible Investment (PRI), which provides a framework for investors to consider environmental, social and corporate governance issues.

6.3 Compliance with the Myners Principles

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

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

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

7 CONTACT DETAILS

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

Jo Ray Pension Fund Manager

Tel: 01522 553656

Email: jo.ray@lincolnshire.gov.uk

Reviewed 14th July 2016 by the Pensions Committee

APPENDIX A – STRATEGIC BENCHMARK

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

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

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

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

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

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

APPENDIX B – INVESTMENT MANAGER ARRANGEMENTS AND OTHER SERVICE PROVIDERS

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

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

OTHER SERVICE PROVIDERS

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

APPENDIX C – ACTUARIAL ASSUMPTIONS (2013 VALUATION)

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

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

	Principle	Compliance Statement
1	<p>EFFECTIVE DECISION MAKING</p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	<p>The Pensions Committee of the County Council is delegated with the responsibility for determining the Pension Fund's investment policy, appointing and reviewing managers and advisers, and for considering any other matters relevant to the Fund's management.</p> <p>The Pensions Committee makes decisions after advice from one or more of the Executive Director of Finance and Public Protection, the Fund Actuary and the Independent Advisor.</p> <p>Committee members are encouraged to attend the LGE Fundamentals training course, and are invited to the LGE Annual Conference, to keep up-to date with developments in the Local Government pension world.</p> <p>An annual training plan is agreed by the Pensions Committee, setting out what training will be covered over the coming year and relating it back to the CIPFA Pension Finance Knowledge and Skills Frameworks. Knowledge and skills are acquired and maintained through the regular Pensions Committees, as well as through additional training sessions targeting specific areas and attendance at seminars and conferences.</p>
2	<p>CLEAR OBJECTIVES</p> <p>An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the</p>	<p>The overall objective for the Fund is to achieve a return of 0.75% above the return of the strategic benchmark, per annum, over the long term.</p> <p>The Pension Fund is seeking to ensure</p>

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

		<p>Investment Team regularly discuss performance with all investment managers, and meet with them at least once every year.</p> <p>The results from an independent performance measurement company are reported quarterly and annually to the Pensions Committee.</p> <p>The Pensions Committee formally reviews the strategic asset allocation on a triennial basis, as a minimum.</p>
5	<p>RESPONSIBLE OWNER</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • Include a statement of their policy on responsible ownership in the statement of investment principles • Report periodically to scheme members on the discharge of such responsibilities. 	<p>The Fund's position on Corporate Governance and Socially Responsible Investment (SRI) is set out in the SIP.</p> <p>The Fund has appointed Manifest Voting Agency to undertake voting services. All votes are cast in accordance with a template agreed by the Pensions Committee, and voting is reported quarterly to the Committee.</p> <p>The Fund has signed up to the Financial Reporting Council's Stewardship code, and a statement is on the Fund's website.</p> <p>The individual fund managers' decision-making process on investments takes into account social, ethical, environmental and governance issues because, as investors, they seek strong, sustainable companies. Many of our managers are signed up to the UN Principles of Responsible Investment (PRI), which provides a framework for investors to consider environmental, social and corporate governance issues.</p>
6	<p>TRANSPARENCY AND REPORTING</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> • Act in a transparent manner, communicating with 	<p>The Fund's Governance Policy and Compliance Statement, Communication</p>

	<p>stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives</p> <ul style="list-style-type: none"> • Provide regular communication to scheme members in the form they consider most appropriate. 	<p>Policy Statement and Stewardship Code Statement can be found on the Pension Fund's shared website at www.wypf.org.uk.</p> <p>The Lincolnshire Fund has an Employer's Forum, to ensure that all employers can be updated with the issues concerning the Fund, and can feedback ideas to the Fund. This meets twice a year, and an annual employer meeting is also held.</p> <p>The Fund produces an Annual Report and Accounts, which can also be found on the Pension Fund's shared website at www.wypf.org.uk.</p> <p>The Fund communicates regularly to all scheme members. The Communication Policy detailing scheduled communication can be found on the Pension Fund's shared website at www.wypf.org.uk.</p>
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GOVERNANCE POLICY AND COMPLIANCE STATEMENT

LINCOLNSHIRE COUNTY COUNCIL

LOCAL GOVERNMENT PENSION SCHEME

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

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

GOVERNANCE POLICY STATEMENT

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

Pensions Committee

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

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

The 3 co-opted members comprise:

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

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

- set investment policies for the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, drawing upon appropriate professional advice,

- appoint and review the performance of all Fund Managers and associated professional service providers,
- approve the Annual Report and Statement of Accounts of the Fund,
- consider any other matters relevant to the operation and management of the fund, and
- respond to any relevant consultation impacting upon the Local Government Pension Scheme.

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

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

Executive Director of Finance and Public Protection

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

- authorise payment of statutory pensions and allowances,
- undertake or arrange for all necessary transactions associated with the management of the assets of the Pension Fund, and
- agree appropriate means of securing external representation on the Pensions Committee, in consultation with relevant external bodies.

Lincolnshire Pension Board

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

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

The Pensions Regulator will also be a point of escalation for whistle blowing or similar issues (supplementary to the whistle blowing policy and anti-fraud and

corruption policy operated by the administering authority, which operate to include all of the functions of the Council and its advisers).

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

- Assist Lincolnshire County Council as Scheme Manager;
- To secure compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;
- To secure compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator; and
- In such other matters as the scheme regulations may specify.

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

The Lincolnshire Pension Board consists of five members:

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

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

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

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

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

Any questions about the governance of the Lincolnshire Local Government Pension Fund should be addressed to Jo Ray, Pension Fund Manager (email: jo.ray@lincolnshire.gov.uk or telephone 01522 553656).

Reviewed 14th July 2016 by the Pensions Committee

GOVERNANCE COMPLIANCE STATEMENT

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

	<ul style="list-style-type: none"> • Employing authorities (including non-scheme employers, e.g. admitted bodies); • Scheme members (including deferred and pensioner scheme members), • Where appropriate, Independent professional observers, and • Expert advisors (on an ad hoc basis) 		councils) and one representing small scheduled bodies, currently from an Internal Drainage Board. Member related issues are dealt with by having a trade union representative on the Committee. Given the statutory guarantee that exists in respect of member benefits, this is felt to be sufficient representation. The Council will review this aspect periodically. The Committee have appointed an independent investment advisor who attends all Committees.
	b. That where lay members sit on the main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the Committee have full voting rights and equal access to information, training, etc.
C – Selection and Role of Lay Members	a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	Nationally customised training is available to all members and this is supplemented by locally provided induction sessions for new members of the Committee. In addition, the Committee agrees an annual training plan with specific topics covered on set dates.
	b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	The declaration of member's interests is a standard item on the agenda of the Pensions Committee.
D - Voting	a. That the policy of individual administering authorities on voting	Yes	Full voting rights are given to all members of the Committee.

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

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

	in which the scheme is governed, can express an interest in wanting to be part of those arrangements.		
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COMMUNICATION POLICY STATEMENT
LINCOLNSHIRE COUNTY COUNCIL
LOCAL GOVERNMENT PENSION SCHEME

Lincolnshire County Council, as administering authority for the Local Government Pension Scheme, is required by statute to publish a communications policy statement. The Fund communicates with around 200 employers and over 70,000 scheme members, in addition to a large number of other interested parties.

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

- a) The Fund must now prepare, maintain and publish a written statement setting out its policy concerning communications with
 - members;
 - representatives of members;
 - prospective members; and
 - employing authorities.

- b) In particular, the statement must set out the Fund's policy on
 - i. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities (including non-Scheme Employers);
 - ii. the format, frequency and method of distributing such information or publicity; and
 - iii. the promotion of the Scheme to prospective members and their employing authorities.

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

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

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

WYPF provide a dedicated enquiry phone number (01274 434999) and email address (pensions@wypf.org.uk) for pension related enquiries. The appropriately qualified staff from

the County Council, WYPF or external advisers will deliver presentations to groups of stakeholders and conduct individual meetings.

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

Communications events - Scheme Members

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

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

Communications events - Councillors

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

Communications events - Employers

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

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

Reviewed 14th July 2016 by the Pensions Committee

Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	14 July 2016
Subject:	Pension Fund Risk Register

Summary:

This report presents the Pension Fund Risk Register to the Committee for annual review.

Recommendation(s):

That the Committee agree the risk register.

Background

1 Introduction

- 1.1 Committee members will understand the importance of looking at risk as part of the normal Member training that the Council provides. Given the size and importance of the Pension Fund, it is best practice to have a separate risk register considering the various risks and how they can be mitigated, if at all possible.
- 1.2 The risk register is reviewed annually at this Committee, and any additional changes or updates are reported in the quarterly Fund Update report.
- 1.3 Appendix A is the current Pension Fund risk register. 28 risks have been identified, along with the controls in place to mitigate them.
- 1.4 The latest additions to the register are in relation to the ending of the increase in workloads for the team as a result of asset pooling, the data issues between LCC and WYPF and the leave vote in the EU referendum.
- 1.5 The risk register follows the standard format of the Council's risk registers. To assist in understanding the risk register, the first risk on the register and the associated columns are described below:

- ID – an identifying number
- Linked to objective – the Fund’s objectives are detailed at the top of the register
- Source – what the risk is
- Consequences – the potential outcomes
- Risk owner – person responsible overall
- Existing controls – what is already in place to reduce either the impact or the likelihood
- Status – the effect that the controls in place have, either good, fair or poor
- Owner – who is responsible for the controls
- Current Risk score – L – Likelihood and I – Impact (explained in the table below)
- Overall current risk score – explained in the table below

1.6 The risk scores are calculated using the risk matrix below:

LIKELIHOOD	4				
	3				
	2				
	1				
		1	2	3	4
		IMPACT			

For the **likelihood**, there are four possible scores:

1 HARDLY EVER	2 POSSIBLE	3 PROBABLE	4 ALMOST CERTAIN
Has never happened No more than once in ten years Extremely unlikely to ever happen	Has happened a couple of times in last 10 years Has happened in last 3 years Could happen again in next year	Has happened numerous times in last 10 years Has happened in last year Is likely to happen again in next year	Has happened often in last 10 years Has happened more than once in last year Is expected to happen again in next year

For the **impact**, there are four possible scores, but considered across four areas:

	SERVICE DELIVERY Core business, Objectives, Targets	FINANCE Funding streams, Financial loss, Cost	REPUTATION Statutory duty, Publicity, Embarrassment	PEOPLE Loss of life, Physical injury, Emotional distress
4 CRITICAL Disastrous impact, Catastrophic failure	Prolonged interruption to core service. Failure of key strategic project.	Severe costs incurred Budgetary impact on whole Council Impact on other services Statutory intervention triggered	National media interest seriously affecting public opinion	Loss of life Multiple casualties
3 MAJOR Significant impact, Disruption to core services	Key targets missed. Some services compromised	Significant costs incurred Re-jig of budgets required Service level budgets exceeded	Local media interest Comment from external inspection agencies Noticeable impact on public opinion	Serious injuries Traumatic / stressful experience Exposure to dangerous conditions

<p style="text-align: center;">2 MINOR</p> <p>Minor impact, Some degradation of non-core services</p>	<p>Management action required to overcome short-term difficulties</p>	<p>Some costs incurred</p> <p>Minor impact on budgets</p> <p>Handled within management responsibilities</p>	<p>Limited local publicity</p> <p>Mainly within local government community</p> <p>Causes staff concern</p>	<p>Minor injuries or discomfort</p> <p>Feelings of unease.</p>
<p style="text-align: center;">1 NEGLIGIBLE</p> <p>No noticeable impact</p>	<p>Handled within normal day-to-day routines</p>	<p>Little loss anticipated</p>	<p>Little or no publicity</p> <p>Little staff comment</p>	

1.7 Once the likelihood and the impact are assessed, this produces the overall risk score e.g. likelihood = 3, impact = 2 then the risk score is 6. This means that it would fall into the blue area of the matrix, and is a higher concern than if it were in the green area. The Committee would need to be satisfied that they were comfortable with this level of risk, and that no further controls were required. There will always be some risks that cannot be fully mitigated.

1.8 Changes since the Committee last saw updates at the April 2016 meeting are shown below:

Risk 24 – Government consultation on asset pooling - approval to proceed with BCPP proposition - updated to the current position with pooling – risk has moved from red to blue, following positive feedback from DCLG/HMT on the progress of the BCPP submission, and the likelihood of approval not being given has reduced.

Risk 27 - Ongoing monthly data issues with LCC - updated to the current position with pooling – risk has moved from red to blue, following improvements in the data submissions to WYPF from LCC. However, a recent audit report has highlighted that there are still issues as to the accuracy of the data, which LCC is addressing.

New risk 28 – UK leaving the EU – the leave vote in the referendum has led to high levels of uncertainty around the economic impact of the UK leaving the EU. This is a red risk, as although there are controls in place that can assist in understanding and communicating the risks, current uncertainty does not allow for mitigation of the risks.

Conclusion

- 1.9 It is considered best practice to have identified the high level risks associated with managing a Pension Fund and to have put appropriate controls in place. The risk register is brought annually before the Pensions Committee for review and approval.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Pension Fund Risk Register

Background Papers

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

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

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**Pension Fund
RISK REGISTER
Jo Ray**

Areas covered

Pension Fund Governance & Strategy
Pensions Administration
Investments (Internally and externally managed)

Service Objectives

- 1 Ensure there are enough assets to cover liabilities in the long term
- 2 To prepare the final accounts for the Pension Fund to the agreed timetable
- 3 To manage the internal portfolios to produce returns within the targeted risk and return levels
- 4 To monitor the external managers to ensure they are acting within the IMA
- 5 To work in partnership with WYPF to ensure an effective and efficient Pensions Administration Service is provided
- 6 To ensure that there is sufficient liquidity available to pay drawdowns on the Funds commitments and pensions due

Sort by Risk ID

Sort by Current Overall Risk Score

ID	Date added	Linked to Objective	Overall Risk status	Description of Risk			Existing Controls	Status	Owner	Current Risk Score		Overall Current Risk Score
				Source (Lack of....Failure to)	Consequences (Results inLeads to)	Risk Owner				L	I	
1		5		Contributions of payments of pensions <ul style="list-style-type: none"> Non-collection Miscoding Non-payment 	<ul style="list-style-type: none"> If it doesn't get discovered it effects employers FRS17/IAS19 & Valuation,final accounts cashflow in pension fund 	Jo Ray	<ul style="list-style-type: none"> Employer contribution monitoring Additional monitoring at specific times Reconciliations Improved employer contribution data Monthly returns checks UPM employer module Ongoing employer training 	Good	Jo Ray	1	3	3
2		5		Inability to deliver the service either resource or finance in accordance with the agreement	<ul style="list-style-type: none"> Members of the pension scheme not serviced Statutory deadlines not met 	Jo Ray	<ul style="list-style-type: none"> Performance Indicators General management indicators Bi-monthly meetings with WYPF Horizon Scanning Internal Audit Service Level Agreement Response to Audit Reports in the form of action plans Benchmarking & performance data, process management Error reporting Complaint reporting Customer Surveys 	Good	Jo Ray	2	3	6
3		2,3,4,5		Loss of key staff and loss of knowledge & skills	<ul style="list-style-type: none"> Inability to deliver service Damaged reputation Pensioners not paid 	Jo Ray	<ul style="list-style-type: none"> Diversified staff / team Look at other authorities with best practices to ensure LCC positions still desirable Attendance at pensions user groups, both WYPF and LCC Procedural notes which includes new systems as and when (LCC & WYPF) Section meetings / appraisals (LCC & WYPF) Regular team building (LCC & WYPF) 	Fair	Jo Ray	2	2	4
4		5		Paying Pensions correctly	<ul style="list-style-type: none"> Damaged reputation Financial loss 	Jo Ray	<ul style="list-style-type: none"> Internal control through audit process Constant monitoring / checking Robust error logs Quality standard at WYPF Process management Vitacleansing Tracing services Data Cleansing 	Good	Jo Ray	2	2	4
5		3,4		Custodian bank (J P Morgan) goes bust	<ul style="list-style-type: none"> Inability to trade internal & external No reconciliation or accounting service Losses to cash account 	Jo Ray	<ul style="list-style-type: none"> Service level agreement with termination clause Regular Meetings Regular reports SAS 70/AAF0106 Other Custodian options - review markets 	Good	Jo Ray	1	3	3

6		1,3,4		Poor investment performance from managers	<ul style="list-style-type: none"> Lower funding level Increase in employer contributions 	Jo Ray	<ul style="list-style-type: none"> Performance measurement Managers report monthly Reporting to pensions committee Diversification across managers 	Good	Jo Ray	2	3	6
7		1		Assets not enough to meet liabilities	<ul style="list-style-type: none"> Lower funding level Increase in employer contributions 		<ul style="list-style-type: none"> Valuation Asset Liability Study Quarterly reporting of funding level Investment Consultant 	Good	Jo Ray	2	3	6
8		1		Required returns not met due to poor strategic allocation	<ul style="list-style-type: none"> Damaged reputation Increase in employer contribution 	Jo Ray	<ul style="list-style-type: none"> Consultant Triennial review Performance monitoring Monthly Members letter Reporting to Pensions Committee 	Good	Jo Ray	2	3	6
9		4		Non compliance of external managers	<ul style="list-style-type: none"> Damaged reputation Financial loss 	Jo Ray	<ul style="list-style-type: none"> FSA regulated Manager due diligence Investment Management Agreement Manager monitoring Report quarterly to team Review every 3 years Qualified officers (internal & external Fund Managers) Additional managers meetings Termination clause 	Good	Jo Ray	1	2	2
10		1,3,4		Financial regulations (e.g LCC / CIPFA) not adhered to / legal guidelines not followed	<ul style="list-style-type: none"> LCC may incur penalties Damaged reputation 	Jo Ray	<ul style="list-style-type: none"> Regulation of Fund Managers AAF 01/06 & SAS 70 & equivalents Contracts in place setting out parameters Internal staff are appropriately qualified and aware of policies and procedures Pension Fund managed in line with regulations Membership of CIPFA Pensions Network, NAPF etc. 	Good	Jo Ray	1	2	2
11		1,3,4		Financial decisions cannot be proven	<ul style="list-style-type: none"> Unable to explain decisions made in the event of challenge 	Jo Ray	<ul style="list-style-type: none"> Performance monitoring and reporting Monthly and quarterly reporting 	Good	Jo Ray	1	1	1
12		3,4		Personal gain (internal or external) through: <ul style="list-style-type: none"> Personal dealing Fraud or misappropriation of funds Manipulating share price 	<ul style="list-style-type: none"> Financial loss Damaged reputation 	Jo Ray	<ul style="list-style-type: none"> Protocol regarding personal dealing Declaration of interests Investment Management Agreements with Fund Managers Vetting of new Fund Managers through tender process Access restricted regarding transfer of funds - authorised signatories required Regulation of Fund Managers Insurance arrangements Code of Conduct Separation of duties 	Good	Jo Ray	1	1	1
13		3,4		Deal brokered is incorrect	<ul style="list-style-type: none"> Actual trade value differ to those expected 	Jo Ray	<ul style="list-style-type: none"> Access to real time information Broker used - confirmation of price Contract Note received 	Good	Jo Ray	1	1	1
14		2		Financial Statements of Pension Fund incorrect or late	<ul style="list-style-type: none"> Damaged reputation Qualified accounts 	Jo Ray	<ul style="list-style-type: none"> Agreed timetable Externally audited Qualified and trained staff Closedown procedures 	Good	Jo Ray	1	2	2
15		1,3,4,5		Fraud risk not managed	<ul style="list-style-type: none"> Financial loss Damaged reputation 	Jo Ray	<ul style="list-style-type: none"> Separation of duties Internal & external audit Monthly reporting Reconciliation procedures 	Good	Jo Ray	1	3	3

16		1,2,3,4,5		Governance	<ul style="list-style-type: none"> Financial loss Damaged reputation Legal issues 	Jo Ray	<ul style="list-style-type: none"> Governance compliance statement Pension Committee reporting Monthly member letter Statement of Investment Principles Funding Strategy Statement Trained Committee members and officers Pension Board 	Good	Jo Ray	1	2	2
19		2,5		Increase in admitted bodies/academies	<ul style="list-style-type: none"> Increased workload Incorrect rates paid Employer covenants 	Jo Ray	<ul style="list-style-type: none"> Admission agreements Bonds Contribution monitoring Early communication 	Good	Jo Ray	3	2	6
20		1,6		Maturing Fund	<ul style="list-style-type: none"> Cashflow issues Increasing employer rates Illiquid investments 	Jo Ray	<ul style="list-style-type: none"> Investment strategy Cashflow monitoring Discourage opt outs New scheme 50/50 option Communication 	Fair	Jo Ray	3	2	6
23	Sep-15	1,5		New Pension Freedom and Choice rules	<ul style="list-style-type: none"> impact on cashflow process not followed reduction in funding level 	Jo Ray	<ul style="list-style-type: none"> None yet - to be agreed with WYPF 	Poor	Jo Ray	2	2	4
24	Jun-16	1,3,4,6		Government consultation on asset pooling - approval to proceed with BCPP proposition.	<ul style="list-style-type: none"> Uncertainty and inability to make investment decisions 	Jo Ray	<ul style="list-style-type: none"> Pool decision made - progressing work Cross pool working group Communicate to Committee regularly Chair and S151 meetings Regular contact/meetings with DCLG/HMT 	Fair	Jo Ray	2	3	6
25	Sep-15	5		Employer breaches	<ul style="list-style-type: none"> Reporting to TPR Fines to employers Reputational risk to LCC and WYPF 	Jo Ray	<ul style="list-style-type: none"> Make employers aware of responsibilities through Admin Strategy and training 	Good	Jo Ray	1	2	2
26	Jan-16	all		Workloads and resources - additional work of asset pooling and agresso issues, along with team changes, means resources will be very stretched for the coming months	<ul style="list-style-type: none"> Accounts not closed in time or correctly Assets not managed/monitored Contributions not monitored Valuation work not completed 	Jo Ray	<ul style="list-style-type: none"> Monthly meetings with County Finance Officer to raise issues Concerns reported to Pensions Committee and Pension Board 	Fair	Jo Ray	2	3	6
27	Mar-16	1,2,5		Ongoing monthly data issues with LCC	<ul style="list-style-type: none"> Valuation data not submitted on time or accurately Statutory deadlines missed Contribution rates provided late to employers Incorrect pensions paid/accrued to members Incorrect contribution rate for LCC calculated 	Jo Ray	<ul style="list-style-type: none"> Monthly meetings with County Finance Officer to raise issues Concerns reported to Pensions Committee and Pension Board Concerns raised direct to employer 	Fair	Jo Ray	3	2	6
28	Jun-16	1,6		UK leaving the EU	<ul style="list-style-type: none"> Volatility of market Lower gilt yields leading to higher liabilities Inflation increasing liabilities Uncertainty of political direction re pooling 	Jo Ray	<ul style="list-style-type: none"> Increased monitoring of managers Review investment strategy Regular communications with Committee and Board 	Poor	Jo Ray	4	3	12

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