

County Offices
Newland
Lincoln
LN1 1YL

28 September 2016

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 6 October 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
Jeff Summers, District Councils Representative

**PENSIONS COMMITTEE AGENDA
THURSDAY, 6 OCTOBER 2016**

Item	Title	Pages
1	Apologies for Absence/Replacement Members	
2	Declarations of Members' Interests	
3	Minutes of the previous meeting of the Pensions Committee held on 14 July 2016	5 - 10
4	Independent Advisors Report <i>(To consider a report by Peter Jones (Independent Advisor), which provides a market commentary on the current state of global investment markets)</i>	11 - 14
5	Pension Administration Report <i>(To consider a report by Yunus Gajra, Business Development Manager from West Yorkshire Pension Fund, will provide an update on current administration issues)</i>	15 - 54
6	Manager Report - Invesco Asset Management - Global ex UK Enhanced Index Equity Portfolio <i>(A report by Nick Rouse, Investment Manager, in connection with a presentation from Invesco Asset Managers, who manage the Global ex UK Enhanced Index Equity Portfolio. Representatives of the manager will report on how our investments have performed. Please note the appendix to this report is confidential)</i>	55 - 86
7	Pension Fund Update Report <i>(A report by Jo Ray, Pension Fund Manager, which provides an update on Fund matters over the quarter ending 30th June 2016 and any current issues)</i>	87 - 118
8	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 April to 30th June 2016)</i>	119 - 138
9	Performance Measurement Annual Report <i>(A report by Nick Rouse, Investment Manager, which sets out the Pension Fund's longer term investment performance, for the period ending 31st March 2016)</i>	139 - 144
10	Pension Fund Policies - Stewardship Code Statement <i>(A report by Jo Ray, Pension Fund Manager, in connection with the Fund's updated Stewardship Code Statement for review, following the implementation of tiering by the Financial Reporting Council (FRC))</i>	145 - 158
11	Pension Fund External Audit Progress Report <i>(A report by Nick Rouse, Investment Manager, in connection with the Audit Progress Report submitted by the external auditors for the Council, KPMG)</i>	159 - 166

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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
14 JULY 2016**

PRESENT: COUNCILLOR M G ALLAN (CHAIRMAN)

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

In attendance: Peter Jones (Independent Advisor)

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

64 APOLOGIES FOR ABSENCE

Apologies were received from Councillor P Wood and Added Members Mr J Grant and Mr A Antcliff.

65 DECLARATION OF MEMBERS' INTERESTS

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.

66 MINUTES OF MEETINGS OF THE PENSIONS COMMITTEE HELD AS FOLLOWS:-

67 (A) 7 APRIL 2016

RESOLVED

That the minutes of the meeting held on 7 April 2016 be approved and signed by the Chairman as a correct record.

68 (B) 26 MAY 2016

RESOLVED

That the minutes of the meeting held on 26 May 2016 be approved and signed by the Chairman as a correct record.

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69 INDEPENDENT ADVISORS REPORT

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

The following points were noted:

- As a result of the UK's decision to leave the EU, the pound was down 10% against the US Dollar and the Euro;
- The Advisor forecast that UK growth would rise by 1-1.5% by the end of the current year;
- The UK's credit rating had been reduced from AAA to AA by the leading credit scoring agencies.

RESOLVED

That the report be noted.

70 PENSION ADMINISTRATION REPORT

The Committee considered a report by the Fund's pension administrator, West Yorkshire Pension Fund which updated the Committee on current administration issues.

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

- Pension estimates were now being despatched much quicker than previously and in accordance with the relevant KPI;
- The problems with Serco supplying monthly data for LCC employees was now much improved, and was being monitored on an ongoing basis;
- Non-teaching employees of academies in the Fund were automatically enrolled into the LGPS as they were scheduled bodies.

RESOLVED

That the report be noted.

71 PENSION FUND UPDATE REPORT

The Committee considered a report which provided an update on Fund matters over the quarter ending 31 March 2016 and any current issues.

Councillor N I Jackson updated the Committee on the work of the Local Authority Pension Fund Forum (LAPFF) and it was noted that pooled funds would be invited to send one officer and one member to LAPFF meetings in the future.

The Board to Coast Pensions Partnership's (BCPP) final submission to the DCLG for the asset pooling proposals had been held up as a good example to other pools. The proposals would be submitted on 15 July.

RESOLVED

That the report be noted.

72 INVESTMENT MANAGEMENT REPORT

Consideration was given to a report which provided information on the management of the Lincolnshire Pension Fund assets over the period from 1 January to 31 March 2016.

The Committee considered whether they wished to continue with the Neptune mandate which had produced a negative return of 7.7% and underperformed the benchmark by 10.4% over the quarter. It was confirmed that the Fund had around £80m invested with Neptune.

The Committee discussed the options available to them and ultimately decided to terminate the contract with Neptune and reinvest 50% each with Invesco and Morgan Stanley Global Brands. Neptune would manage the mandate on a care and maintenance basis until the transition was completed.

The Pension Fund Manager would take this outcome forward, consulting with the proposed managers and use the discretion of the Chairman and Vice Chairman, should further decisions be required.

RESOLVED

1. That the report be noted;
2. That the Neptune mandate be terminated and the invested assets split equally between Invesco and Morgan Stanley Global Brands.

73 UK EQUITY PORTFOLIO ANNUAL REPORT

The Committee considered a report which covered the performance of the UK Equity index-tracking portfolio for the year ended 31 March 2016, which was managed internally.

RESOLVED

That the report be noted.

74 ANNUAL REPORT ON THE FUND'S PROPERTY INVESTMENT

Consideration was given to a report which outlined the performance of the Fund's property and related investments for the year ended 31 March 2016.

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It was reported that overall the Fund's property investments had generated a good absolute return of over 9% in the year. The return on property investments was capital growth and income which was reinvested.

RESOLVED

That the report be noted.

75 PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS

Consideration was given to a report which presented the draft Annual Report and Accounts for the Pension Fund.

It was noted that the report's recommendation should read *That the Committee consider and approve the draft Pension Fund Annual Report and Accounts.*

The accounts were due to be signed off by the external auditors in September 2016. Once approved, the document would be uploaded onto the Pensions website and sent to Fund members as a summary in their Autumn newsletter.

The Pension Board's annual report was included in the document, now that the Board had been operating for a year.

RESOLVED

That the Pension Fund Annual Report and Accounts be approved.

76 PENSION FUND POLICIES REVIEW

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

The Statement of Investment Principles document was subject to the new LGPS (Management and Investment of Funds) Regulations 2016 which would come into force later in the year. The replacement document introduced in the Regulations would be brought back to Committee at a future meeting.

There was no change to the Communications Policy, which was managed within the shared service by West Yorkshire Pension Fund.

The Financial Reporting Council (FRC) had recently introduced a tiered rating of Stewardship Code statements, and the current statement of the Fund had initially been assessed as a Tier 2. Officers would work with the FRC to improve this rating where possible, and bring the revised Stewardship Code to the October meeting.

RESOLVED

That the policies be agreed and the report be noted.

77 PENSION FUND RISK REGISTER

The Committee considered a report that presented the Pension Fund Risk Register for annual review.

Members were updated on the changes to the risk register over the year and it was noted that:

- Risk 24 – *Government consultation on asset pooling – approval to proceed with BCPP proposition* remained 'blue' due to certain risks still remaining;
- Risk 27 – *Ongoing monthly data issues with LCC* could not yet be changed to 'green', as some risks still remained;
- Risk 28 – *UK Leaving the EU* was a new 'red' entry to the register as the risks of leaving the EU were, as yet, unidentified.

RESOLVED

That the risk register be agreed.

The meeting closed at 12.45 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:	06 October 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

September 2016

Biggest financial experiment in world history....?

"We are part of the biggest financial experiment in world history and the consequences are yet unknown".

So wrote Lord Rothschild earlier this summer. It is difficult to disagree – because interest rates in the world have never, ever, been so low as they are today. UK base rate at 0.25% is well below what anyone would have thought remotely possible, even a few years ago. So what is the “experiment”? More particularly, what will be the outcome? What are the implications for the investments of the Lincolnshire fund?

The “experiment”

The origins of the experiment, as members know well, lie in the Lehman crisis of 2008/9 that brought in its wake an economic recession, sharp falls in stock markets and other asset prices and a reduction in inflation rates. It coincided with inflated

debt levels of governments, companies and many private individuals. And especially with the weakened health of the global commercial banking industry, hard hit by the fall-out from Lehman. Borrowing more, especially by governments, to stimulate the economy and to grow out of the recession seemed not to be an option and most governments around the world were unable or unwilling to use it, as they would have done in past economic crises. In effect, there was a political vacuum with governments not responding positively and proactively, as they should have done. Austerity became the dominant global theme. Into the vacuum, stepped the Central Banks of the world, principally the US Federal Reserve, the Bank of England, the Bank of Japan and the European Central Bank.

These Central Banks had several related objectives: to strengthen their commercial banks and avoid as far as possible any banks closing their doors; to stimulate their economies to reduce the harmful effects of recession, e.g. on unemployment, and lastly to avoid falls in the pricing levels in their economies; in effect to promote inflation to stave off falling prices which were so harmful in the great recession of the 1930's. To achieve these ends, direct financial assistance was provided to commercial banks, short term interest rates were cut sharply and "Quantitative Easing" made its debut – central banks buying securities, mainly government debt, on a truly enormous scale to drive down long term interest rates and drive up asset prices. Like all other pension schemes, the assets of the Lincolnshire pension scheme have benefitted greatly, but the liabilities have increased as long term interest rates have fallen.

Have Central Banks succeeded? Hardly, would be my interim judgement. The US Federal Reserve has been most successful and the US commercial banks are now much stronger. The US economy is growing, unemployment has been falling for several years, inflation is rising modestly and the Fed has been brave enough to start raising its short term interest rate, with another seemingly expected in 2016. The UK has not been as successful; the banking industry remains weak, but the economy is growing. Inflation was already picking up before the Brexit inspired fall in the £ Sterling. But the base rate has just been cut again. The Bank of Japan was an enthusiastic promoter of the measures pioneered in the US but the Japanese economy has not really responded; perhaps because the Japanese demographics are so unhelpful to growth and inflation. The European Central Bank has been dragged reluctantly to the party and its success has been limited, so far. The Germans are the main advocates of austerity and have curtailed efforts of the ECB.

The outcome

Were there to be an end of term report, "must do better" might be the overall judgement. Effort good, results disappointing. In 2008/9, Central Banks would have expected to have completed their tasks by now, the global economy would be in a significant recovery phase and inflation would be well above zero and probably rising. They would have expected to be selling off some of the securities they had bought as part of Quantitative Easing. There is, however, no end in sight to Central Bank intervention. The forces of recession, low growth and stable prices has proved too strong for even the combined might of all the world's Central Banks

acting in a co-ordinated fashion. The political vacuum referred to earlier has largely not been filled by governments.

What is most worrying is that the power of Central Bank measures seems to be reducing in effectiveness. The addict, so to speak, needs a bigger fix to achieve the previous outcome! This view is becoming more widely appreciated in stock markets, and no doubt elsewhere around the globe.

Market prospects

We face a future, perhaps, where neither governments nor Central Banks can effectively promote economic growth and hence meet the aspirations of the vast mass of electorates, especially younger ones. Corporate profits - a principal driver of stock market appreciation- look moribund. Yet, all types of securities have made substantial gains in the past 5 years, as the table below shows:

Type of Security	Price appreciation over past 5 years
UK equities	37%
Global equities	64%
UK gilts	45%
UK corporate bonds	45%
Index linked gilts	75%

Most stock prices are close to all-time highs. Very many commentators, myself included, see everything as expensive and heavily dependent on continuing Central Bank support for their economies. Is there a “bubble” in prices? Maybe, but optimists for global economic growth (and hence appreciation of stock market prices) are very thin on the ground. Bubbles usually occur when a majority of investors are committed optimists.

So how will the experiment end? Hopefully, not in tears. We need still to rely on the diminished powers of Central Banks to intervene. There can be no end to the experiment any time soon. But stock markets can certainly become disillusioned. That may already be starting. If prices do fall back, falls of say 10% to 20% can be readily absorbed – we saw that in the first quarter of 2016. Anything larger, I suspect, will see Central Bank action, though of what type – or effectiveness - is not at all clear.

LGPS Actuarial Valuation

Into this “experiment”, meanwhile, the triennial valuation of the Lincolnshire fund as at March 2016 falls due. Setting an appropriate actuarial basis will not therefore be easy.

Peter Jones
19th September 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:	06 October 2016
Subject:	Pension Administration Report

Summary:

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

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

Recommendation(s):

That the committee note the report.

Background

1.0 Performance and Benchmarking

- 1.1** WYPF uses workflow processes developed internally to organise their daily work with target dates and performance measures built into the system. The performance measures ensure tasks are prioritised on a daily basis, however Team Managers have the flexibility to re-schedule work should time pressure demand.
- 1.2** The table below shows the performance against key areas of work for the period 1 June 2016 to 31 August 2016 as measured against both the local indicators and the national CIPFA benchmarks.

KPI's for the period 1.6.16 to 31.8.16					
WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT
Transfer In Quote	14	35	9	85	64.29
Transfer In Payment Received	6	35	4	85	66.67
Divorce Quote	55	35	52	85	94.55
Deferred Benefits Set Up on Leaving	123	10	92	85	74.80
Refund Quote	117	35	46	85	39.32
Refund Payment	65	10	63	85	96.92
Transfer Out Quote	39	35	11	85	28.21
Transfer Out Payment	6	35	4	85	66.67
Pension Estimate	305	10	244	85	80.00
Retirement Actual	143	3	138	85	96.50
Deferred Benefits Into Payment	181	5	170	85	93.92
Death Grant Single Payment	18	5	18	85	100.00
Initial letter acknowledging death of active/deferred/pensioner member	133	5	131	85	98.50
Change of Address	625	20	623	85	99.68
Life Certificate Received	3986	20	3936	85	98.75
Death Grant Nomination Received	4746	20	2575	85	54.26
Payroll Changes	56	20	56	85	100.00
Change to Bank Details	81	20	75	85	92.59
Death Notificatoin	133	5	131	85	98.50
Potential Spouse	4	10	4	85	100.00
AVC In-house (General)	59	10	54	85	91.53
Letter notifying amount of dependant's benefits	56	3	49	85	87.50
Death in Retirement	129	5	102	85	79.07
Death in Service	1	5	1	85	100.00
Death in Deferment	8	5	7	85	87.50

2.0 Scheme Information

2.1 Membership numbers as @ 19 September 2016 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	24,116	27,298	3002	18,665	1,844
Councillors	17	26	1	38	-
Totals nos	24,133	27,324	3,003	18,703	1,844
Change	-886	-275	+1,084	+205	+119

The increase in 'Undecided' is as a result of identifying a number of leavers where we have not received any details from the Employers.

2.2 Age Profile of the Scheme

STATUS	Age Groups												TOTAL
	U20	B20 25	B26 30	B31 35	B36 40	B41 45	B46 50	B51 55	B56 60	B61 65	B66 70	O70	
Active	442	1624	1587	2092	2471	3615	4164	3759	2796	1287	232	47	24116
Beneficiary Pensioner	92	34	2	1	7	11	46	74	133	212	281	1479	2372
Deferred	4	528	1604	2093	2244	3775	5406	6105	4435	1024	32	9	27259
Deferred Ex Spouse Pensioner	0	0	0	0	2	0	11	9	13	1	0	0	36
Pensioner	0	1	1	1	8	23	40	109	1081	4211	4840	5963	16278
Pensioner Deferred	0	0	0	0	0	0	1	0	2	0	0	0	3
Pensioner Ex Spouse	0	0	0	0	0	0	0	0	2	7	3	3	15
Preserved Refund	13	93	71	105	161	227	296	316	245	160	104	53	1844
	551	2280	3265	4292	4893	7651	9964	10372	8707	6902	5492	7554	71923
Undecided													3002
Councillors													82
Total													75007

2.3 Employer Activity Between 1 March 16 and 31 August 16

Academy conversions:

	Effective Date
The Garth School	01/03/2016
The Priory School	01/03/2016
John Fielding Special School	01/03/2016
Spilsby Primary School	01/04/2016
Woodlands Academy	01/08/2016

New Prime Account Schools:

Whaplode Primary	01/04/2016
St Michaels Primary, Coningsby	01/04/2016
William Stukeley Primary, Holbeach	01/04/2016
Lacey Gardens Junior School, Louth	01/04/2016
St John the Baptist Primary, Spalding	01/04/2016
St Norberts Primary, Spalding	01/04/2016

Admitted employers:

GLL	01/04/2016
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Cessation:

Education Development Trust	31/08/2016
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Number of Employers in LPF

These changes to employers bring the total number of employers in LPF to 210.

3.0 Praise and Complaints

3.1 Over the quarter April to June we received 1 online customer response.

Over the quarter April to June 213 Lincolnshire member's sample survey letters were sent out and 23 (10.79%) returned:

Overall Customer Satisfaction Score;

April to June 2015	July to September 2015	October to December 2015	January to March 2016	April to June 2016
78.34%	83.94%	80.16%	80.34%	80.71%

Appendix 1 shows full responses.

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

- Secure Administration held on 17 May
- A Complete Guide held on 16 June.

Feedback from participants is attached at Appendix 2.

4.0 Internal Disputes Resolution Procedures

4.1 All occupational pension schemes are required to operate an IDR. The LGPS has a 2-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:

Jan 16 to June 16	Number of appeals	Outcomes	Details
STAGE 1	8		
AGAINST EMPLOYER	4	3 turned down	Member had been awarded an upgrade from Tier 3 to Tier 2 ill health pension but felt that this should have been backdated.
			Member appealed against employer decision to refuse to grant early release of deferred benefits. Appeal turned down as outside of time limit.

			Member appealed against employer decision to refuse to grant early release of deferred benefits and being misinformed that this would be possible.
		1 upheld	Member appealed against being turned down for payment of deferred pension on ill health grounds. As part of appeal process, member was reassessed and was awarded early release of pension.
AGAINST LPF	4	4 turned down	Member appealed against having to repay overpayment of pension.
			Widow of deceased member appealed against fund decision to pay death grant to the son and daughter of the member.
			Member wished to draw the whole of her pension rights as a lump sum payment and felt that WYPF retirement documentation had misled her in thinking she could do so.
			Member complained about the administration of processing her pension benefits and delays in concluding her award of benefits.
STAGE 2	4		
AGAINST EMPLOYER	4	3 turned down	Member had been provided with an estimate based on an incorrect higher pay figure. Resulting actual benefits were lower. Appeal turned down as the actual benefits were correct.
			Member had been provided with an estimate based on an incorrect higher pay figure. Resulting actual benefits were lower. Appeal turned down as the actual benefits were correct.
			Member appealed against being turned down for a late request to transfer in pension rights.
		1 referred back to scheme employer for reconsideration.	Member appealed against being turned down for a late request to transfer in pension rights. Referred back to scheme employer as the decision did now show any evidence of having met the requirements of the employers' discretionary policy.

AGAINST LPF	0		
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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 Life Certificates

As mentioned in the previous report, Life certificates are being issued 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 9,201 life certificates and 7,215 have been returned (78%).

5.2 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 44%.

5.3 Newsletter

The Autumn 2016 newsletter to active members is due to be posted out shortly. This includes an article on LPF's first ever annual meeting scheduled for 23 November.

Appendix 3 – Pensions Newsletter

6.0 Current Issues

6.1 Update on exit payment reforms

The introduction of the Government's policy which will require high earners (earning £80,000 or more) who leave employment in the public sector with an exit payment to repay the exit payment, or a proportion of it, if they return to public sector employment within 12 months, has been delayed.

The intention had been to implement the legislation in July 2016 to take effect in autumn this year. However, Parliament went into recess without the

appropriate legislation being made. It remains the goal of the Government to implement the proposals in autumn. However, this will depend on how quickly the legislation can be made following the return of Parliament on 5 September. Parliamentary time in September appears to be limited given that there will be a further recess during the party conference season.

The Government has also stated that it intends to implement the public sector £95,000 exit payments cap legislation in autumn.

6.2 Consultation on college insolvency regime

The Department for Business, Innovation and Skills (BIS) commenced a consultation in early July on the development of an insolvency regime for further education colleges and sixth form colleges. The consultation period closed on Friday 5th August.

It should be noted that the responsible department for this area of work has now changed to the Department for Education (DfE) following changes in departmental responsibilities made at the time of the Government re-shuffle in mid-July.

On 28th July, DfE attended a meeting with representatives of 13 LGPS pension funds to discuss the proposals and the possible impacts on the LGPS. DfE stated their view that whilst the proposed changes will provide for a formal framework via which a college's insolvency can be administered in the future, there will be no greater likelihood of a college becoming insolvent than there has been in the past. Indeed, in the view of the Government, the area review process currently ongoing should mean colleges should be financially more secure in the future.

In response, funds provided colleagues at DfE with a description of some of the issues associated with the participation of colleges in the LGPS, in particular in respect of:

- their ongoing financial security in the absence of a Government guarantee of colleges' pension liabilities, and
- the absence of colleges' engagement with LGPS pension funds in the area review process.

6.3 Club memorandum – calculating transfer on non-Club basis if advantageous to do so

Paragraph 2.3 of the Club memorandum grants schemes the power to substitute an individual's Club transfer service credit for a non-Club transfer service credit if this would be greater. This power is permissive meaning that DCLG can choose to allow for this paragraph to be applied, but can also decide that it should not be applied by funds.

Prior to April 2014, DCLG confirmed that funds could offer the better of a Club and non-Club service credit in a guidance note issued in November 2012. The note also contained guidance from GAD on when such a comparison should be triggered.

The LGA has confirmed that funds would need new guidance from DCLG on this matter in order to undertake this comparison taking into account the scheme's new career average structure. It was agreed at that time that until such guidance was issued funds should not apply that paragraph of the memorandum to Club transfers received.

DCLG are now considering what their policy is in respect of this issue and will discuss with GAD the requirements for a guidance note on the application of that paragraph to Club transfers.

6.4 Consultation – salary sacrifice for the provision of benefits-in-kind

Following the announcement in the 2016 Budget that the Government planned to undertake a consultation on limiting the range of benefits that attract income tax and NIC advantages, when provided via salary sacrifice schemes, HMRC commenced a consultation to take these proposals forward. The consultation period is due to close on 19th October 2016.

6.5 Online lifetime allowance service

HMRC have launched their new online lifetime allowance service for pension scheme members to apply to protect their pension savings from the lifetime allowance tax charge. This service replaces the interim paper process for applying for fixed protection 2016 (FP2016) and individual protection 2016 (IP2016) and replaces the online form for applying for individual protection 2014 (IP2014).

With the launch of the online service, HMRC will no longer process applications for lifetime allowance protection made using the interim process. Any applications made after the 31 July 2016 using the interim paper process will be returned

7.0 Valuation Update

7.1 Valuation data was uploaded on the Hymans data portal on the 11th August 2016. This information will enable them to produce both the whole of Fund valuation results and individual employers' valuation results.

7.2 This year was the first year valuation data was run using the Universal Data Extract, which had been agreed by the four Actuarial Firms advising LGPS Funds and the LGPS Software Suppliers. WYPF's software supplier Civica unfortunately did not issue the extract to gather all the appropriate information until rather late in the day, which also required several last minute fixes. These delays meant that as soon as the extracts were

produced, they needed to be immediately uploaded to Hymans data portal to enable the valuation timetable to be kept on track. Following a number of queries received from Hymans, they were supplied with a second active member data extract and additional reports were provided to help clarify some of the issues. One of the main reasons identified for the poor quality of the active member data was employers not sending the necessary leaver notifications when members ceased their participation in the Scheme.

7.3 Going forward we have identified several areas where we need to put action plans into place including:

- To Work with Civica to ensure they produce timely calculations and fixes to errors in future;
- Providing further support and regular reports to provide outstanding missing information. Regular reports to be supplied to work with employers to provide any missing information.
- Further ongoing cleansing of records transferred to WYPF from Mouchel.

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 and the latest projection is £14.26.

8.1.1 Annual benefit statement for members (ABS)

ABS production deadline for members for the financial year 2015/16 was 31 August 2016. As of 31/08/2016, we produced 42,340 statements for members out of 45,711 members. This means 92.63% of LPF members have received their statements. Due to queries and record issues there are still 3,371 benefit statements to produce for LPF members. The table below gives more information.

BENEFIT STATEMENT PERFORMANCE 31ST AUGUST 2016		LPF
ACTIVES		-
Active at 31/03/2016 and Today		21,740
ABS produced		19,045
Still to produce		2,695
% produced		87.60%
% outstanding		12.40%

DEFERRED	
Count	23,971
DBS Produced	23,295
% produced	97.18%
% outstanding	2.82%

TOTAL	
Members count for benefit statements	45,711
Benefit statements produced by 31st Aug 2016	42,340
% produced	92.63%
% outstanding	7.37%

This is a big improvement on last year's production and we do not believe this is a 'material significance' and therefore do not propose to self-report to the Pensions Regulator. This information will however be recorded on our breaches Register.

9.0 Staffing

- 9.1 The vacant Pension Fund Representative post has been filled by an existing member of staff from Bradford. The postholder will split their time between Lincoln and Bradford.
- 9.2 The vacant Pensions Officer post has been filled by an internal applicant from Bradford Council. The postholder will be based in Bradford but will be attached to the Lincoln team.
- 9.3 A member of staff based in Lincoln who has been on long term sickness absence has decided to resign from her post. A recruitment exercise to replace her will commence in due course.

10. News

- 10.1 WYPF were winners of the 'Best Use of IT and Technology' award hosted by Professional Pensions. This is the second year running WYPF has won this award. In addition, WYPF recently won the 'LAPF's 'Large LGPS Fund of the Year' award. This is a very prestigious award and recognizes the hard work and contribution made by both pensions administration and investments staff.

10.2 National LGPS Framework

A multi provider framework agreement for the provision of third party administration services has been issued by Norfolk CC (on behalf of a number Authorities).

WYPF has put a submission in to get on the framework. Getting on the framework does not mean that we will automatically get new business. If successful, all it means is that other Pension Funds can ask us to provide pensions administration. We are confident that if successful, this would strengthen our existing partnership between WYPF and LPF.

Conclusion

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

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Survey Results - April to June 2016
Appendix B	Employer Feedback - April to June 2016
Appendix C	Member Newsletter - Autumn 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 April to 30th June 2016)

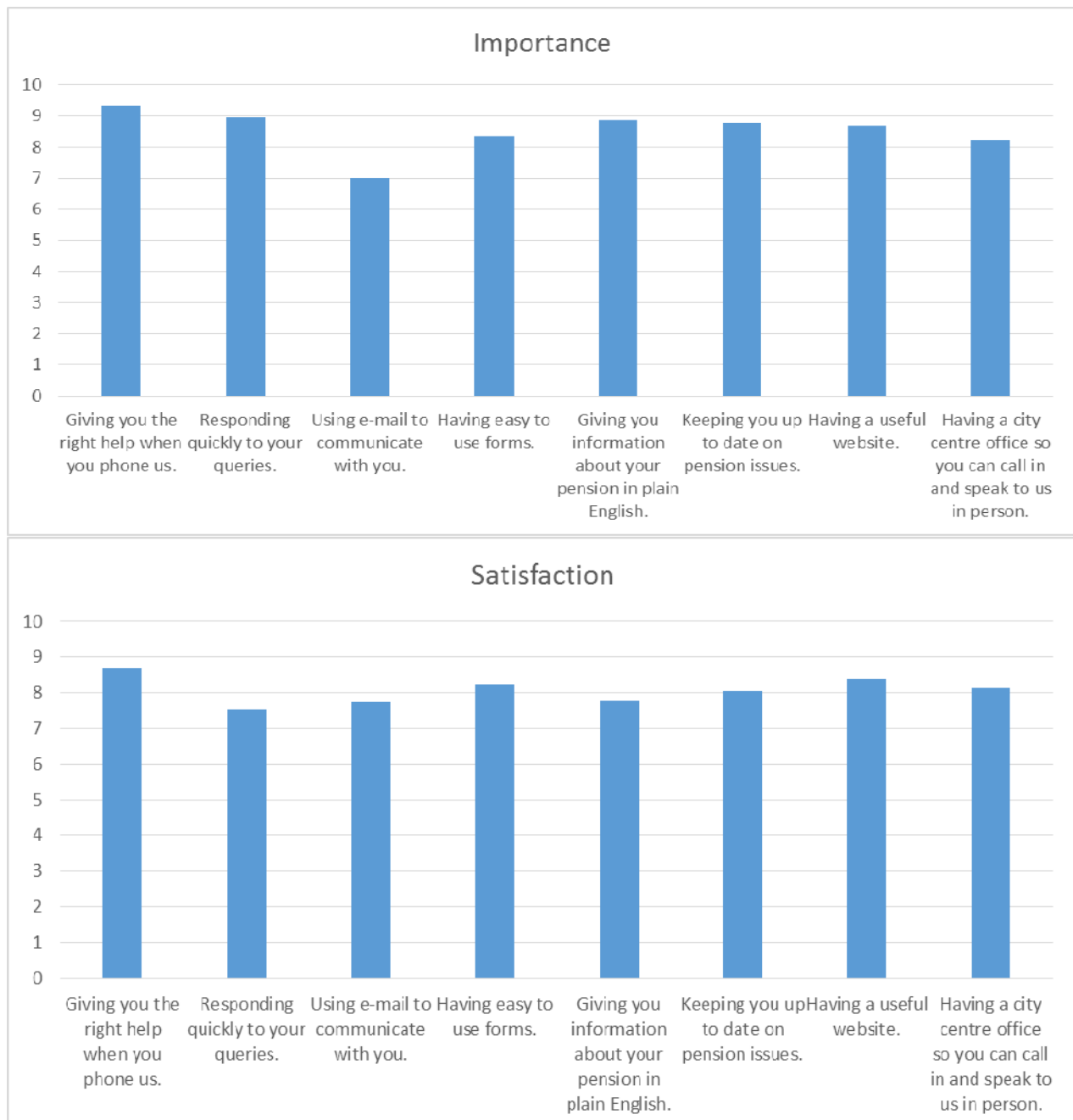
Over the quarter April to June we received **1** online customer responses.

Over the quarter April to June **213** Lincolnshire member's sample survey letters were sent out and **23 (10.79%)** returned:

Overall Customer Satisfaction Score;

April to June 2015	July to September 2015	October to December 2015	January to March 2016	April to June 2016
78.34%	83.94%	80.16%	80.34%	80.71%

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



Sample of positive comments:

Member Number	Comments
8019171	Very satisfactory. Kind and helpful.
8019513	Very helpful and efficient. I have been very satisfied with service received.
8042156	Very helpful and reassuring. This was a stressful time and your help and plain English has been so helpful. Much better than the previous supplier.
MN 8086011 /MN 9000285	<p>Email from Steve -Earlier this morning I had a phone call from Mrs Valerie Elkington (MN 8086011, among many, many others) and her husband Vincent, (MN 9000285, retired Lincolnshire Firefighter).</p> <p>In brief, they were concerned at the number of pension records Mrs Elkington has acquired. Her situation is she does one-to-one work with Special Needs Children in a Lincoln school, and every time a child leaves her care she gets a different child to look after, new contract, and consequently a new pension record. As such, she's ended up with 15 pension records !</p> <p>Without doing anything out of the ordinary, I told Mrs Elkington I understood her concerns and would create a Phone Log for the Service Centre to look at all her Linking Options – which I've subsequently done.</p> <p>Before ringing off however, both Mr & Mrs Elkington said they wanted to offer positive feedback on the level of service they've received since WYPF started administering their pensions. They said the level of service and quality of information they have received over the last 12 months, has "improved beyond recognition" from anything they received from Mouchel. And they requested I pass their comments on – so job done.</p> <p>There is no doubt in my mind the comments were aimed at the organisation as a whole, rather anything I said or did on the phone.</p>
Mrs Deborah Rowland	<p>Email from Employer to Kaele - Took a call from Mrs Deborah Rowland today and wanted to let you know that she was very appreciative of your call yesterday and the time you took with her queries.</p> <p>It is very much appreciated.</p>

Complaints/Suggestions:

Member Number	Comments	Corrective/ Preventive Actions
8110558	Non concussive as you did not provide answer to my any query.	Passed to Kate G on 17/06/2016. Kate has not sent any response yet. An email has been sent to Kate to ask any reason for delay.

8109207	Terrible had to wait over 1/2 an hour. Question did not get answered	<p>Response sent by Naheed - Thank you for taking time to complete and return our customer survey.</p> <p>Please accept my apologies for the delay in dealing with your phone call. Our telephone system is currently being updated to resolve this issue.</p> <p>I have also spoken to our pensions liaison officer at Lincolnshire County Council and they have confirmed that your pension contributions in this post have been refunded to you.</p> <p>Once again, thank you for your feedback</p>
Online	<p>You split information into so many different parts it becomes confusing. You didn't verify my address provided to you in error by my employer and so you sent sensitive information to my old address which was opened and took a further a month to get to me. You send me information in parts with more information to follow which becomes confusing and hard to understand. You do not explain what things mean in basic English. This makes information you provide confusing. You take a very long time to process information. I have had changes in December which you are only just contacting me about in April May.</p>	<p>Unable to reply as incorrect MN supplied.</p>

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**Employer Feedback (LPF)
Quarter 2 April – June – Corrective action**

Secure Administration – 17 May 2016

Feedback score: 96.11%

Comment	Action taken
None	

A summary of the compliments

- Really informative, useful and will be beneficial.

Complete Guide – 16 June 2016

Feedback score: 94.61%

Comment	Action taken
Spend longer on exercises and provide a calendar.	Passed to LD for consideration
Go through exercise answers more, course needs more time	Passed to LD for consideration
Exercise 2 was confusing – the instructions could be improved	Passed to LD for consideration
Felt it was a bit rushed, maybe make it a slightly longer session, especially where exercises are concerned.	Passed to LD for consideration

A summary of the compliments

- Venue, parking and lunch very good

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The newsletter for members of



West Yorkshire Pension Fund

Lincolnshire
Pension Fund



Pension

NEWSLETTER

AUTUMN 2016 • LINCOLNSHIRE ACTIVE MEMBERS



Book
now!

**Annual
meeting**

See page 2

**2016
fund report**

See page 6

Corporate member of
Plain English Campaign
Committed to clearer
communication

119



Book now for our first ever



We invite you to attend our first ever annual meeting for members in Lincoln on 23 November 2016. The Chairs of the Pensions Committee and the Pension Board and the Pension Fund Manager will present at the meeting, and we'll have a guest speaker with a topic that's of general interest to our members.

Jo Ray will chair the meeting. After the presentations our panel will answer your questions.

Book now!



Book online at www.wypf.org.uk/lincsmeeting

When and where

The meeting is on Wednesday 23 November 2016 starting at 10.15am.

It's at **The Alive Conference Centre, Newland, Lincoln.**

Visit www.aliveconferences.org.uk for more information about the venue.

How to book

Book online at www.wypf.org.uk/lincsmeeting

Or phone 01274 434999.

We'll send you more information about the meeting once you've booked. Places are limited and it's first-come, first-served so please book early.

If you book by phone, please have your member number or your National Insurance number handy so we can help you quickly.



Have you nominated somebody to get your death grant yet?

Nobody wants to think about dying, but isn't it reassuring to know, just in case, that you're in a pension scheme with great death benefits?

On top of a pension for your husband, wife, partner, and possibly your children if you die, there's also a one-off tax-free **death grant** that's around three times your salary.

Who gets this? You decide.

If you do this it usually means any payouts are free from inheritance tax.

If you want to make sure everyone gets the right share of your death grant and still haven't told us who you would like it to go to, download a form now from www.wypf.org.uk/deathgrant



Capped exit payments on the cards for higher earners

The government wants to reduce high public sector exit payments that it says are neither fair nor good value for taxpayers, and measures to cap them to a total of £95,000 are expected to come into force this autumn. This could impact some LGPS members expecting an exit payment like a redundancy payment on retirement.

Will this affect me?

This will mainly affect those earning £80,000 or more, but some with long service could be affected too.

The cap will apply to the combined value of payments such as:

- lump sums (including redundancy payments)
- employer costs for early access to unreduced pensions, and
- other non-financial benefits such as additional paid leave.

It won't apply to pay in lieu of holidays, bonuses, or TUPE transfer payments, and whatever the cap, employees will still get their statutory redundancy payment.

Separate proposals also mean employees who leave with an exit payment and get another public sector job within a year will have to repay some or all of that payment.

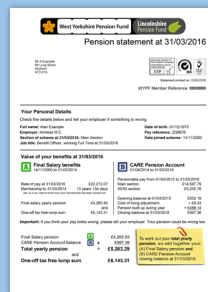
Got your pension statement?

Most of you should by now have received your 2016 pension statement from us, and if not, you soon will.

One of the most important figures on your statement is your pay. If it's wrong, your pension will be wrong too, so you should check that it's right each time you get your statement. Please tell your employer if it's wrong – they give us the figure.

You have up to six years to challenge a wrong pay figure.

See our guide to your pension statement at wypf.org.uk/pensionstatement



Pay extra, get more pension

If you want to pay extra to increase your pension benefits through your pension there are two tax-efficient ways to do it:

AVCs – additional voluntary contributions

APCs – additional pension contributions.

Check out the leaflet that came with this newsletter from our AVC provider, Prudential. It's well worth a look if you're thinking about ways to increase your pension.

You'll find plenty on the subject at wypf.org.uk/payingextra

Paying extra can be an effective way to increase your income in retirement. Always consider taking independent financial advice.



PRUDENTIAL

50/50 The flexible option

When money's tight, long-term plans like pensions can suffer. But in the LGPS there's a way to stay in the scheme and pay less for a while – it's called the 50/50 option. Find out if this short-term solution is right for you at wypf.org.uk/5050

Moving house?

Don't forget to tell us!
Phone 01274 434999 or
Email pensions@wypf.org.uk

We're anti fraud

We've been taking part in the National Fraud Initiative (NFI) for many years to help protect the money members pay into the pension fund.

The NFI has helped trace going on for £1.2 billion in fraud, error and overpayment in the UK since its launch in 1996.

The NFI matches electronic data within and between public and private sector bodies to prevent and detect fraud. Under the Fair Processing and the Data Protection Act we have to tell you that your data will be processed in this way.

Lincolnshire fund report 2016

Introduction by Jo Ray – Pension Fund Manager, LPF

At the end of 2015/16 our net asset value was £1.759 billion – an increase of £2.8 million from the previous year-end.

Our Pensions Committee meets quarterly and reviews asset allocations and our strategic benchmark, based on expected investment returns. It also monitors administration performance, and provides governance across all aspects of the fund. The Lincolnshire Pension Board began to assist the committee and oversee fund governance and administration from 1 April 2015 when our shared-service partnership with West Yorkshire Pension Fund also began, following the end of the Mouchel contract. Despite some big

challenges over the year, we are starting to see the benefits we hoped for, namely improving the quality of service for members while also improving resilience and bringing efficiency savings to the Lincolnshire fund. The government's requirement for funds to pool assets has kept us very busy working with 12 other funds to form the **Border to Coast Pensions Partnership**. Much more work is required to meet the April 2018 deadline.

This summary gives a flavour of our draft **Report and Accounts**, which we will publish on lincolnshire.gov.uk and wypf.org.uk in October 2016.

Lincolnshire Pension Fund performance

Our investment return was 1.0% in 2015/16, 0.8% below the return for the fund's strategic benchmark of 1.8%. It was a mixed year for managers' performance, with returns ranging from -12% to +12%.

Actual investment performance against the fund's strategic benchmark performance is set out in the table below. Our annual return of 1.0% (as measured by the fund's performance measurement provider, J.P.Morgan) compares well to the average Local Authority return of 0.2%. The longer-term return, whilst behind the benchmark, is ahead of the long-term required return set by our actuary of 4.6%.



Fund account

Opening assets of the fund at 1 April 2015	£1,756.3m
Investment return and income	
Return on investments	-£23.1m
Investment income	£27.9m
Dealing with members	
Benefits paid	-£83.4m
Contributions (including transfer in £7.1m)	£92.4m
Management expenses (including administration, manager fees and governance)	
	-£11.0m
Closing net assets of the fund at 31 March 2016	£1,759.1m
Closing net assets made up of	
• Market value of fund investment portfolio	£1,744.2m
• Net current assets (debtors, overdraft and creditors)	£14.9m
Total (closing assets of the fund at 31 March 2016)	£1,759.1m

Ten biggest equity holdings at 31 March 2016

	Company	Market value	Percentage of total fund
1	Royal Dutch Shell	£25.1m	1.4%
2	British American Tobacco	£20.9m	1.2%
3	Reckitt Benckiser	£17.4m	1.0%
4	Microsoft	£17.2m	1.0%
5	Apple	£16.9m	1.0%
6	HSBC	£16.2m	0.9%
7	Unilever	£15.4m	0.9%
8	Alphabet	£14.0m	0.8%
9	GlaxoSmithKline	£12.6m	0.7%
10	Vodafone	£11.8m	0.7%
Total		£167.5m	9.6%

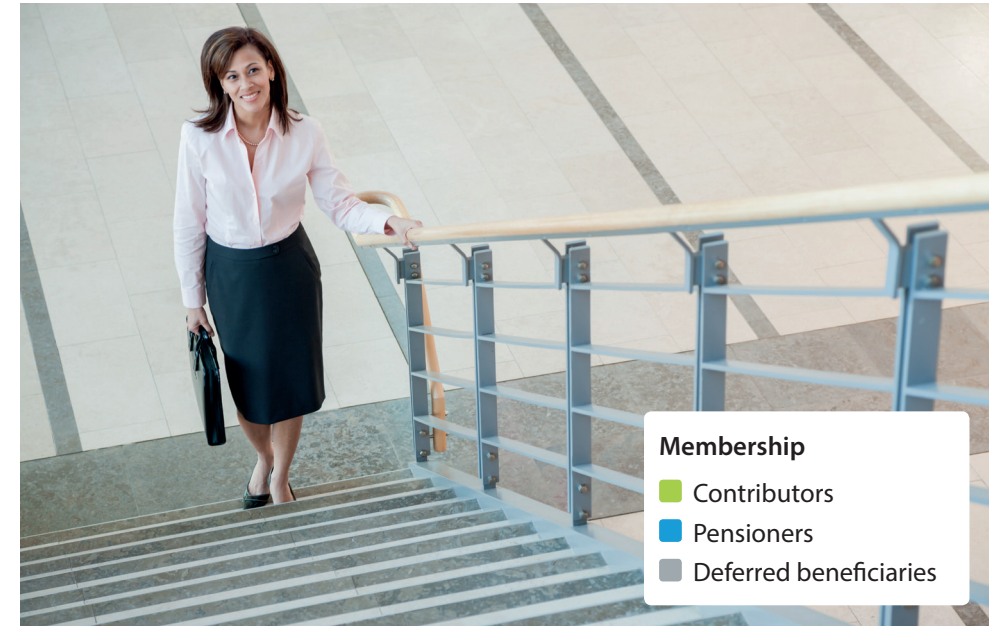
LPF investment management arrangements

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

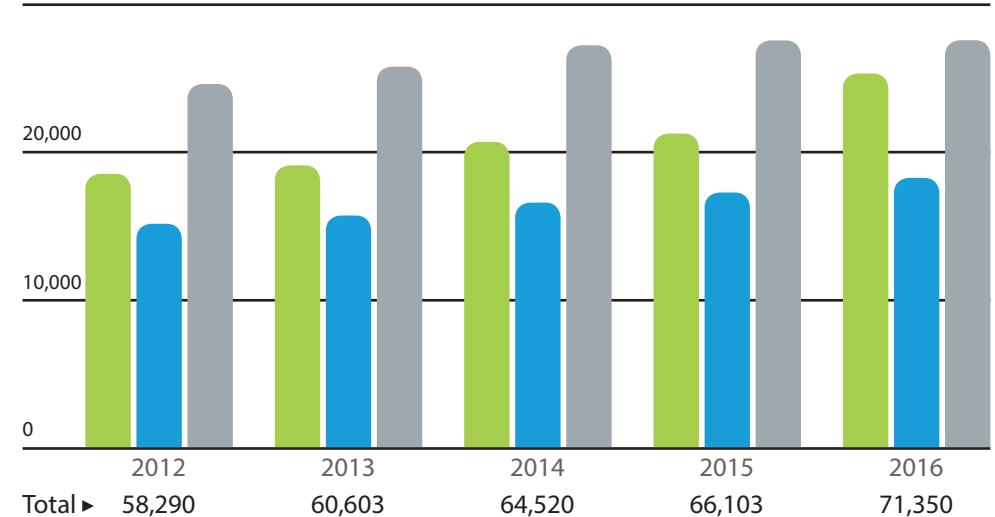
Segregated investment management mandates				
Asset class	Manager	Market value £m	% of the fund	
UK equities	Lincolnshire County Council	332.9	18.9	
Global equities – (Ex UK)	Invesco	365.3	20.8	
Global equities – all countries	Neptune	81.7	4.6	
Global equities – all countries	Schroders	88.5	5.0	
Global equities – all countries	Threadneedle	94.7	5.4	
Total segregated equities		963.1	54.8	
Pooled funds				
The fund also invests in a number of asset classes by means of collective investment vehicles, also known as pooled funds.				
Asset class	Manager	Market value £m	% 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	
	BMO	108.0	6.1	
	Total fixed interest		227.6	13.0

Local Government Pension Scheme membership

There were 71,350 members and beneficiaries from 225 employers at 31 March 2016. The fund is reasonably mature, with deferred members (those no longer in the scheme but entitled to a pension at some point in the future) making up 39% of the overall membership, and pensioner members 26%.



30,000



The government's Freedom and Choice reforms offered some people more flexibility to access their defined contribution pension savings from April 2015. But if you're wondering if these new freedoms include you, the short answer is that they don't. The LGPS is a **defined benefit** pension scheme and Freedom and Choice is only for members of **defined contribution** schemes.

- But you do have some options in the LGPS:
- You can give up some of your pension to get a lump sum when you retire
 - if you have AVCs you may be able to take them all as cash from age 55 when you retire
 - you have the right to transfer your pension and/or AVCs to another arrangement with flexible benefits if you leave the LGPS.
- Take advice before doing anything.

Read more at www.wypf.org.uk/FreedomAndChoice
www.pensionwise.com

~ Always take independent financial advice ~



Pension scams – don't fall prey

Pension liberation fraud is when 'scammers' use incentives to entice you to transfer your pension savings, and it's on the rise. For most people the offers will be bogus. Fall for it and you'll probably lose most, if not all of your pension savings. You could also be charged over half the value of your pension in tax.

See www.pension-scams.com for the facts.

CONTRIBUTIONS

How much do I pay?

Your employer decides your contribution rate based on which 'band' your pay is in. The bands, not the rates, are revalued each year.

From 1 April 2016 to 31 March 2017

Pay	Contribution rate
Up to £13,600	5.5%
£13,601 to £21,200	5.8%
£21,201 to £34,400	6.5%
£34,401 to £43,500	6.8%
£43,501 to £60,700	8.5%
£60,701 to £86,000	9.9%
£86,001 to £101,200	10.5%
£101,201 to £151,800	11.4%
More than £151,801	12.5%

THE 50/50 SECTION

Can I pay less for a while?

Go 50/50 and you can pay half your regular pension contributions for a while. Continue building up some pension and keep the full protection of the pension scheme's generous death benefits. But think carefully – you will get half the pension for the contributions you pay while you're in the 50/50 section.

TAX ALLOWANCES

2016/17 HMRC allowances

- Annual Allowance – £40,000 but with a tapered reduction to a min of £10,000 depending on earnings.
- Lifetime Allowance – £1m

Pension fact card

Once again we're including a copy of our pension fact card in this newsletter that you can cut out, fold up and keep handy if you want to. It has all our contact details, your contribution rates for the year, reminders about key issues and a summary of the main features of the pension scheme.

Don't forget to follow us on Facebook and Twitter. We won't overwhelm your feeds with stuff about pensions, but we will make sure you don't miss out on anything important.

For everything else, join us at www.wypf.org.uk

Published autumn 2016 by West Yorkshire Pension Fund

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Bradford
BD1 1UP

Phone 01274 434999
Email pensions@wypf.org.uk
www.wypf.org.uk

The information in this newsletter relates to active members only and can't be treated as a statement of law.

Please contact us if you would like this newsletter in large type, Braille, on tape or in another language.

Pension scheme at-a-glance

- Build up rate of 1/49th of your pay a year
- Revalued yearly by treasury order
- Build up rate for survivor benefits 1/160th
- Pensions in payment go up yearly by CPI

What pay counts towards my pension?
Actual pay including overtime, and additional hours if you're part time

Can I reduce my contributions?
You can temporarily pay 50% contributions to get 50% pension

What's my normal pension age?
Your state pension age (minimum 65)

Can I trade pension for lump sum?
Yes – get £12 lump sum for every £1 pension you trade

What death grant's paid if I die 'in service'?
A lump sum of at least three times your pensionable pay

How's my pension enhanced if I retire because of ill health?
Depends if it's tier ①, ② or ③...
① ... enhancement to normal pension age
② ... 25% enhancement to normal pension age
③ ... temporary payment of pension for up to three years

How long do I have to pay in to be entitled to a pension?
Two years



Pension scams

Don't be a victim!

A joint pensions industry and government operation is working to stamp out pension scams, also known as **pension liberation fraud**.

Pension scammers use incentives to entice members to transfer their pension savings. For most people the offers will be bogus.

They claim they can help members access their pension before the legal minimum age of 55. But it's normally only in rare circumstances, such as ill health, that you can take retirement benefits before age 55.

If you are taken in by a pension scam and agree to transfer, you will probably lose most, if not all, of your pension savings. You could also receive tax charges of over half the value of your pension.

Transfer time limit warning

If you do decide to transfer your pension after taking appropriate advice, please bear in mind that except for transfers to 'Club' schemes, you must leave the scheme and choose to transfer your pension at least one year before your Normal Pension age. You can read more about all the issues on our website and at the official scams site –

www.pension-scams.com

DEATH BENEFITS

What does my family get if I die?

If you die while you're paying in, we'll pay a death grant of at least three years' pay to those you leave behind. Just make sure you tell us who should get the money by filling in a death grant 'expression of wish' form (you can get one from wypf.org.uk where you'll find more info about dependants' pensions too).

PAYING EXTRA

How can I get a bigger pension?

There are two ways to pay extra and get a bigger pension.

APCs

Buy up to £6,675 of guaranteed extra yearly pension in the LGPS with additional pension contributions. Pay monthly or by lump sum. The pension you buy is inflation-protected, both before and after retirement.

Find out more at www.wypf.org.uk.

AVCs

With additional voluntary contributions you can buy extra pension and lump sum at retirement. You pay a percentage of your salary or a set amount through one of our AVC providers. AVCs are flexible – you can change your payments, take a break, or stop paying at any time.

Read more at:

www.pru.co.uk/localgovavc

Contact

Phone
01274 434999

Web
wypf.org.uk

Email
pensions@wypf.org.uk

Postal address
PO Box 67
Bradford
BD1 1UP

Visit us in Bradford

Aldermanbury House
4 Godwin Street • Bradford • BD1 2ST
Weekdays 8.45am to 4.30pm

Visit us in Lincoln

County Offices • Newland • Lincoln • LN1 1YL
Weekdays 8.00am to 5.15pm (4.45pm Fridays)

Ask at reception for the pensions team

See www.wypf.org.uk for more about the information covered in this leaflet



@WYPF_LGPS



facebook.com/westyorkshirepensionfund

pensionfactcard 2016

The information in this leaflet is for general information only and can't be treated as a statement of the law

Pension fact card

X

X

2016/17

X

www.wypf.org.uk



West Yorkshire Pension Fund

Lincolnshire Pension Fund



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The newsletter for members of



West Yorkshire Pension Fund

Lincolnshire
Pension Fund



Pension

NEWSLETTER



AUTUMN 2016 • LINCOLNSHIRE PENSIONER MEMBERS

**Annual
meeting**

See page 2

**2016
fund report**

See page 4

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Book now for our first ever



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When and where

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How to book

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Who pays GMP and COPE increases?

Depending on when you reach State Pension age and whether you have something called a GMP or a COPE, increases to your pension may be split between us and the DWP.

GMP – If you reached State Pension age before 6 April 2016 and you were contracted out, part of your pension is what's called a **Guaranteed Minimum Pension (GMP)**. Increases paid on it are split between us and the DWP.

COPE – If you reach State Pension age after 5 April 2016 but before 6 December 2018 and you were contracted out, part of your pension is a **Contracted-out Pension Equivalent (COPE)**. We pay the increases on this. If you reach State Pension age after 5 December 2018, we're still waiting for a government decision on who pays the increase on the COPE element of your pension.

Death grants and retirement

You may remember nominating somebody to get your death grant while you were working, but did you know you can do this in retirement too, as long as you retired on or after 1 April 2008?

A death grant is a one-off tax-free lump sum that's on top of any pension your husband, wife, partner – even your children – would be due if you died. Different conditions apply depending on when you retired and what options you chose, but the grant is usually ten times your yearly pension less any pension already paid.

It's up to you to decide who gets your death grant and if you nominate it can save time and trouble at a difficult time, and help those you leave behind avoid paying inheritance tax.

If you haven't made a nomination, or want to change one, download an 'expression of wish' form now at www.wypf.org.uk/deathgrant

Lincolnshire fund report 2016

Introduction by Jo Ray – Pension Fund Manager, LPF

At the end of 2015/16 our net asset value was £1.759 billion – an increase of £2.8 million from the previous year-end.

Our Pensions Committee meets quarterly and reviews asset allocations and our strategic benchmark, based on expected investment returns. It also monitors administration performance, and provides governance across all aspects of the fund. The Lincolnshire Pension Board began to assist the committee and oversee fund governance and administration from 1 April 2015 when our shared-service partnership with West Yorkshire Pension Fund also began, following the end of the Mouchel contract. Despite some big

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This summary gives a flavour of our draft **Report and Accounts**, which we will publish on lincolnshire.gov.uk and wypf.org.uk in October 2016.

Lincolnshire Pension Fund performance

Our investment return was 1.0% in 2015/16, 0.8% below the return for the fund's strategic benchmark of 1.8%. It was a mixed year for managers' performance, with returns ranging from -12% to +12%.

Actual investment performance against the fund's strategic benchmark performance is set out in the table below. Our annual return of 1.0% (as measured by the fund's performance measurement provider, J.P.Morgan) compares well to the average Local Authority return of 0.2%. The longer-term return, whilst behind the benchmark, is ahead of the long-term required return set by our actuary of 4.6%.



Fund account

Opening assets of the fund at 1 April 2015	£1,756.3m
Investment return and income	
Return on investments	-£23.1m
Investment income	£27.9m
Dealing with members	
Benefits paid	-£83.4m
Contributions (including transfer in £7.1m)	£92.4m
Management expenses (including administration, manager fees and governance)	-£11.0m
Closing net assets of the fund at 31 March 2016	£1,759.1m
Closing net assets made up of	
• Market value of fund investment portfolio	£1,744.2m
• Net current assets (debtors, overdraft and creditors)	£14.9m
Total (closing assets of the fund at 31 March 2016)	£1,759.1m

Ten biggest equity holdings at 31 March 2016

	Company	Market value	Percentage of total fund
1	Royal Dutch Shell	£25.1m	1.4%
2	British American Tobacco	£20.9m	1.2%
3	Reckitt Benckiser	£17.4m	1.0%
4	Microsoft	£17.2m	1.0%
5	Apple	£16.9m	1.0%
6	HSBC	£16.2m	0.9%
7	Unilever	£15.4m	0.9%
8	Alphabet	£14.0m	0.8%
9	GlaxoSmithKline	£12.6m	0.7%
10	Vodafone	£11.8m	0.7%
Total		£167.5m	9.6%

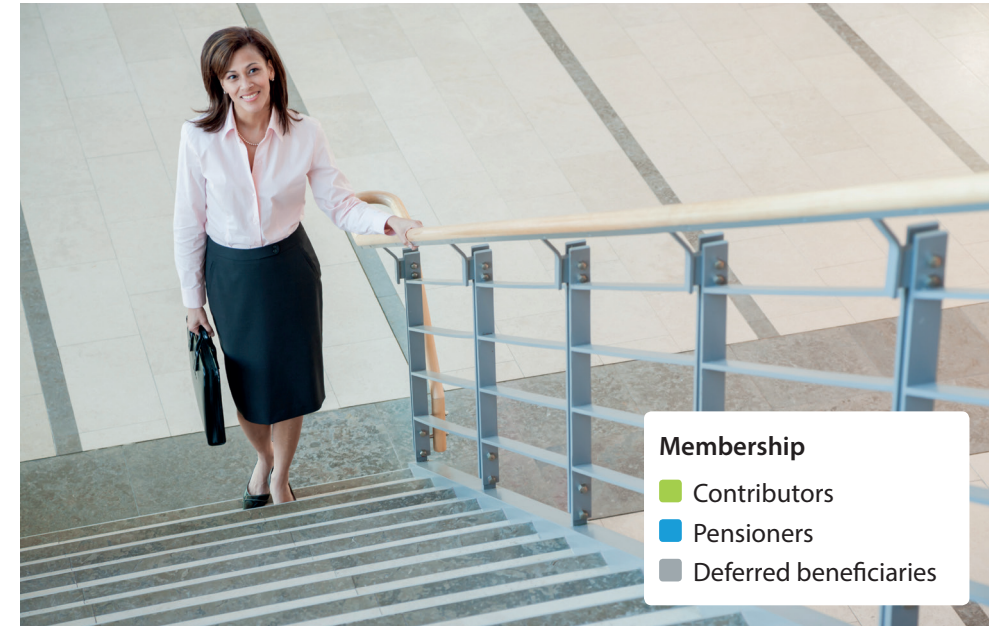
LPF investment management arrangements

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

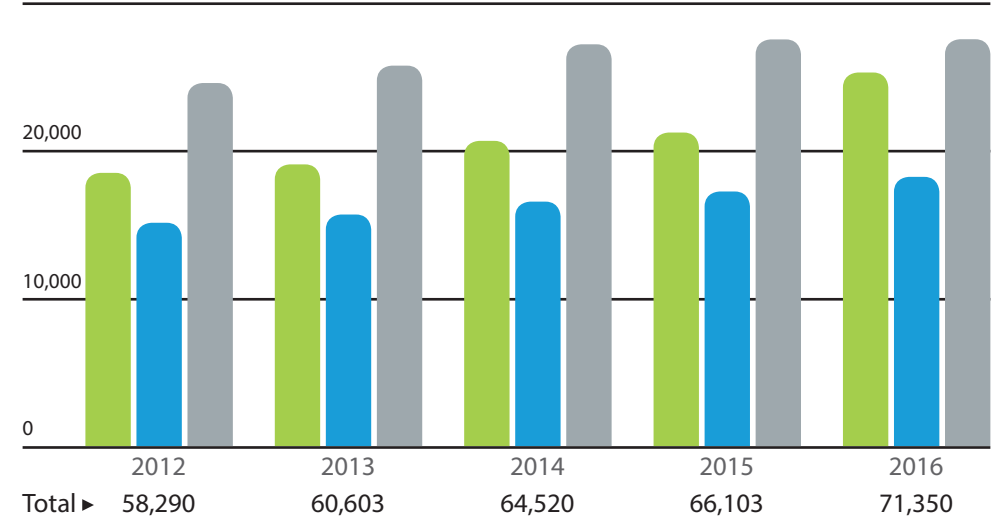
Segregated investment management mandates				
Asset class	Manager	Market value £m	% of the fund	
UK equities	Lincolnshire County Council	332.9	18.9	
Global equities – (Ex UK)	Invesco	365.3	20.8	
Global equities – all countries	Neptune	81.7	4.6	
Global equities – all countries	Schroders	88.5	5.0	
Global equities – all countries	Threadneedle	94.7	5.4	
Total segregated equities		963.1	54.8	
Pooled funds				
The fund also invests in a number of asset classes by means of collective investment vehicles, also known as pooled funds.				
Asset class	Manager	Market value £m	% 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	
	BMO	108.0	6.1	
	Total fixed interest		227.6	13.0

Local Government Pension Scheme membership

There were 71,350 members and beneficiaries from 225 employers at 31 March 2016. The fund is reasonably mature, with deferred members (those no longer in the scheme but entitled to a pension at some point in the future) making up 39% of the overall membership, and pensioner members 26%.



30,000



Useful to know

Moving house?

Don't forget to tell us!
Call 01274 434999 or
Email pensions@wypf.org.uk

Tax questions?

Please contact HMRC if you have a question about tax on your pension. Phone 0300 200 3300 and quote your National Insurance number and tax office reference 072/W6. Their address?
Pay As You Earn
HM Revenue and Customs
BX9 1AS

New bank account?

If you change the account we pay your pension into, please write to us with the details at least three weeks before payday to avoid any delays.

We continue to take part in the National Fraud Initiative (NFI) that matches data between public and private sector bodies to prevent and detect fraud. This helps protect the pension fund's money.

Time to go online

Want to view your pension details the easy way online? You'll be able to see your pension payslip every month, get your P60 instantly, change your address and more.

We're inviting our pensioner members to express an interest in the new service first by signing up for it now on our website. When the service is ready, we'll be in touch with some more details about how to use it.

To express your interest, please visit www.wypf.org.uk/SignUp

Life Certificates

We're continuing to send out 'life certificates' to some pensioner members.

Please don't worry if you get one of these. It's as simple to deal with as signing a form and getting somebody who's not a family member or lives at your address to witness it.

We give you two months to return your signed certificate so you have plenty of time and we only stop pensions in extreme cases.

Published autumn 2016 by West Yorkshire Pension Fund

PO Box 67, Bradford, BD1 1UP • Phone: 01274 434999 • Email: wypf@bradford.gov.uk • Website: www.wypf.org.uk

The information in this newsletter relates to Lincolnshire pensioner members only and can't be treated as a statement of law.

Please contact us if you would like this newsletter in large type, Braille, on CD or in another language

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The newsletter for members of



West Yorkshire Pension Fund

Lincolnshire
Pension Fund



Pension

NEWSLETTER

AUTUMN 2016 • LINCOLNSHIRE DEFERRED MEMBERS

Book
now!

**First Annual
Meeting**

See page 2

**2016
fund report**

See page 8

Corporate member of
Plain English Campaign
Committed to clearer
communication

119



Page 47

Book now for our first ever



We invite you to attend our first ever annual meeting for members in Lincoln on 23 November 2016. The Chairs of the Pensions Committee and the Pension Board and the Pension Fund Manager will present at the meeting, and we'll have a guest speaker with a topic that's of general interest to our members.

Jo Ray will chair the meeting. After the presentations our panel will answer your questions.

Book now!



Book online at www.wypf.org.uk/lincsmeeting

When and where

The meeting is on Wednesday 23 November 2016 starting at 10.15am.

It's at **The Alive Conference Centre, Newland, Lincoln.**

Visit www.aliveconferences.org.uk for more information about the venue.

How to book

Book online at www.wypf.org.uk/lincsmeeting

Or phone 01274 434999.

We'll send you more information about the meeting once you've booked. Places are limited and it's first-come, first-served so please book early.

If you book by phone, please have your member number or your National Insurance number handy so we can help you quickly.



Have you nominated somebody to get your death grant?

A death grant is a one-off tax-free lump sum that's on top of any pension your husband, wife, partner – even your children – would be due if you died.

The amount payable depends when you left your job. If it was before 1 April 2008, we'd pay your deferred lump sum, including cost of living increases, as a death grant. Otherwise, we would pay 5x your deferred annual pension. The amount may be affected if you have active membership elsewhere in the LGPS.

It's up to you who gets your death grant and nominating somebody can save time and trouble at a difficult time, and help those you leave behind avoid paying inheritance tax.

If you haven't made a nomination, or want to change one, download an 'expression of wish' form now at www.wypf.org.uk/deathgrant

Freedom and Choice

Pension freedom for some, but what about LGPS members?

If you follow the news you're bound to have noticed the widespread coverage of the government's pension reforms under the slogan 'Freedom and Choice'. The reforms now offer some people greater flexibility in the way they can access their defined contribution pension savings. You may be wondering if these new freedoms include you – the short answer is that as a member of the LGPS, they don't.

As an LGPS member, you're a member of a **defined benefit** pension scheme. Freedom and Choice is for members of **defined contribution** schemes so it doesn't apply to your LGPS deferred pension at all.

Having said that, there are some indirect changes that could affect you if you're thinking about leaving the LGPS and transferring your deferred pension to a defined contribution arrangement with flexible benefits.

What is Freedom and Choice?

From 6 April 2015 members of **defined contribution** pension schemes have had more freedom over how they take money from their pension pot.

Freedom and Choice allows members of those schemes to use their pensions in several ways once they're age 55, from buying an annuity to taking their entire pension pot as cash in one go. But people doing this may end up with a surprise tax bill.

Does Freedom and Choice impact on LGPS members at all?

These new flexibilities don't apply to your LGPS pension. However, as a deferred member of the LGPS, you have the right to transfer your deferred LGPS pension.

If you use that right, you will be able to use the Freedom and Choice flexibilities under the scheme you transfer to. Note that you can't transfer your LGPS benefits if you leave with less than one year to go to your normal pension age.

Do these freedoms affect my scheme AVCs?

They might. The government is considering changing the rules to allow you to take all of your AVCs (additional voluntary contributions) in a cash lump sum (less income tax) once you reach the age of 55.

Freedom and Choice already lets you transfer your AVCs to an approved



scheme, but you should always consider taking financial advice before doing this.

Always take advice

You should always take the best advice you can when making such important decisions. And if your pension pot is more than £30,000 you will be obliged by law to take independent advice.

This is especially true when you consider the many benefits of your deferred LGPS pension.

Where can I find out more?

Check out our Q&A on Freedom and Choice at

www.wypf.org.uk/FreedomAndChoice

www.pensionwise.com is a free and impartial government service to help you understand your pension options.

Taking part in the National Fraud Initiative



We've been taking part in the National Fraud Initiative (NFI) for many years to protect your money in the pension fund.

The NFI helped trace almost £203 million in fraud, error and overpayment in England in 2012/13 – a UK total since its launch in 1996 of £1.17 billion.

The National Fraud Initiative (NFI) matches electronic data within and between public and private sector bodies to prevent and detect fraud. We have to submit data to them on a regular basis and the last check took place in September 2015.

Under the Fair processing and the Data Protection Act we have to tell you that your data will be processed in this way and submit a declaration to NFI confirming that we are following fair processing notification requirements.

When can I claim my pension?

Change proposed for leavers before 1 April 2014

Do nothing and we will pay your deferred pension benefits from your Normal Pension age. But you can choose to take them earlier at a reduced rate, or later at an enhanced rate.

At the moment the age you can do this depends on the date you left your job:

- If you left on or after 1 April 2014 you can claim your benefits any time between age 55 and 75, but
- If you left before 1 April 2014 you can only claim your benefits between age 60 and 75.

The government is looking at getting rid of this age difference and proposes to allow claims from age 55 no matter when you left your job. We'll keep you updated on this through our newsletters and our website.

If you're thinking about claiming your deferred pension benefits early, you can phone us on 01274 434999 and ask for an estimate of how much you would get.

Pension scams

Don't be a victim!

A joint pensions industry and government operation is working to stamp out pension scams, also known as pension liberation fraud.

Pension scammers use incentives to entice members to transfer their pension savings. For most people the offers will be bogus.

They claim they can help members access their pension before the legal minimum age of 55. But it's normally only in rare circumstances, such as ill health, that you can take retirement benefits before age 55.

If you are taken in by a pension scam and agree to transfer, you will probably lose most, if not all, of your pension savings. You could also receive tax charges of over half the value of your pension.

Transfer time limit warning

If you do decide to transfer your pension after taking appropriate advice, please bear in mind that except for transfers to 'Club' schemes, you must leave the scheme and choose to transfer your pension at least one year before your Normal Pension age. You can read more about all the issues on our website and at the official scams site –

www.pension-scams.com

Lincolnshire fund report 2016

Introduction by Jo Ray – Pension Fund Manager, LPF

At the end of 2015/16 our net asset value was £1.759 billion – an increase of £2.8 million from the previous year-end.

Our Pensions Committee meets quarterly and reviews asset allocations and our strategic benchmark, based on expected investment returns. It also monitors administration performance, and provides governance across all aspects of the fund. The Lincolnshire Pension Board began to assist the committee and oversee fund governance and administration from 1 April 2015 when our shared-service partnership with West Yorkshire Pension Fund also began, following the end of the Mouchel contract. Despite some big

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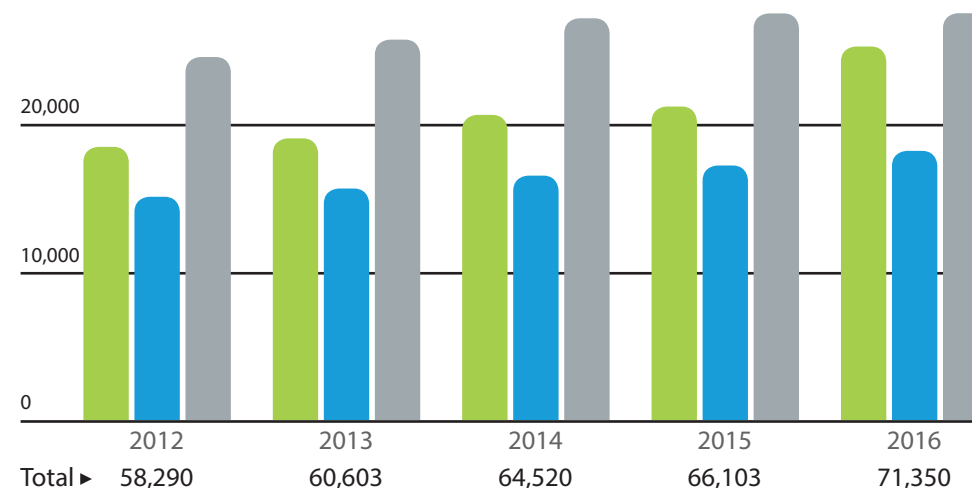
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	Total UK property		199.3	11.3
	Private equity	Capital Dynamics	15.8	0.9
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30,000



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Moving house?

Please don't forget to call us on **01274 434999** or email **pensions@wypf.org.uk** with your new address. If you email please remember to tell us your member number or National Insurance number and your previous address.


If you don't tell us you've moved, we could send confidential information to your old address.

Are we addressing you correctly?

Every home in the UK has a 'complete postal address' that helps Royal Mail deliver mail quickly, accurately and cost effectively. We checked your address against the Royal Mail's **Postcode Address File** database to make sure we're using your complete postal address.

What if my address is wrong?

In a very few cases, Royal Mail may list your address differently to the way you think it should be. We can't change this for you, but Royal Mail will correct their database if you e-mail your full address details to **addressmaintenance@royalmail.com**

 [facebook.com/westyorkshirepensionfund](https://www.facebook.com/westyorkshirepensionfund)  [@WYPF_LGPS](https://twitter.com/WYPF_LGPS)

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PO Box 67, Bradford, BD1 1UP • Phone: 01274 434999 • Email: wypf@bradford.gov.uk • Website: www.wypf.org.uk

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Regulatory and Other Committee

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

Information in appendix is commercially sensitive.

Report to:	Pensions Committee
Date:	06 October 2016
Subject:	Manager Report - Invesco Asset Management - Global ex UK Enhanced Index Equity Portfolio

Summary:

This paper introduces a presentation from Invesco Asset Managers, who manage the Global ex UK Enhanced Index Equity Portfolio. Representatives of the manager will report on how our investments have performed.

Recommendation(s):

That the Committee note the report.

Background

- 1 The Fund's external managers report quarterly in writing and at least once every twelve months in person to the Committee. Performance is formally reviewed every three years and a decision taken to retain the manager or re-tender the mandate. Contractually, management agreements can be terminated with one month's notice.
- 2 Invesco Asset Management Ltd commenced management of the global enhanced index equity portfolio on 1st July 2005. Management of the portfolio is undertaken by the Structured Products division of Invesco, who apply a financial model and optimisation process in the selection of stocks and the construction of the portfolio. The manager ran a US portfolio for the Fund from July 2000 until June 2005.
- 3 The global portfolio is the passive part of the Fund's global equity allocation and seeks, similar to the internally managed UK equity portfolio, to perform slightly better than the index whilst taking only a small degree of relative risk, i.e. likely deviation from the benchmark return measured by a forecast

tracking error. The portfolio will hold a large number of stocks and deviate only marginally from the index in terms of countries and company sectors, with out-performance expected to be generated from stock selection. The performance target for this portfolio is to outperform the MSCI World ex UK index by 1% per annum (before any fees are deducted) over a three year rolling period, whilst maintaining a forecast index tracking error of 1%. This would compare to an active manager looking to exceed an index by perhaps 3% per annum with a forecast index tracking error of 6%.

- 4 At the July meeting the Pensions Committee discussed the termination of Neptune and the reallocation of the funds. It was agreed that 50% would be reinvested with Invesco which resulted in their asset allocation increasing from 20% to 22.5%. The transfer of assets and cash to Invesco was completed on the 1st August.
- 5 The manager's representatives presenting to the Committee are Thorsten Paarman, Senior Portfolio Manager, and Hugh Ferrand, Client Director.

MANAGER PERFORMANCE TO 31ST AUGUST 2016

- 6 The Manager will comment in detail on the market environment and performance over the last year. Performance in the period is set out in the table below. Over the year the portfolio returned 26.70% compared to a benchmark of 26.30%, an out performance of 0.30%.

	Manager Return %	Benchmark Return %	Relative Performance %
2015			
September	(1.63)	(2.14)	0.52
October	5.74	5.91	(0.16)
November	2.31	2.24	0.07
December	0.47	0.52	(0.05)
2016			
January	(2.84)	(2.31)	(0.55)
February	1.30	1.04	0.25
March	3.94	3.69	0.24
April	(0.92)	(0.47)	(0.45)
May	1.47	1.29	0.18
June	7.76	7.87	(0.10)
July	5.07	5.05	0.02
August	1.76	1.45	0.30
12 months (cumulative)	26.70	26.30	0.30

7 Longer term performance is set out below.

	Portfolio %	Benchmark %	Relative %
3yrs Annualised	14.80	13.90	0.70
5yrs Annualised	15.80	14.70	0.90
Inception Annualised	9.60	8.50	1.00

8 The annualised performance since inception has been a return of 9.60% against a benchmark return of 8.50%, giving an out performance of 1.00%. This matches the targeted return of 1% per annum.

8 Annual performance has been ahead of the benchmark in all of the longer term periods shown above. All aspects of the manager's reporting and administration have been very good.

Conclusion

9 Invesco have continued to manage the Global ex UK Enhanced Index Equity portfolio to meet the out performance target, whilst keeping within their risk constraints.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Invesco presentation

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.

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

Document is Restricted

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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:	06 October 2016
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 30th June 2016 and any current issues.

Recommendation(s):

That the Committee

- i) note this report;
- ii) delegate authority to the Executive Director of Finance and Public Protection, in consultation with the Chair and Vice Chair of the Pensions Committee, to approve Pension Fund spend up to a maximum of £350k in total, to enable the set-up of the operator (BCPP) and the ACS structure; and
- iii) approve the amended tolerance levels around the strategic asset allocation.

Background

1 Fund Summary

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £86.8m (5%) to £1,837.1m on 30th June 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 30th June. All asset classes are within the agreed tolerances. One manager, Invesco, exceeded their tolerance level of +/- 1.5% by +0.1%, to account for 21.6% of the Fund. This was not rebalanced as manager changes were due to be implemented. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 2.1%

UK Equities underweight by 0.8%

Global Equities overweight by 2.9%

Underweight Alternatives by 1.0%

Underweight Property by 0.4%

Underweight Bonds by 0.6%

Neutral Cash

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

- 1.3 The purchases and sales made by the Fund's portfolio managers over the period (including those transactions resulting from corporate activity such as take-overs) are summarised in Appendix B.
- 1.4 Appendix C shows the market returns over the three and twelve months to 30th June 2016.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 30th June, accounting for 10.3% of the Fund, compared to 9.6% 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	31.2	1.7
2	BRITISH AMERICAN TOBACCO	26.5	1.4
3	RECKITT BENCKISER	20.1	1.1
7	UNILEVER	18.5	1.0
6	HSBC	17.1	0.9
4	MICROSOFT	16.7	0.9
5	APPLE	16.0	0.9
9	GLAXOSMITHKLINE	15.0	0.8
10	BP	14.2	0.8
8	ALPHABET	13.6	0.8
	TOTAL	188.9	10.3

- 1.6 Appendix D presents summarised information in respect of votes cast by the Manifest Voting Agency, in relation to the Fund's equity holdings. Over the three months covered by this report, the Fund voted at 581 company events and cast votes in respect of 9,046 resolutions. Of these resolutions, the

Fund voted 'For' 6,299, 'Against' 2,517, abstained on 53 and withheld votes on 177.

- 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:

- Strategic resilience shareholder resolutions were filed at Rio Tinto, Glencore and Anglo American. All three had high levels of support with votes in favour at 99.1%, 98% and 96% respectively.
- Being part of an investor coalition engaging with Total on strategic resilience, which has led to the company committing to report in line with the requests made in the shareholder resolutions mentioned above.
- LAPFF Vice Chair Ian Greenwood interviewed by the BBC on his participation at the BP AGM in April, discussing executive pay. LAPFF have requested a meeting with BP to discuss the remuneration policy ahead of their 2017 AGM.

- Attending 13 AGM's between April and June, raising issues ranging from remuneration, to climate risk, to supply chain management. A number of these AGMs have brought about opportunities for further engagements with the companies on issues of concern to LAPFF's members.
- LAPFF continuing to apply pressure at an EU level to ensure that IFRS 9 is not endorsed until it appropriately reflects the correct legal position on the 'target' of the true and fair view test (i.e. assets, liabilities, financial position and profit or loss), and the 'purpose' of the accounts (creditor and shareholder protection).
- LAPFF attending the Unilever AGM to find out more about the company's implementation of the 'Unilever Sustainable Living Plan', which it introduced in 2010. Unilever's efforts to integrate sustainability throughout its business model are very rare in the UK, and have attracted a lot of positive intention.

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 £8m. The invested cash has outperformed the benchmark from 1st April 2016 by 0.28%, annualised, as shown in the table below, and earned interest of £14.5k.

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 – Q1 to 30th June 2016				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised	Cumulative Weighted Benchmark Annualised	Performance
		%	%	%
8,246.3	14.5	0.73	0.45	0.28

4 TPR Checklist Dashboard

4.1 The Pension Regulator's (TPR's) checklist for how Lincolnshire meets the code of practice 14 for public service pension schemes is attached at Appendix E.

4.2 Areas that are not fully completed and compliant are:

B10 – Knowledge and Understanding – Is there a process in place for regularly assessing the pension board members' level of knowledge and understanding is sufficient for their role, responsibilities and duties?

Amber - Training is a standing item on the agenda. No self-assessment is currently undertaken.

B12 – Knowledge and Understanding - Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14?

Amber – It is the intention that all PB and PC members carry this out, and provide copies of the completion certificate to the Pension Fund Manager, however completion certificates have not been received for all members.

F1 – Maintaining Accurate Member Data - Do member records record the information required as defined in the Record Keeping Regulations and is it accurate?

Amber - Scheme member records are maintained by WYPF. Therefore much of the information here and in later questions relates to the records they hold on LCC's behalf. However, as the scheme manager, LCC is required to be satisfied the regulations are being adhered to. Data accuracy is checked as part of the valuation process and the annual benefits statement process. Monthly data submission will improve data accuracy going forwards, however there are a number of historical data issues that are in the process of being identified and rectified.

F5 - Maintaining Accurate Member Data - Are records kept of decisions made by the pension board, outside of meetings as required by the Record Keeping Regulations?

Grey – not relevant as we do not expect there to be decisions outside of the PB. This will be monitored.

H1 – Maintaining Contributions - Has an annual benefit statement been provided to all active members within the required timescales?

Amber on compliance - 87.6% of Statements as at 31st August 2016 were issued. This compares to 38% across all members at this time last year. Total across all members this year is over 90%.

H3 - Maintaining Contributions - Has a benefit statement been provided to all active, deferred and pension credit members who have requested one within the required timescales?

Amber - 96.9% of Statements as at 31st August 2016 were issued. This compares to 38% across all members at this time last year.

Total across all members this year is over 90%.

H5 - Maintaining Contributions - Has an annual benefit statement been provided to all members with AVCs within the required timescales?

Grey – provided directly by Prudential, with no Pension Fund involvement.

H6 – Maintaining Contributions - Do these meet the legal requirements in relation to format?

Grey – provided directly by Prudential, with no Pension Fund involvement.

H7 - Maintaining Contributions - Is basic scheme information provided to all new and prospective members within the required timescales?

*Amber - New starter information is issued by WYPF, **when they have been notified by employers**. This is done by issuing a notification of joining with a nomination form, transfer form and a link to the website. However, because the SLA relates to when notified, it does not necessarily mean the legal timescale has been met which is within 2 months of joining the scheme. The monthly data returns are improving this process.*

K7 – Scheme Advisory Board Guidance - Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.

Amber - Annual Training Plan of Committee shared with PB and all PB members invited to attend. Annual self-assessment not yet carried out and no personal training plans in place.

5 Risk Register Update

5.1 The risk register is a live document and updated as required. Any changes are reported quarterly, and the register is taken annually to Committee to be approved. Over the quarter there have been no additions or changes to the register.

5.2 The only red risk is risk 28 which was added in June, as a result of the Brexit vote. Given the continuing uncertainty as to how this will play out, it is felt that the red status is still appropriate.

Risk 28	Consequences	Controls	Risk Score	
			L	I
UK leaving the EU	Volatility of market Lower gilt yields leading to higher liabilities Inflation increasing liabilities	Increased monitoring of managers Review investment strategy	4	3

	Uncertainty of political direction re pooling	Regular communications with Committee and Board		
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5.3 The full risk register is available from officers should any member of the Committee wish to see it.

6 LGPS Asset Pooling

6.1 As detailed in the monthly update letter, BCPP met the deadline for the final submission to DCLG. Work has continued over the summer months to ensure that BCPP will be in a position to progress things at the required speed once final approval by Government is given.

6.2 At the time of writing this report, the expectation is still that formal approval by Ministers to progress the creation of BCPP would be received in September. Officers have stressed on a number of occasions that any delay in receiving this approval, and in the laying of the Investment Regulations which give the Secretary of State the power of intervention, will impact the ability to meet the April 2018 deadline.

6.3 Fund S151 and Legal officers were invited to a BCPP meeting on 5th September. The meeting covered a review of what had been done so far and discussion about the next steps required, particularly from the Funds point of view. In particular this was about the process each Fund had to go through to get full council approval to create the Joint Committee structure and where the authority sat to buy a share in the Teckal company that would be created. David Coleman, Chief Legal Officer, represented Lincolnshire County Council at this meeting.

6.4 The next meeting of the Member Steering Group (MSG) is set for 30th September, and members will receive a number of papers updating them on the various meetings held and progress made since the last MSG meeting in June. Papers brought to that meeting include phase three project delivery proposals, budget requirements and proposed next steps. Once this has been agreed by the MSG, this report will be shared in the September monthly update letter.

6.5 To get BCPP to the final submission stage, an initial budget of £50k per fund was agreed in February. This provided a total budget of £600k. Very little of this has actually been spent to date (approximately £90k on advisory work) but the submission identified that to get the company into a position to manage assets from April 2018, the total cost may be as high as £4.2m across all 12 Funds (taken from figures provided by Deloitte). This figure included all set-up costs including staff, legal and professional, procurement, IT and infrastructure, regulatory costs for the operator (BCPP) and legal and professional costs for setting up the ACS structure. Taking account of the

£50k already allocated, this requires approval to spend up to another £300k per Fund to meet the cost requirements.

- 6.6 **Delegated authority request** - To ensure that funds are available when required and to meet the potential costs of the set-up of BCPP, it is requested that authority is delegated to the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee, to approve Pension Fund spend up to £350k (including the £50k already agreed).

7 Strategic Benchmark Tolerances

- 7.1 It is accepted practice to report to Committee on any asset class or portfolio that has moved outside of the agreed tolerances around the strategic benchmark. Following the termination of Neptune at the July Pensions Committee, it was agreed to reallocate the funds to Invesco and Morgan Stanley Global Brands. As a result of this, the existing tolerance levels were no longer appropriate and it was agreed to review these and bring them to this Committee for approval.

- 7.3 The table below shows the existing benchmark allocation and tolerance levels and the recommended tolerances following the asset allocation changes.

Investment	Current (%)		w.e.f. August 2016 (%)	
	Benchmark	Tolerance	Benchmark	Tolerance
UK Equities	20	+/- 1.5	20	+/- 2
Global Equities				
Invesco	20	+/- 1.5	22.5	+/- 2.5
Threadneedle	5	+/- 1	5	+/- 1
Schroder	5	+/- 1	5	+/- 1
Neptune	5	+/- 1		
Morgan Stanley	5	+/- 1	7.5	+/- 1
Total Equities	60	+/- 5	60	+/- 7.5
Alternatives	15	+/- 1.5	15	+/- 1.5
Property	11.5	+/- 1	11.5	+/-1.5
Fixed Interest				
Blackrock	6.75	+/- 1	6.75	+/- 1
*Blackrock interim	6.75	+/- 1	6.75	+/- 1
Total Fixed Interest	13.5	+/- 1.5	13.5	+/- 1.5
Cash	0	+/- 0.5	0	+/- 0.5

*BMO were terminated in June, with the redemption carried out over a two month period and invested with Blackrock Corporate Bonds <5yrs Fund in September. This is an interim holding pending asset allocation discussions.

- 7.4 The changes make the tolerances more proportional to the size of the asset allocation than they were before, and are listed below:

- Increasing UK equities to +/- 2%
- Increasing Invesco to +/- 2.5%
- Increasing Total Equities to +/- 7.5%
- Increasing Property to +/- 1.5%

7.5 The Committee are asked to approve the amended tolerance levels.

8 GAD Section 13

8.1 Section 13 of the Public Service Pensions Act 2013 (S13) is a piece of primary legislation that requires that an appointed person, in this case the Government Actuary's Department (GAD), to report on whether the LGPS formal funding valuations adhere to a framework that looks at the following criteria:

- Compliance – to confirm the valuation has been carried out in accordance with the Regulations
- Consistency – to confirm the valuation is not inconsistent with other valuations
- Solvency - to confirm the contributions are sufficient to ensure solvency
- Long Term Cost Efficiency – to confirm contributions are sufficient to meet benefit accrual and existing deficit

8.2 The 2016 LGPS Triennial Valuations will be the first carried out under this new review framework and, to understand the potential outcomes of such a review, a dry run was completed in August using the March 2013 valuation data. Throughout this process GAD have had considerable input from all LGPS Fund Actuaries in order to improve their understanding of LGPS funding valuations and to resolve specific queries relating to contribution schedules and funding plans.

8.3 GAD published the results for each of the LGPS Funds, using a RAG rating. The results against the criteria across the LGPS are shown below:

- Compliance – no compliance issues were found.
- Consistency – presentational and evidential inconsistencies were found in the valuation approaches adopted, in the assumptions used and in the disclosure of results.
- Solvency – concerns were reported on two closed transport funds and a number of funds raised amber flags on one or more metrics. No red flags were raised.
- Long Term Cost Efficiency – GAD named two funds they wished to have conversations with on their funding plans.

8.4 GAD clarified that meeting solvency and long term cost-efficiency requirements takes precedence in the regulatory framework over the desirability of stable contributions. Ensuring stability of contributions has always been a consideration in setting the rates for Lincolnshire employers, therefore this will have to be carefully considered when agreeing the

outcomes of the 2016 valuation, to ensure that at a Fund level no surprise amber or red flags were raised by GAD.

8.5 In the dry run, the Lincolnshire Pension Fund received green flags across all criteria.

9 LGPS Guidance on Preparing and Maintaining an Investment Strategy Statement

9.1 Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016 (not yet laid at the time of writing this report) requires the formulation, publication and maintenance of an Investment Strategy Statement (ISS) by each Fund, in accordance with guidance issued by the Secretary of State. The ISS replaces the need for a Statement of Investment Principles (SIP) which is currently prepared and was last reviewed by this Committee at the July meeting.

9.3 The ISS required by Regulation 7 must include:

- A requirement to invest 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 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; and
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

9.2 This guidance has now been received (included at appendix F) and all funds must produce and publish their ISS by 1st April 2017. It is expected that additional guidance will be produced by CIPFA and consultants, to assist funds in preparing robust ISS's.

9.3 Officers will work with the Investment Consultant to bring a report and draft ISS to the Committee ahead of the 1st April deadline, highlighting how each of the requirements has been met.

10 Lincolnshire Pension Fund – Scheme Member Annual Meeting

10.1 As agreed at the October meeting last year, the Fund is holding its first annual meeting for scheme members. This is taking place on 23rd November at the Alive Conference Centre in Lincoln. Attendance will be limited to 200 members, on a first come, first served basis. Booking is available on the WYPF website.

10.2 The Pension Fund Manager will chair the event, and presentations will be given by the Chair of the Pensions Committee and the Chair of the Pension Board. In addition, a joint presentation is being given by Trading Standards and the Police covering scams.

Conclusion

- 11 This reporting period saw the value of the Fund rise, increasing by £86.8m to £1,837.1m. At the end of the period the asset allocation, compared to the strategic allocation, was;
- overweight equities;
 - neutral cash; and
 - underweight property, fixed interest and alternatives .
- 12 BCPP met the deadline for submitting their asset pooling proposal and awaits the Governments formal response.
- 13 Delegation of authority is requested to allow the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee, to approve Pension Fund spend up to £350k to enable the set-up of BCPP.
- 14 The Committee are asked to approve the amended strategic benchmark reporting tolerances, following the reallocation of the Neptune portfolio.
- 15 Officers will work with the Investment Consultant to bring a report and draft ISS to the Committee ahead of the 1st April 2017 deadline, highlighting how each of the requirements has been met.

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
Appendix F	LGPS Guidance on Preparing and Maintaining an Investment Strategy Statement

Background Papers

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

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

APPENDIX A

DISTRIBUTION OF INVESTMENTS

INVESTMENT	30 Jun 2016			31 Mar 2016			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
UK Index Tracker	352,763,615	30.9%	19.2%	335,436,113	31.5%	19.2%	20.0	+/- 1.5%
TOTAL UK EQUITIES	352,763,615		19.2%	335,436,113		19.2%	20.0	
GLOBAL EQUITIES								
Invesco	397,419,103	34.8%	21.6%	366,712,212	34.4%	21.0%	20.0	+/- 1.5%
Threadneedle	101,510,274	8.9%	5.5%	94,090,170	8.8%	5.4%	5.0	+/- 1%
Schroder	97,002,603	8.5%	5.3%	88,886,820	8.3%	5.1%	5.0	+/- 1%
Neptune	85,269,536	7.5%	4.6%	81,408,360	7.6%	4.7%	5.0	+/- 1%
Morgan Stanley	106,966,954	9.4%	5.8%	99,033,148	9.3%	5.7%	5.0	+/- 1%
TOTAL GLOBAL EQUITIES	788,168,470		42.9%	730,130,710		41.7%	40.0	
TOTAL EQUITIES	1,140,932,085	100%	62.1%	1,065,566,823	100%	60.9%	60.0	+/- 5%
ALTERNATIVES	256,873,198		14.0%	250,456,345		14.3%	15.0	+/- 1.5%
PROPERTY	203,362,759		11.1%	202,064,149		11.5%	11.5	+/- 1%
FIXED INTEREST								
Goodhart F & C	107,457,676	45.5%	5.8%	108,035,745	47.5%	6.2%	6.75	+/- 1%
Blackrock	128,954,366	54.5%	7.0%	119,563,934	52.5%	6.8%	6.75	+/- 1%
TOTAL FIXED INTEREST	236,412,042	100%	12.9%	227,599,680	100%	13.0%	13.5	+/- 1.5%
TOTAL UNALLOCATED CASH	-521,178		0.0%	4,562,481		0.3%	0.0	+ 0.5%
TOTAL FUND	1,837,058,906		100%	1,750,249,478		100%	100	

APPENDIX B

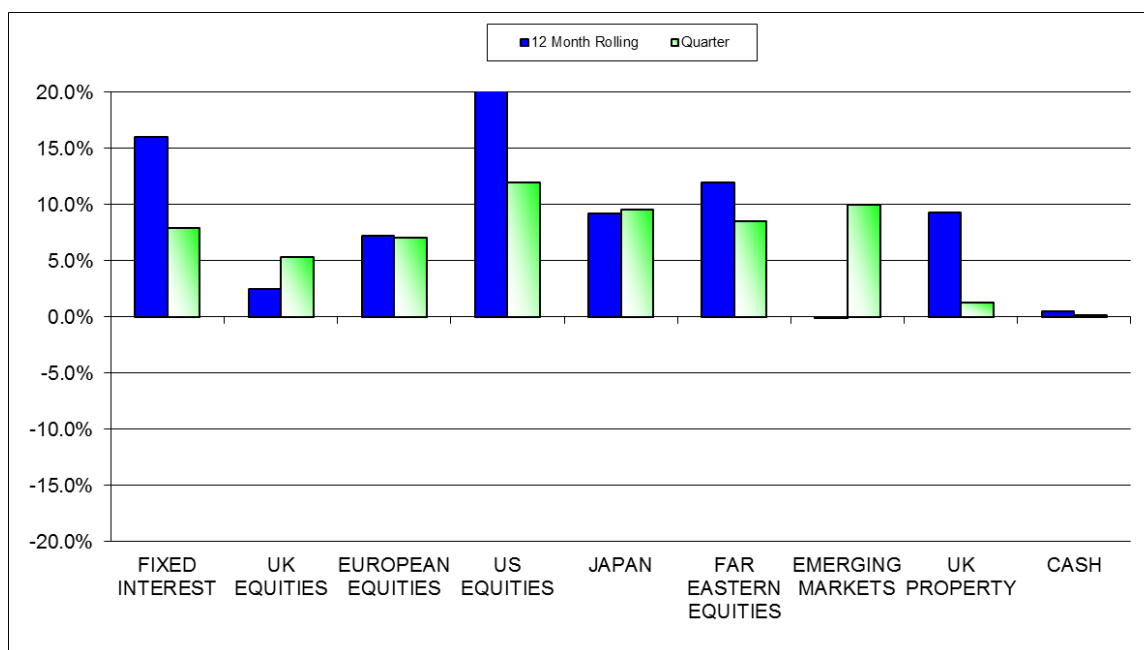
PURCHASES AND SALES OF INVESTMENTS – QTR ENDED 30th JUNE 2016

Investment	Purchases £000's	Sales £000's	Net Investment £000's
UK Equities			
In House	8,187	1	8,186
Global Equities			
Invesco	217,317	216,296	1,021
Threadneedle	8,058	10,702	(2,644)
Schroders	8,189	7,605	584
Neptune	19,440	20,292	(852)
Morgan Stanley Global Brands	0	0	0
Total Equities	261,191	254,896	6,295
Alternatives			
Morgan Stanley	0	0	0
Total Alternatives	0	0	0
Property	74	2,067	(1,993)
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 June 16	Apr-Jun 16
	%	%
FIXED INTEREST	7.9%	16.0%
UK EQUITIES	5.3%	2.5%
EUROPEAN EQUITIES	7.0%	7.2%
US EQUITIES	11.9%	24.1%
JAPANESE EQUITIES	9.5%	9.2%
FAR EASTERN EQUITIES	8.5%	12.0%
EMERGING MARKETS	10.0%	-0.1%
UK PROPERTY	1.3%	9.3%
CASH	0.1%	0.5%

APPENDIX D

Votes Summarised by Votes Cast				
Votes Cast at Management Group Level				
Report Period: 01 Apr 2016 to 30 Jun 2016				
Voting Guideline Code	For	Abstain	Against	Total
(Other) Restructuring	0	0	0	0
Adjourn Meeting	4	0	0	4
Advisory Board aggregate remuneration approval	1	0	0	1
All Employee Share Schemes	25	0	18	43
Alternate Auditor	13	0	0	13
Annual Incentive Plan Metrics	22	0	0	22
Anti-Takeover Provisions	0	5	2	7
Any Other Business	0	0	7	7
Appoint Audit Committee Member	11	0	0	11
Appoint Chairman	11	0	1	12
Appoint Corporate Assembly (Norway)	13	0	0	13
Appoint Independent Proxy	13	0	0	13
Appoint Nom Committee Member	6	0	0	6
Appoint Nomination Committee	9	0	0	9
Appoint Rem Committee Member	45	0	0	45
Approval of Executive's Remuneration Package	2	0	0	2
Approve Agreement	6	0	0	6
Approve CSR Report	2	0	0	2
Approve Majority Vote Standard for Directors	3	0	0	3
Approve Minutes	1	0	0	1
Auditor - Appointment	426	0	104	530
Auditor - Deputy/Secondary	2	0	0	2
Auditor - Discharge	5	0	0	5
Auditor - Remuneration	129	0	71	200
Auth Board to Issue Shares	195	0	28	223
Auth Board to Issue Shares w/o Pre-emption	66	0	160	226
Authorise Board to set Board Size	2	0	0	2
Authorise Option Grants/Dilution	9	0	0	9
Authorise Political Donations & Expenditure	77	0	3	80
Authorised Capital	0	0	0	0
Authorised Capital [DE/CH/AT]	9	0	0	9
Board Alternate	5	0	0	5
Board of Directors aggregate remuneration approval	17	0	0	17
Board of Stat Audit - Candidate List (Italy)	0	0	0	0
Board of Stat Audit - PR List System (Italy)	0	0	0	0
Board Rem - Allow Board to Set	4	0	0	4

Board Rem - Approve Bonuses	13	0	0	13
Board Rem - Special/Retirement Bonuses	4	0	0	4
Board Size for Year	14	0	0	14
Board Size Range	6	0	0	6
Cancel Class of Capital	1	0	0	1
Cancel Treasury Shares	31	0	6	37
Capital Raising	1	0	0	1
Chairs Corporate Responsibility Committee	12	0	1	13
Change Board Structure	3	0	0	3
Change Financial Reporting Period	2	0	0	2
Change of Name	5	0	0	5
Company Objectives	4	0	0	4
Conditional Capital [DE/CH/AT]	3	0	0	3
Corporate Governance Policy	2	0	0	2
Debt - Borrowing Powers	1	0	1	2
De-classify the Board	5	0	0	5
Delegate Powers	16	0	0	16
Director - Discharge from Liability	128	0	0	128
Director Election - All Directors [Contested]	6	0	6	12
Director Election - All Directors [Single]	3875	15	1597	5487
Director Election - CEO	0	0	4	4
Director Election - Chairman	133	0	312	445
Director Election - Chairs Audit Committee	381	0	51	432
Director Election - Chairs Nomination Com	299	0	122	421
Director Election - Chairs Remuneration Com	342	15	56	413
Director Election - Chairs Risk Com	36	0	3	39
Director Election - Executives	616	0	721	1337
Director Election - Lead Ind. Director/DepCH	254	0	46	300
Director Election - Non-executive/Sup Board	3180	15	801	3996
Director Election - PR List System (Italy)	0	0	2	2
Director Election - Sits on Audit Committee	1171	7	219	1397
Director Election - Sits on Nomination Com	1301	7	209	1517
Director Election - Sits on Risk Com	155	0	19	174
Director Election - Slate	10	0	2	12
Director Election - Sts on Remuneration Com	1092	0	218	1310
Directors liability insurance	1	0	0	1
Directors' Pensions	9	0	0	9
Distribute/Appropriate Profits/Reserves	144	0	8	152
Dividends - Ordinary	236	0	25	261
Dividends - Scrip	19	0	0	19
EGM Notice Periods	137	0	0	137
Elect Censeur (Board Observer)	2	0	0	2
Elect Member Audit & Supervisory Board (JP)	90	0	5	95

Executive aggregate remuneration approval	19	0	0	19
Financial Statements	210	1	95	306
Financial Statements - Environmental Issues	193	1	94	288
Greenshoe Option	12	0	0	12
Individual Share Award	1	0	0	1
Individual Share Option Grant	0	0	2	2
Individual Total Remuneration - Past Year Approval	62	0	0	62
Insert New Holding Company	1	0	0	1
Issue Bonds (Other)	1	0	0	1
Issue Bonds with warrants	1	0	0	1
Issue Convertible Bonds	7	0	2	9
Issue Warrants to Directors/Employees	1	0	0	1
Long-term Deferral Systems	10	0	1	11
Long-term Incentive Plans	1	0	115	116
LTIP Performance Measures	3	0	0	3
Meeting Formalities	33	0	0	33
Meeting Record Date	1	0	0	1
NED Remuneration - Fee Rate/Ceiling	31	0	0	31
NED Remuneration - Fees actually paid	11	0	0	11
NED Remuneration - Fees proposed for year	33	0	1	34
NED Remuneration - Policy	8	0	0	8
NED Share Plan	4	0	0	4
New Class of Capital	5	0	0	5
Non-voting agenda item	4	0	0	4
Other Changes to Governance Arrangements	142	0	2	144
Other Meeting Procedures	10	0	0	10
Other Payments to Directors/Corp Auditors	3	0	0	3
Permit Holding of Treasury Shares	1	0	0	1
Proportional Takeover Provisions	1	0	0	1
Provision of Financial Assistance	1	0	0	1
Ratification of a Prior Act	0	0	0	0
Ratify Co-option to Board	8	0	0	8
Reduce Nominal Value	1	0	0	1
Reduce or Reclassify Capital or Reserves	9	0	0	9
Reduce Share Premium Account	1	0	0	1
Reissue (Use) Treasury Shares	16	0	4	20
Related Party Transaction - Approve Report on	25	0	0	25
Related Party Transaction - Mandate	1	0	0	1
Related Party Transaction - Specific Transaction	0	0	0	0
Remove Cumulative Voting for Directors	1	0	0	1
Remove Majority Vote Standard for Directors	1	0	0	1
Remove Supermajority Provisions	3	0	0	3
Remuneration Policy	20	0	33	53

Remuneration Report	87	0	358	445
Research Pending	0	0	0	0
Resolution Issues	2	0	0	2
Return of Capital	0	0	0	0
Right to Nominate Directors - 'Proxy Access'	2	0	0	2
Say-on-pay Frequency	4	6	2	12
Scheme of Arrangement	0	0	0	0
Set Exclusive Jurisdiction	4	0	0	4
SH: Adopt sustainable sourcing policies	1	0	0	1
SH: Adopt/amend Human Rights Policy	0	0	0	0
SH: Approve Cumulative Voting for Directors	2	0	0	2
SH: Approve Majority Vote Standard for Directors	11	0	0	11
SH: De-classify the Board	1	0	0	1
SH: Director Election - All Directors [Single]	0	0	0	0
SH: Director Shareholding Requirement / Policy	9	0	0	9
SH: Director with Environmental Expertise	0	0	0	0
SH: Diversity & Equality Policies	10	0	3	13
SH: Employee Shareholder Reps (France)	0	0	0	0
SH: Establish Corp Responsibility Committee	1	0	0	1
SH: Establish Other Board Committee	6	0	0	6
SH: Fracking	0	0	0	0
SH: Improve CSR Disclosure	1	0	0	1
SH: Independent Chairman	38	0	0	38
SH: Lobbying - Improve Disclosure	42	0	0	42
SH: Methane Emissions	3	0	0	3
SH: Other Board-related Proposals	1	0	1	2
SH: Other Executive Pay Proposal	2	0	0	2
SH: Other Natural Resource Management Issue	0	0	1	1
SH: Pay Disparity	2	0	0	2
SH: Performance Conditions - Add ESG Metrics	3	0	0	3
SH: Performance Conditions - Introduce	2	0	0	2
SH: Performance Conditions - Strengthen	2	0	0	2
SH: Political Spending - Improve Disclosure	12	0	9	21
SH: Recycling Reporting	0	0	0	0
SH: Remove Multiple Voting Rights	14	0	0	14
SH: Remove Supermajority Provisions	5	0	0	5
SH: Report on Climate Change Risks	0	0	0	0
SH: Report on Employee Health & Safety	0	0	0	0
SH: Report on Human Rights Issues	0	0	0	0
SH: Request Audit Firm Rotation	1	0	0	1
SH: Request Capital Distribution	0	0	0	0
SH: Request CSR/Sustainability Report	10	0	0	10
SH: Request Say on CSR Report	1	0	0	1

SH: Request Say on Dividend	1	0	0	1
SH: Request Say on Severance	1	0	0	1
SH: Require Clawbacks	8	0	0	8
SH: Restrict Accelerated Vesting of LTIP Awards	17	0	0	17
SH: Right to Nominate Directors - 'Proxy Access'	16	0	0	16
SH: Separate Chairman & CEO	1	0	0	1
SH: Setting GHG reduction goals	0	0	0	0
SH: Shareholder Action by Written Consent	17	0	0	17
SH: Shareholder Resolution - Disclosure	0	0	0	0
SH: Shareholder Resolution - Other	0	0	0	0
SH: Shareholder Resolution - Strategy	0	0	0	0
SH: Special Meetings - Introduce Right	6	0	0	6
SH: Special Meetings - Lower Threshold	7	0	0	7
SH: Taxation Strategies	2	0	0	2
SH: Tobacco	0	0	0	0
SH: Voting Procedures	8	0	0	8
SH: Weapons	0	0	0	0
Share Buy-back Authority (inc Tender Offer)	184	0	63	247
Share Consolidation	0	0	0	0
Share Issue - Approve Discounted Issue Price	1	0	0	1
Share Issue - Consideration for Offer	3	0	0	3
Share Issue - Contributions in Kind	13	0	0	13
Share Issue - Employees - Discr Opt/Shares	11	0	0	11
Share Issue - Employees - Free Shares	29	0	1	30
Share Issue - Employees - Savings Plans	18	0	0	18
Share Issue - Other	13	0	0	13
Share Issue - Overall Ceiling	8	0	0	8
Share Issue w/o Pre-emption set Issue Price	1	0	0	1
Share Issue w/o Pre-emption w Priority Per	4	0	0	4
Share Split	2	0	0	2
Shareholder Resolution - Articles of Assoc.	1	0	0	1
Shareholder Resolution - General	0	0	1	1
Significant Transactions	0	0	2	2
Sits on Corporate Responsibility Committee	47	0	3	50
Substitute Member Audit & Sup Board (JP)	14	0	0	14
Termination Payments (Actual payoffs)	2	0	0	2
Termination Provisions (Contract clauses)	5	0	0	5
Treasury Shares - Set Re-issue Price Range	3	0	2	5
Unclassified	0	0	0	0
Waive Mandatory Takeover Requirement	1	0	3	4
	16492	72	5626	22190

The Pension Regulator's and Scheme Advisory Board Compliance Checklist

Summary Results Dashboard

No	Completed	Compliant
Reporting Duties		
A1	G	G
A2	G	G
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	G	G
B9	G	G
B10	A	A
B11	G	G
B12	A	A
Conflicts of Interest		
C1	G	G
C2	G	G
C3	G	G

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	G
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	G
G6	G	G
G7	G	G
G8	G	G
G9	G	G

No	Completed	Compliant
Providing Information to Members and Others		
H1	G	A
H2	G	G
H3	G	A
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	G
J2	G	G
J3	G	G
Scheme Advisory Board Requirements		
K1	G	G
K2	G	G
K3	G	G
K4	G	G
K5	G	G
K6	G	G
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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Department for
Communities and
Local Government

Local Government Pension Scheme

Guidance on Preparing and Maintaining an Investment
Strategy Statement



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September 2016

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Foreword

This guidance has been prepared to assist administering authorities in the local government pension scheme in England and Wales with the formulation, publication and maintenance of their Investment Strategy Statement.

New investment regulations to be introduced later this year will include a requirement for administering authorities to publish new Investment Strategy Statements by 1st April 2017 in accordance with the guidance set out below.

Administering authorities will be required to act in accordance with the provisions in this guidance when Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 comes into force.

Part 1

Introduction and background

This guidance has been prepared to assist administering authorities in the formulation, publication and maintenance of their Investment Strategy Statement required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Unless otherwise stated, references to regulations are to the 2016 Regulations.

An administering authority's duty to prepare, maintain and review their Funding Strategy Statement under Regulation 58 of the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") is unaffected.

Statutory background

Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement required by Regulation 7 must include:-

- a) A requirement to invest money in a wide variety of investments;
- b) The authority's assessment of the suitability of particular investments and types of investments;
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) 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; and

- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This, in effect, replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations").

Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies will continue in force until such time that the Investment Strategy Statement under Regulation 7 is published.

Directions by the Secretary of State

Regulation 8 enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with this guidance.

One of the main aims of the new investment regulations is to transfer investment decisions and their consideration more fully to administering authorities within a new prudential framework. Administering authorities will therefore be responsible for setting their policy on asset allocation, risk and diversity, amongst other things. In relaxing the regulatory framework for scheme investments, administering authorities will be expected to make their investment decisions within a prudential framework with less central prescription. It is important therefore that the regulations include a safeguard to ensure that this less prescriptive approach is used appropriately and in the best long term interests of scheme beneficiaries and taxpayers.

Where there is evidence to suggest that an authority is acting unreasonably, it may be appropriate for the Secretary of State to consider intervention, but only where this is justified and where the relevant parties have been consulted. Regulation 8 includes a number of safeguards, including full consultation with the relevant authority, to ensure that the proposed power is used appropriately, proportionately and only where justified by the evidence.

The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

The power of Direction can be used in all or any of the following ways:-

- a) To require an administering authority to make changes to its investment strategy in a given timescale;
- b) To require an administering authority to invest assets as specified in the Direction;
- c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and

- d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

Before issuing any Direction, the Secretary of State must consult the administering authority concerned and before reaching a decision, must have regard to all relevant evidence including reports under section 13(4) of the Public Service Pensions Act 2013; reports from the scheme advisory board or from the relevant local pension board and any representations made in response to the consultation with the relevant administering authority. The Secretary of State also has the power to commission any other evidence or additional information that is considered necessary.

General

Part 2 below sets out the guidance for authorities under each of the component parts of Regulation 7. The specific requirements under each heading are shown at the end of each sub section in a text box and in bold type. It is important to note, however, that these lists are not exclusive and that administering authorities are also required to comply with general public law principles and act within a prudential framework.

Part 2

Regulation 7(2) (a) - Investment of money in a wide variety of investments

A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility.

For example, the range of asset classes could include UK and overseas equities of different sectors; bonds with varying maturity; alternative investment assets such as private equity, infrastructure and cash instruments.

However, this guidance does not purport to prescribe the specific asset classes over which fund monies must be diversified. This remains a decision for individual administering authorities to make. Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries.

An administering authority must also be able to demonstrate that they review their diversification policy from time to time to ensure that their overall target return is not put at risk.

Summary of requirements

In formulating and maintaining their policy on diversification, administering authorities:-

- **Must take proper advice**

- **Must set out clearly the balance between different types of investments**
- **Must identify the risks associated with their overall investment strategy**
- **Must periodically review their policy to mitigate against any such risks**

Regulation 7(2)(b) - The suitability of particular investments and types of investments

The concept of suitability is a critical test for whether or not a particular investment should be made. Although individual investment classes will have varying degrees of suitability in the context of an authority's funding and investment strategies, the overall aim of the fund must be to consider suitability against the need to meet pension obligations as they fall due.

Assessing the suitability of different investment classes involves a number of factors including, for example, performance benchmarks, appetite for risk, policy on non-financial factors and perhaps most importantly, funding strategy.

What constitutes suitability is clearly a matter for individual administering authorities to consider and decide in the light of their own funding and investment strategies, but there is a clear expectation that the assessment should be broadly consistent across all administering authorities. Administering authorities must therefore take and act on proper advice in assessing the suitability of their investment portfolio and give full details of that assessment in their Investment Strategy Statement.

Summary of requirements

In formulating their policy on the suitability of particular investments and types of investments, administering authorities:-

- **Must take proper advice**
- **Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target**
- **Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy**

Regulation 7(2)(c) - The approach to risk, including the ways in which risks are to be measured and managed

The appetite of individual administering authorities for taking risk when making investment decisions can only be a matter for local consideration and determination, subject to the aim and purpose of a pension fund to maximise the returns from investment returns within reasonable risk parameters.

Some of the key risks that an administering authority needs to be aware include financial, demographic or regulatory risks. A detailed summary of the identification of all risks and counter-measures to mitigate against them is beyond the scope of this guidance, but administering authorities will continue to have regard to the requirement under Regulation

58 of the 2013 Regulations to have regard to the “Guidance on Preparing and Maintaining a Funding Strategy Statement” published by CIPFA, which includes a section on risk and the ways in which it can be measured and managed.

Summary of requirements

In formulating their policy on their approach to risk, administering authorities:-

- **Must take proper advice**
- **Should clearly state their appetite for risk**
- **Should be aware of the risks that may impact on their overall funding and investment strategies**
- **Should take measures to counter those risks**
- **Should periodically review the assumptions on which their investment strategy is based**
- **Should formulate contingency plans to limit the impact of risks that might materialise**

Regulation 7(2)(d) - The approach to pooling investments, including the use of collective investment vehicles and shared services

All authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform and criteria published in November 2015, or to the extent that it does not, that Government is content for it to continue.

Any change which results in failure to meet the criteria must be reported by the administering authority, and/or pool, to the Secretary of State and the Scheme Advisory Board.

Administering authorities should set out their approach to pooling and the proportion of assets that will be invested through the pool. This must include the structure and governance arrangements and the mechanisms by which the authority can hold the pool to account.

Where services are shared or jointly procured, the administering authority must set out the rationale underpinning this and the cost benefit of this, as opposed to pooling.

Administering authorities must provide a summary of assets to be held outside of the pool, and how this demonstrates value for money. The progress of asset transfers to the pool must be reported annually against implementation plans and submitted to the Scheme Advisory Board. Where it is possible that an asset could be pooled in the future, authorities must set a date for review and criteria that need to be met before the asset will be pooled.

Summary of requirements

In formulating and maintaining their approach to pooling investment, including the use of collective investment vehicles and shared services, an administering authority must:-

- **Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf, or have been otherwise agreed by the Government**
- **Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria**
- **Set out the proportion of assets that will be invested through pooling**
- **Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account**
- **Set out the services that will be shared or jointly procured**
- **Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money;**
- **Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money**
- **Submit an annual report on the progress of asset transfers to the Scheme Advisory Board**

Regulation 7(2)(e) - How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme, a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

Although administering authorities are not subject to trust law, those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it.

The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and

corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

However, the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

Investments that deliver social impact as well as a financial return are often described as “social investments”. In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Summary of requirements

In formulating and maintaining their policy on social, environmental and corporate governance factors, an administering authority:-

- **Must take proper advice**
- **Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors**
- **Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments**
- **Should not pursue policies that are contrary to UK foreign policy or UK defence policy**
- **Should explain their approach to social investments**

Regulation 7(2)(f) - The exercise of rights (including voting rights) attaching to investments

The long-term investment interests of administering authorities are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure

and corporate governance, including culture and remuneration. Engagement by administering authorities is purposeful and can identify problems through continuing dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.

Engagement enables administering authorities as long term shareholders to exert a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of environmental, social and corporate governance issues.

Administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code. Administering authorities should become Signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a “comply or explain” basis.

Concern has been expressed in the past about the scope of Regulation 12(2)(g) of the 2009 Regulations which, in effect, allowed each administering authority to decide whether or not to adopt a policy on the exercise of the rights attaching to investments, including voting rights. To increase awareness and promote engagement, Regulation 7(2)(f) now requires every administering authority to formulate a policy that reflects their stewardship responsibilities.

Summary of requirements

In formulating their policy on the exercise of rights, administering authorities:-

- **Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments**
- **Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code**
- **Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)**
- **May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority**
- **Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations**

:

Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	06 October 2016
Subject:	Investment Management Report

Summary:

This report covers the management of the Lincolnshire Pension Fund assets, over the period from 1st April to 30th June 2016.

Recommendation(s):

That the committee note this report.

Background

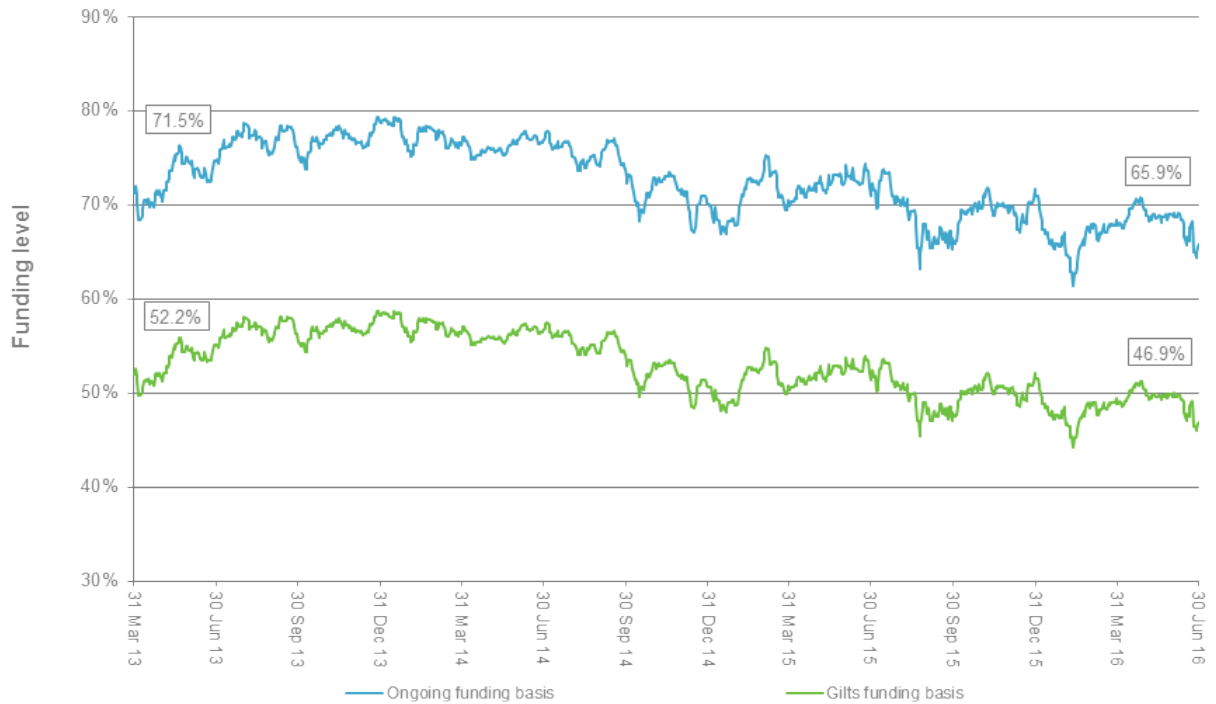
This report is split into four areas:

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

1. Funding Level Update

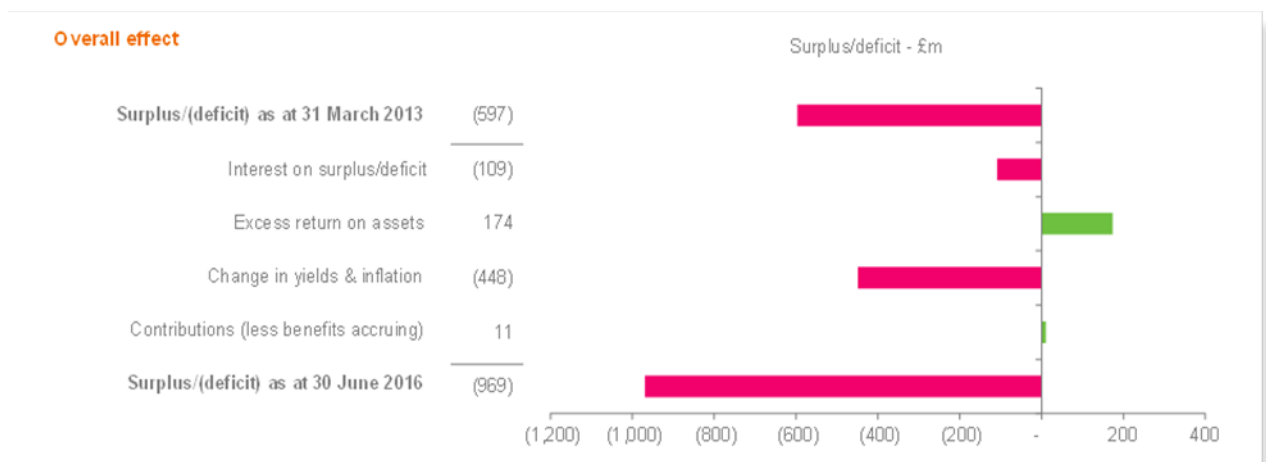
- 1.1 The funding update is provided to illustrate the estimated development of the funding position from 31st March 2013 to 30th June 2016, for the Fund.
- 1.2 As the graph below shows, the funding level at the latest formal valuation was 71.5%. As at 30th June 2016 the funding level has decreased to 65.9%. This, however, is not based on the formal Valuation funding level for March 2016, as the modelling used for this report is a roll forward of the March 2013 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 £969m between the period 31st March 2013 and 30th June 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. This has been offset by a decrease in inflation and strong asset performance.

1.4 What's happened since last valuation?



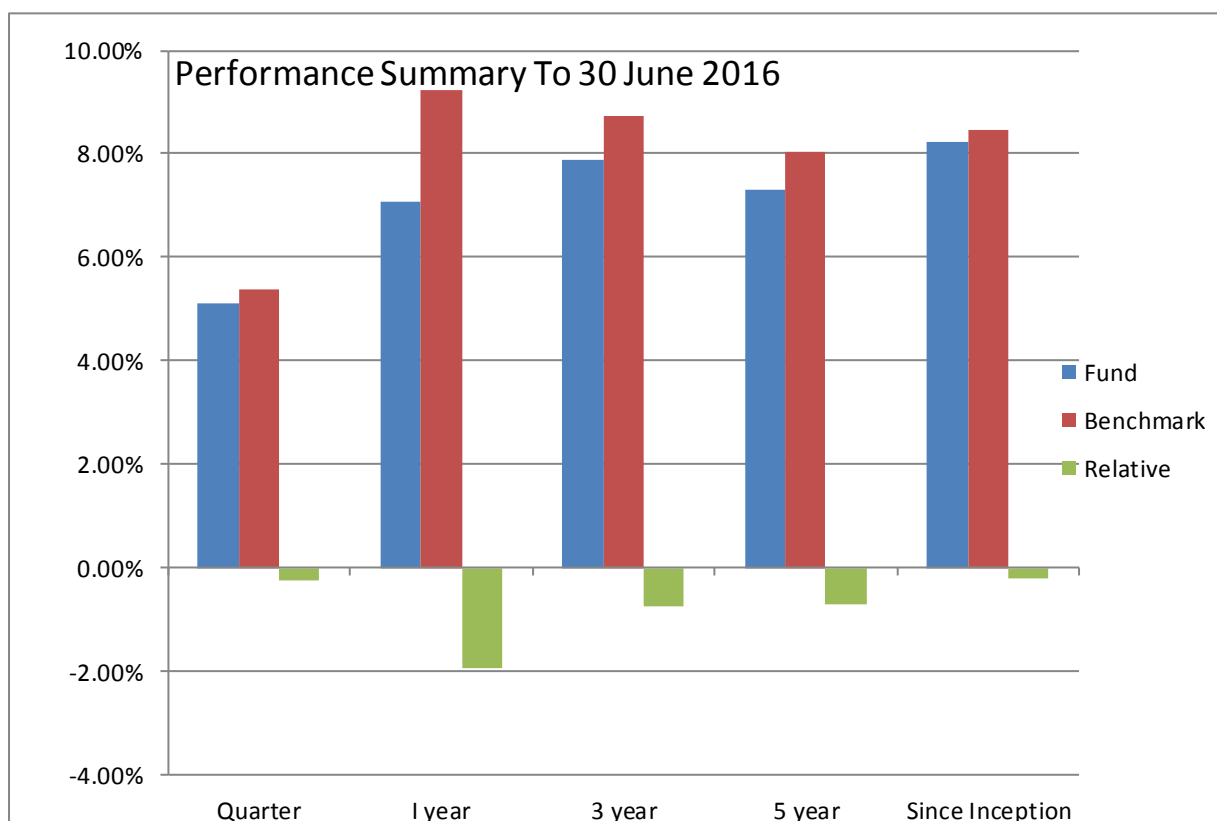
2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £86.9m during the quarter from £1,750.2m to £1,837.1m, as the table below shows.

Asset Class	Q1 2016 £	Q4 2015 £	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	352.8	335.4	19.2	20.0	(0.8)
Global Equities	788.2	730.1	42.8	40.0	2.8
Alternatives	256.9	250.5	14.0	15.0	(1.0)
Property	203.3	202.0	11.1	11.5	(0.4)
Fixed Interest	236.4	227.6	12.9	13.5	(0.6)
Cash	(0.5)	4.6	0.0	0.0	0.0
Total	1,837.1	1,750.2	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 5.12% but underperformed the benchmark which returned 5.38%. The Fund is behind the benchmark over all periods. The underperformance is due to significant underperformance from two managers in the Fund, Neptune and BMO; and both managers were terminated at the July meeting of this Committee.



* 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 eighteen managers and during the quarter there was one rating change where Aviva Pooled Property Fund has been moved from "on watch" to "retain". Seventeen managers remained rated as "retain", and one manager, Rreef Ventures Fund 3, as "on watch". Officers continue to monitor 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	
Morgan Stanley Global Brands					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 4.3.

4.2 Manager Returns – As shown below it was a good quarter for the Fund with all managers, except for BMO, producing a positive absolute return. Disappointingly over the quarter, only two managers outperformed their benchmark, UK Equity in-house and Schroders. Over the 12 month period three managers have failed to produce a positive absolute return, Morgan Stanley Alternatives, Neptune and BMO. These three managers have also disappointed against their benchmark.

4.3 Individual manager reports have not been prepared for Neptune and BMO as performance to June 2016 was discussed at the July Pension Committee, where the decision to terminate the Funds mandate with both managers was taken.

	3 months ended 30/06/16			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	Target p.a. %
Passive UK Equity In house	5.5	5.3	0.2	2.4	2.5	(0.1)	+/- 0.5
Invesco (Global Equities (ex UK))	8.3	8.8	(0.5)	15.3	15.3	0.0	+1.0
Threadneedle (Global Equities)	7.9	8.8	(0.9)	15.2	13.9	1.1	+2.0
Neptune (Global Equities)	4.7	8.8	(4.1)	(6.5)	13.9	(17.9)	+4.0
Schroder's (Global Equities)	9.1	8.6	0.5	13.5	13.3	0.2	+3.0
Morgan Stanley Global Brands	8.0	8.6	(0.6)	25.0	14.4	9.3	n/a
Blackrock (Fixed Interest)	7.8	7.9	(0.1)	16.0	16.0	0.1	Match Index
BMO (Fixed Interest)	(0.5)	0.2	(0.7)	(3.5)	2.5	(5.9)	3M LIBOR + 3%
Morgan Stanley (Alternative Investments)	2.6	1.2	1.4	(1.2)	4.7	(5.6)	3M LIBOR + 4%

**Lincolnshire Pension Fund
UK Equities – In House (Passive UK)
Quarterly Report June 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 31.03.16	Value at 30.06.16
£335,436,113	£352,763,615

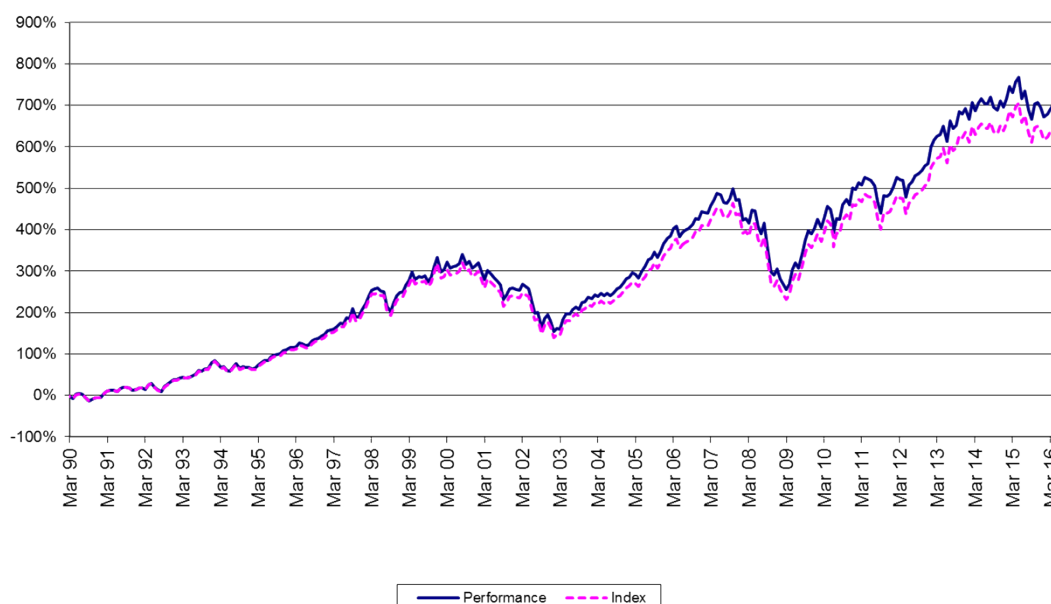
Performance

During the quarter the portfolio produced a positive return of 5.5% which was 0.2% above 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	5.5	2.4	5.4	6.2	8.3
MSCI UK IMI	5.3	2.5	5.5	6.1	8.0
Relative Performance	0.2	(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 31.03.16	Holdings at 30.06.16	Turnover in Quarter %	Turnover in Previous Quarter %
270	284	1.0	0.0

Purchases and Sales

During the quarter the manager made a number of trades reducing the cash holding from £10m to £1m. With the vote on "Brexit" causing uncertainty around markets, the decision was made to split purchases before and after June 23rd. This proved beneficial to performance with the week following "Brexit" adding 0.11% outperformance.

Largest Overweights

Rangold	0.19%
Tullow Oil	0.12%
Paddy Power	0.10%
Hikma Pharma	0.10%
Babcock	0.10%

Largest Underweights

Shire plc	(0.39%)
Mediclinic	(0.11%)
BP	(0.09%)
HSBC	(0.08%)
National Grid	(0.07%)

* Measured against MSCI UK IMI

Top 10 Holdings

1	Royal Dutch Shell	£29,211,500	6	Vodafone	£11,081,960
2	HSBC	£16,388,666	7	Astrazeneca	£9,992,226
3	British American Tobacco	£16,075,938	8	Diageo	£9,287,769
4	BP	£14,175,485	9	Reckitt	£8,421,681
5	GlaxoSmithKline	£14,097,594	10	Unilever	£8,212,828

Risk Control

The portfolio has a tracking error limit of 0.5%. At the end of June 2016 the tracking error was 0.26%.

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

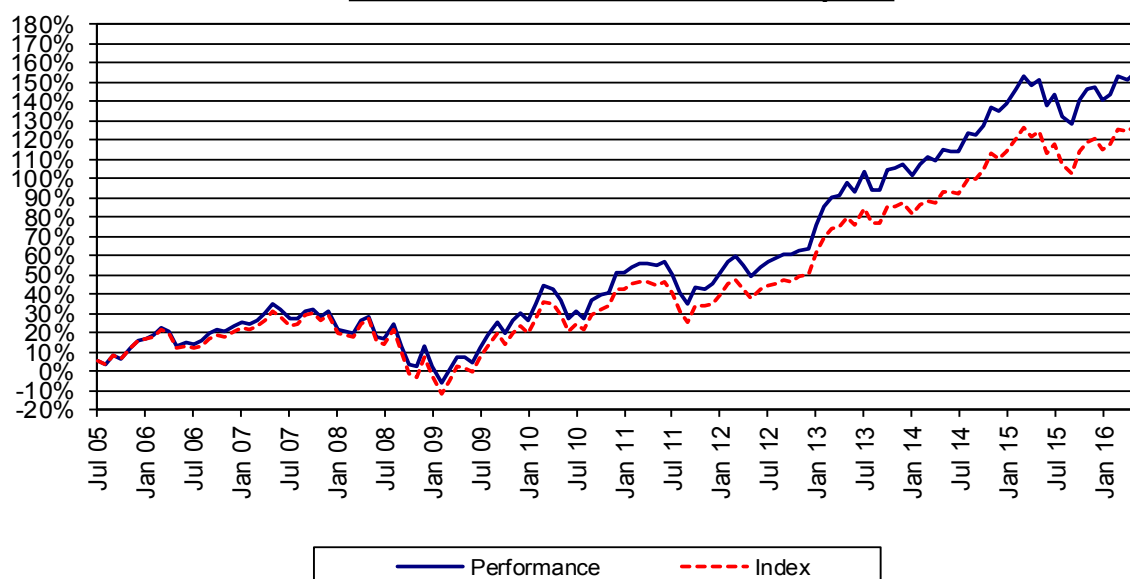
Portfolio Valuation

Value at 31.03.16	Value at 30.06.16
£366,712,212	£397,419,103

Performance

During the quarter Invesco's strategy underperformed its benchmark. Stock Selection had a negative impact on relative performance. Overweight positions in stocks with attractive valuation levels also detracted from performance. In contrast, Invesco's momentum related factors, Market Sentiment and Earnings Expectations, were able to add performance.

Invesco Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Invesco	8.3	15.3	12.4	11.9	9.6
MSCI World ex UK	8.8	15.3	11.8	10.9	8.5
Relative Performance	0.5	0	0.6	0.9	1.0

* annualised, inception date 1st July 2005

Turnover

Holdings at 31.03.16	Holdings at 30.06.16	Turnover in Quarter %	Turnover in Previous Quarter %
494	496	9.0	7.4

Purchases and Sales

During the quarter, Invesco made a number of stock adjustments to the portfolio. They added Aflac and increased positions in Verizon Communications, Procter & Gamble, AT&T and Gilead Sciences. Invesco sold out of General Dynamics and decreased their position in General Electric, American International and Endesa.

Largest Overweights

Verizon	1.0%
Intel	1.0%
Comcast	0.8%
JPMorgan	0.8%
Johnson & Johnson	0.8%

Largest Underweights

Exxon Mobil	(0.8%)
Alphabet	(0.7%)
Chevron	(0.7%)
Visa	(0.5%)
Bristol-Myers Squibb	(0.4%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple	£9,766,175	6	Intel	£5,881,083
2	Johnson & Johnson	£7,550,152	7	AT&T	£5,662,406
3	Microsoft	£7,119,321	8	Comcast	£5,416,407
4	Verizon	£7,001,931	9	General Electric	£4,749,060
5	JPMorgan	£6,276,774	10	Citigroup	£4,647,539

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 1.08% (actual target 1%).

Lincolnshire Pension Fund Global Equities – Schroders Quarterly Report June 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.

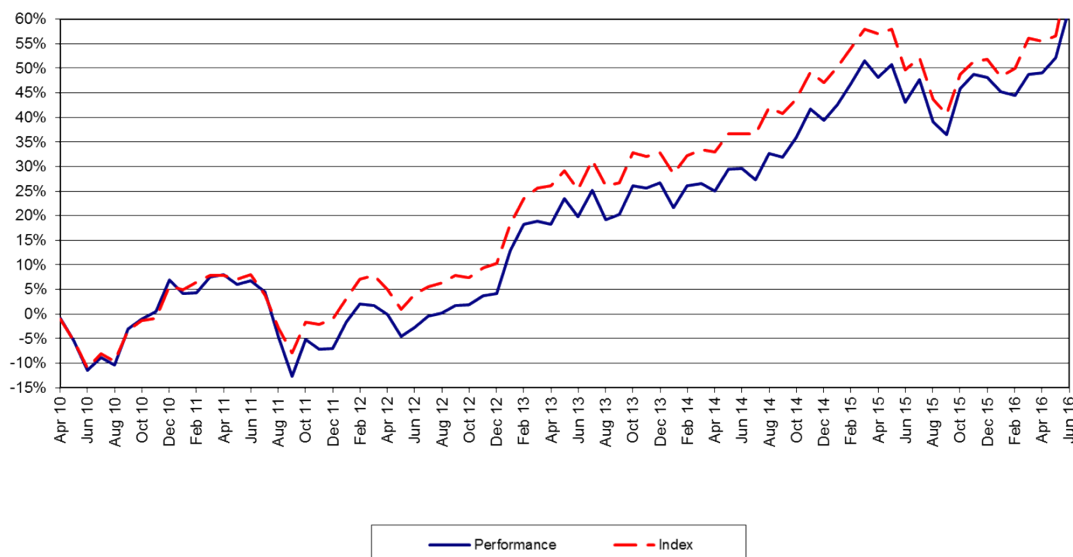
Portfolio Valuation

Value at 31.03.16	Value at 30.06.16
£88,886,819	£97,002,603

Performance

During the quarter the portfolio outperformed the benchmark. From a sector perspective, stock selection was particularly beneficial in the consumer discretionary, healthcare, energy and telecoms sectors. By region, stock selection was strong almost across the board, with the exception of stock selection in the UK. Schroder's also gained from their off-benchmark exposure to emerging markets. By sector, their holdings in financials and consumer staples proved a headwind to performance.

Schroders Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Schroders	9.1	13.5	10.7	8.7	8.1
MSCI ACWI (Net)	8.6	13.3	10.6	9.4	8.8
Relative Performance	0.5	0.2	0.1	(3.2)	(0.7)

*annualised since Inception April 16 2010

Turnover

Holdings at 31.03.16	Holdings at 30.06.16	Turnover in Quarter %	Turnover in Previous Quarter %
77	79	7.4	14.2

Purchases and Sales

During the quarter Schroder's biggest purchase was Brazilian telecoms firm Telefonica Brasil. They also initiated a position in pharmaceutical firm Shire. Notable sales included French aircraft engine manufacturer Safran and Japanese convenience store chain, Seven & I.

Top 5 Contributions to Return

Pfizer	0.3%
Keyence	0.3%
Cimarex Energy	0.3%
Amazon	0.2%
Statoil ASA	0.2%

Bottom 5 Contributions to Return

Lloyds	(0.5%)
Banco Bilbao	(0.2%)
Alphabet	(0.2%)
Bayerische Motoren	(0.2%)
Prudential	(0.2%)

Top 10 Holdings

1	Alphabet	£2,912,297
2	TWN Semicont	£2,857,037
3	Comcast	£2,663,388
4	Pfizer	£2,372,919
5	Citigroup	£2,271,420

6	United Health	£2,235,033
7	Reckitt	£2,196,368
8	Danaher	£2,102,146
9	Amazon	£2,048,682
10	Statoil Hydro	£2,024,010

Hymans Robertson View

There was no relevant business issues reported over the period.

Risk Control

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

Lincolnshire Pension Fund Global Equities – Threadneedle Quarterly Report June 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.

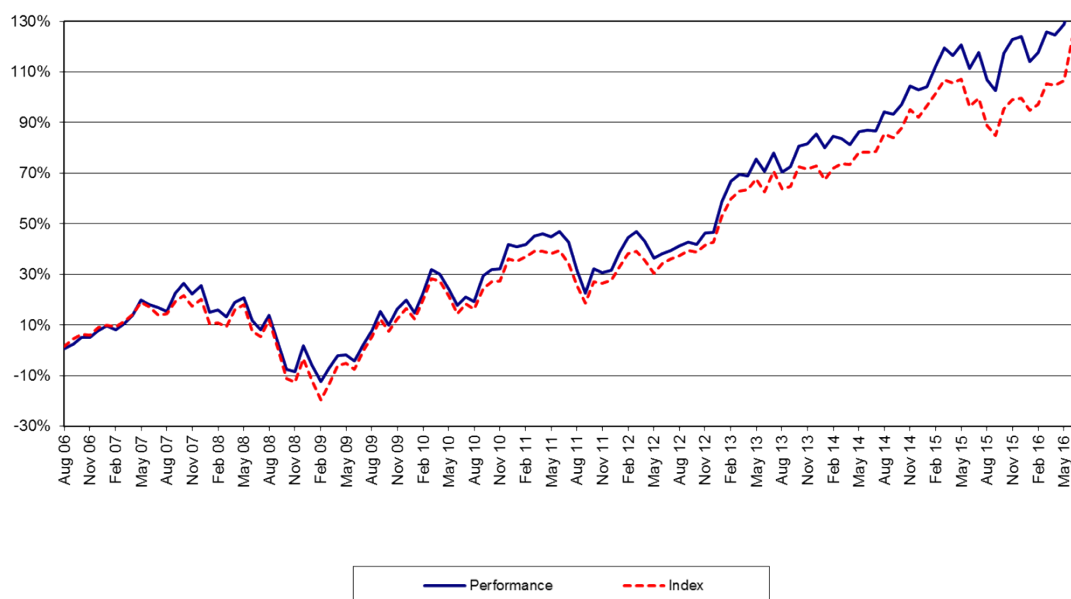
Portfolio Valuation

Value at 31.03.16	Value at 30.06.16
£94,090,170	£101,510,274

Performance

Threadneedle underperformed its benchmark in the quarter. Allocation and security selection detracted at the regional level, driven by their overweight position and stock-level picks in Europe ex UK. In sector terms, allocation detracted, notably their underweight in energy and overweight in technology, but stock selection added value, particularly in consumer discretionary.

Threadneedle Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Threadneedle	7.9	15.2	12.6	10.7	9.4
MSCI ACWI	8.8	13.9	11.2	9.9	8.5
Relative Performance	(0.9)	1.1	1.3	0.7	0.9

* annualised, inception date 01/08/2006

Turnover

Holdings at 31.03.16	Holdings at 30.06.16	Turnover in Quarter %	Turnover in Previous Quarter %
85	84	8.4	12.4

Purchases and Sales

Threadneedle took advantage of share price weakness to open a new position in US banking franchise BB&T. They also initiated a holding in British American Tobacco. Threadneedle exited Continental to reduce their exposure to European cyclical stocks and also closed a small position in Japan Exchange, and trimmed a holding in JPMorgan, in order to reduce their exposure to capital markets.

Top 5 Contributions to Return

Amazon	0.7%
Pfizer	0.6%
Bristol-Myers Squibb	0.4%
Unilever	0.4%
Tencent	0.4%

Bottom 5 Contributions to Return

Bank of Ireland	(0.3%)
Japan Exchange	(0.2%)
UBS	(0.2%)
Continental	(0.2%)
Brenntag	(0.1%)

Top 10 Holdings

1	Alphabet	£2,999,592	6	Facebook	£2,334,157
2	Amazon	£2,987,103	7	Gilead Sciences	£2,148,511
3	Unilever	£2,760,657	8	Inbev	£2,081,672
4	Pfizer	£2,627,361	9	Activision	£2,062,136
5	Aon	£2,362,060	10	Tencent	£2,021,253

Hymans Robertson View

In May 2016 Threadneedle announced that Leigh Harrison, Head of Equities, Europe would be retiring at end June 2016. Harrison also headed the UK Equity team and will be succeeded in that role by Richard Colwell who joined Threadneedle in 2010. William Davies, Head of Global Equities will become Head of Equities, EMEA effectively assuming additional overall responsibilities for Threadneedle's UK and European equity teams as well as the EMEA based US, Asia and Emerging Markets teams. Davies will also be appointed to the Firm's Executive Committee. Davies will relinquish his analytical responsibilities and Hymans will endeavour to monitor whether his broader role detracts from his focus on global equity management.

Risk Control

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

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

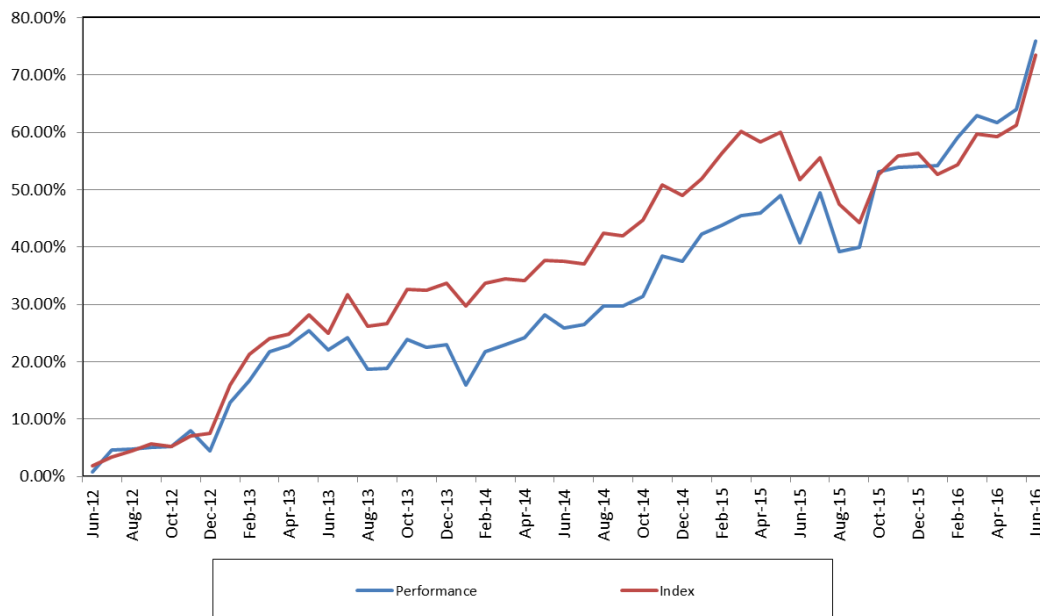
Portfolio Valuation

Value at 31.03.16	Value at 30.06.16
£99,033,147	£106,966,954

Performance

During the quarter Morgan Stanley Global Brands returned 8% but underperformed its benchmark by 0.6%, which returned 8.6%. The underperformance for the quarter was due to the absence, or near absence, of the strongly performing Energy, Health Care and Utility sectors, while the large overweight in Consumer Staples and the lack of Financials exposure helped absolute performance.

Morgan Stanley Global Brands Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley Global Brands	8.0	25.0	13.0	N/A	14.8
MSCI World Index	8.6	14.4	11.5	N/A	14.4
Relative Performance	(0.6)	9.3	1.3	N/A	0.3

*annualised, inception date 18/06/2012

Purchases and Sales

During the quarter Morgan Stanley initiated positions in two stocks, International Flavours and Fragrances (IFF) and Coca Cola. These were funded by exiting positions in Sanofi and 3m.

Top 3 Contributions to Return

British American Tobacco	18%
L'Oreal	17%
Reckitt Benckiser	13%

Bottom Contribution to Return

Nike	(3%)
------	------

Top Ten Holdings

Company	Industry	% Weighting
Reckitt Benckiser	Household Products	8.01
British American Tobacco	Tobacco	7.84
L'Oreal	Personal Products	6.99
Microsoft	Software	6.84
Unilever	Personal Products	6.23
Reynolds American	Tobacco	4.86
Altria	Tobacco	4.85
Nestle	Food Products	4.84
Accenture	IT Services	4.51
Visa	IT Services	4.01

Hymans Robertson View

There were no relevant business issues reported over the period.

**Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report June 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 30th June 2016

Portfolio	31.03.16 £	30.06.16 £
Corporate Bond All Stocks Index Fund	59,931,423	62,542,960
Over 5 Years UK Index-Linked Gilt Index Fund	35,858,495	39,844,065
Overseas Bond Index Fund	23,774,105	26,567,430
Cash (residual)	10	10
Total	119,564,033	128,954,465

Performance

Over all periods the portfolio has slightly outperformed the benchmark.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	7.8	16.0	9.1	8.3	8.2
Composite Benchmark	7.9	16.0	8.9	8.2	8.2
Relative Performance	(0.1)	0.1	0.1	0.1	0.1

*annualised since inception 28/07/10

Hymans Robertson View

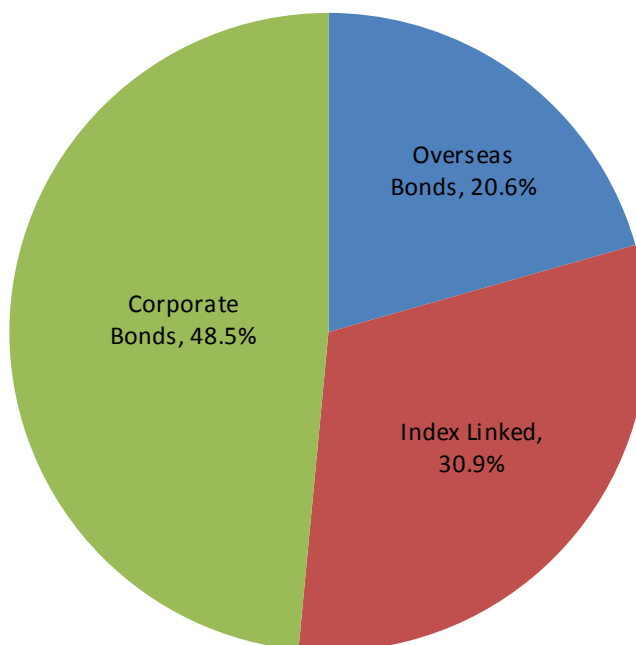
There were no significant developments within the Index Fixed Income team over the quarter; as such Hymans continue to rate Blackrock as one of their preferred passive fixed income managers.

Allocation

The target allocation between the three funds is:

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

The pie chart below shows the allocation as at 30th June 2016.



**Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report June 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 31.03.16	Value at 30.06.16
£188,933,585	£199,911,984

Performance

The portfolio returned 2.6% during the first quarter. Most asset classes generated positive performance. Credit drove absolute returns, followed by real assets, and to a lesser extent, alpha strategies. Morgan Stanley's decision to increase their high yield exposure was particularly beneficial.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley	2.6	(1.2)	1.5	2.7	3.5
3 Month LIBOR + 4%	1.2	4.7	4.7	4.8	4.8
Relative Performance	1.4	(5.6)	(3.0)	(1.9)	(1.2)

* annualised since inception date 24/11/2010

Allocation

Morgan Stanley has split out investments into a bespoke portfolio of alternatives comprising five different asset allocations;

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

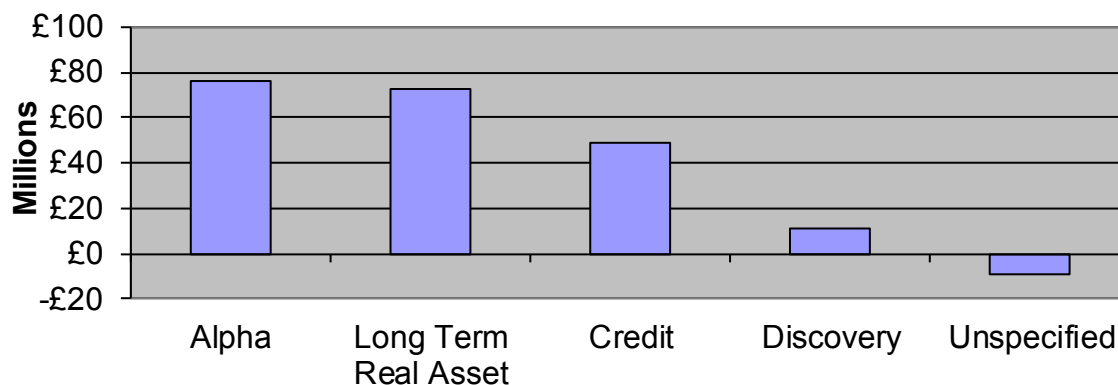
Long Term Real Asset – These are long term investments that seek to access illiquidity premium. Investments include Private Equity, Infrastructure, Real Estate, Commodities and Inflation – linked strategies.

Credit – These are the purchase of the lower rated bonds where higher default is more likely. Manager selection is important to ensure the correct bonds are purchased that will appreciate following rating upgrades and merger and acquisition activity. Credit opportunities include Emerging Market Debt, High Yield Bonds, Senior Loans and Convertibles.

Discovery – These are new opportunities of investments and can include Frontier Markets, Distressed Opportunities and Volatility.

Unspecified – These are cash balances held with Morgan Stanley.

Allocation as at 30th June 2016



Portfolio Positioning

For much of the quarter, market risks continued to abate. Oil continued to stabilise, financial conditions continued to ease and the U.S. economy reached a point where the Fed had been preparing the markets for a potential June or July rate hike. In contrast, the June 23rd vote in the UK on EU membership represented a risk for markets, ultimately resulting in a combination of strong negative reactions for risk assets globally and, perhaps more significantly, a sharp increase in uncertainty. Almost all global equity markets sold off sharply in the two days following the vote, with European markets experiencing, not surprisingly, very sharp declines. Commodities also fell sharply, as did sterling, and to a lesser extent the euro. Losses were partially pared back following the initial two day decline. Further, Spain went to the polls three days after the UK vote for a second time in six months, for a result that, as expected, was once again unhelpfully inconclusive. Morgan Stanley expected volatility to return to markets as these events played out on both sides of the Atlantic.

Hymans Robertson View

There were no significant changes over the quarter.

Risk Control

Portfolio volatility since inception is 4.04% within the guidelines specified by the mandate.

Conclusion

Over the quarter the Fund has produced a positive return of 5.12% which is behind the benchmark which returned 5.38%.

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:	06 October 2016
Subject:	Performance Measurement Annual Report

Summary:

This report sets out the Pension Fund's longer term investment performance, for the period ending 31st March 2016.

Recommendation(s):

That the Committee note the report.

Background

1 INTRODUCTION

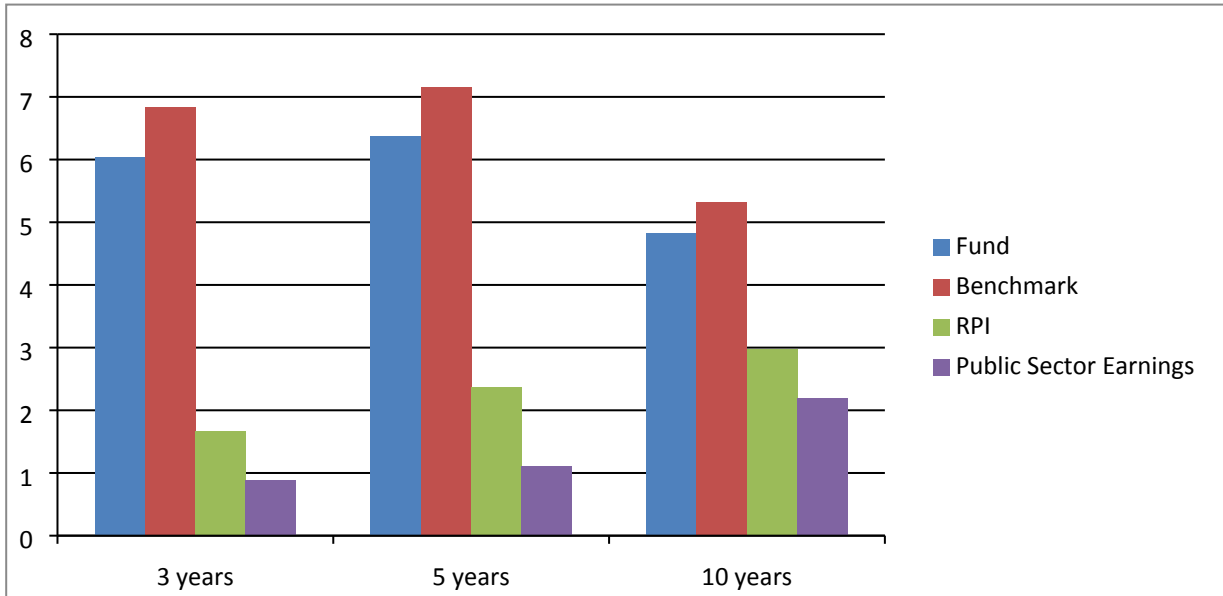
1.1 The Pension Fund uses two suppliers for the measurement of the Fund's performance. JPMorgan, the Fund's custodian, calculates the Fund's investment performance and compares it with the returns of the strategic asset allocation benchmark (i.e. the return achieved by the mix of assets as recommended by the Actuary). The WM Company compare the Fund's performance against the average Local Authority Pension Fund. The Fund's long term aim is to outperform the strategic benchmark by 0.75% per annum.

2 LONGER TERM PERFORMANCE FOR YEAR ENDED 31 MARCH 2016

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

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

INFLATION INCREASES AND INVESTMENT RETURNS FOR UP TO 10 YEARS ENDED 31/3/2016



	3 years annualised %	5 years annualised %	10 years annualised %
Retail Prices Index increases	1.7	2.4	3.0
Public sector average Earnings increases	0.9	1.1	2.2
LCC Fund performance	6.0	6.4	4.8
LCC Benchmark Performance	6.8	7.2	5.3
Relative Performance	(0.8)	(0.8)	(0.5)

2.3 10 Year Returns

The Fund's performance over ten years, at 4.8%, is slightly behind the Fund's Benchmark return of 5.3%. This return is ahead of both inflation and average earnings over the last ten years, to which the scheme's liabilities are linked, which were 3.0% and 2.2% p.a. The biggest impact on performance over this period is from 2010. This was a result of a number of asset allocation change made over the year and those changes not reflected in the benchmark until they were all complete. This drift from the

benchmark over the year negatively impacted the performance as can be seen in the table at paragraph 3.4

2.4 5 Year Returns

Five year returns of 6.4% per annum are ahead of both price and pay inflation. The Fund's actual performance is behind the strategic Benchmark return of 7.2%. This reflects the underperforming active managers over the period.

2.5 3 Year Returns

Three year returns, at 6.0%, are ahead of both inflation and average earnings, but behind the strategic Benchmark return of 6.8%. This reflects underperformance by the active global equity manager, Neptune, the absolute return bond manager, BMO and the Alternatives Manager, Morgan Stanley. However, the underperformance by Morgan Stanley was expected due to the continuing investments in Private Markets.

3 ATTRIBUTION ANALYSIS

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

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

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

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

Long Term Performance Analysis

Year ended March	Fund %	Benchmark %	Relative Performance %	Attributed to Asset allocation %	Attributed to Stock Selection %
2007	6.9	6.5	0.3	0.4	(0.1)
2008	(4.4)	(3.3)	(1.1)	0.1	(1.2)
2009	(18.6)	(20.0)	1.7	2.1	(0.4)
2010	29.7	36.7	(5.1)	(3.1)	(2.1)
2011	7.9	7.8	0.1	0.1	0.0
2012	1.5	2.4	(0.8)	(0.2)	(0.6)
2013	12.6	11.3	1.2	0.1	1.1
2014	6.3	6.2	0.1	0.2	(0.1)
2015	12.3	12.4	(0.1)	(0.1)	0.0
2016	0.0	1.4	(1.4)	(0.6)	(0.8)

4 WM LOCAL AUTHORITY UNIVERSE

- 4.1 The WM Company (a wholly owned subsidiary of State Street) measures the performance of the Fund against the Local Authority Universe. The WM Local Authority (LA) Universe is an aggregation of 85 funds within the LGPS sector that are used for peer group comparisons.
- 4.2 The weighted average return for Local Authority Pension Funds in the WM Local Authority Universe over the year 2015/16 was 0.2%, slightly ahead of the Lincolnshire Fund return of 0%. The actual performance of the Fund ranked in the middle of the Local Authority funds, at the 38th percentile. Over the longer term, the Fund is in the 70th to 80th percentile.
- 4.3 The table below shows how the asset allocation for the Lincolnshire Fund compares with the average Local Authority Pension Fund in 2016 and 2015.

Asset Class	Lincolnshire	LA Average	
		2016	2015
Equities	60.0	60	62
Bonds	13.5	16	17
Property	11.5	9	8
Alternatives	15.0	12	10
Cash	0.0	3	3

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

Following the 2016 triennial valuation results, the asset allocation will be reviewed again to ensure that it is still appropriate to the current liability profile of the Fund.

- 4.5 Within the LA Universe, there has been a decrease in Equities and Bonds and an increase in Property and Alternatives.
- 4.6 WM has discontinued the provision of their performance measurement service and Local Authority Universe from April 2016. The National LGPS Frameworks group are looking to commence a tender on the appointment of a sole provider for this particular performance measure, as part of a wider multi lot performance and cost measurement framework.

Conclusion

- 6.1 The Pension Fund's investment performance of 4.8% over the 10 year period ended 31st March 2016 was slightly behind the strategic benchmark of 5.3%. The Fund is seeking to outperform the Benchmark by 0.75% per annum over rolling three year periods. Annualised returns over three, five and ten year periods are ahead of inflation in pay and prices. At an absolute level, the ten year performance is ahead of the current actuarial assumption for return of around 4.6% per annum.
- 6.2 Looking at the individual years, there was a negative contribution from both asset allocation and stock selection in the year ended March 2016. In seven of the last ten years, stock selection has been the main detractor from performance.

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:	06 October 2016
Subject:	Pension Fund Policies - Stewardship Code Statement

Summary:

This report brings to the Committee the Fund's updated Stewardship Code Statement for review, following the implementation of tiering by the Financial Reporting Council (FRC).

Recommendation(s):

That the Committee agree the amended statement.

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 2016. The Stewardship Code Statement was not brought to the July Committee as amendments were required to meet a new tiering system introduced by the Financial Reporting Council (FRC). This paper brings the amended Statement for approval.
2. The Stewardship Code Statement sets out how the Lincolnshire Pension Fund complies with the FRC's UK Stewardship Code. The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire and operates on a 'comply or explain' basis.
3. The FRC reviewed all stewardship code statements published and found that there were inconsistencies in the reporting of stewardship practices across the market. The FRC assessed more than 300 statements to

understand how each signatory approaches the recommendations set out in the code and have assessed them against two tiers:

- Tier 1 - those that meet reporting expectations, including clear and meaningful explanations for non-compliance. Asset managers in Tier 1 will have provided further evidence of their approach to conflicts of interest, engagement and the resourcing and integration of stewardship; and
 - Tier 2 – those that do not currently meet these expectations.
4. The FRC set a deadline of September 23rd (extended from the original deadline of 19th August) for resubmissions of statements before publishing the tiering results.
 5. The FRC wrote to the Fund in June and reported that the original assessment of Lincolnshire's published Stewardship Code Statement was assessed to be tier 2, as were most LGPS Fund's statements. The FRC also provided information identifying where the statement could be improved, to assist the Fund in improving its rating. The letter and the good practice information are shown at appendix B.
 6. Officers rewrote the Statement (attached at appendix A), taking account of the points raised by the FRC, and sent it back to the FRC for comments ahead of the deadline of 23rd September. Initial comments from the FRC are that the Lincolnshire Statement would now meet the Tier 1 assessment level.
 7. The Committee is asked to approve the statement, which will then be published in accordance with the Code requirements.

Conclusion

8. Following the changes by the FRC to the requirements of the Stewardship Code Statement, the Lincolnshire Fund's Statement has been updated and is appended to this report for review and approval by the Pensions Committee. The expectation is that this will now be assessed as a Tier 1 statement.

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 Stewardship Code Statement
Appendix B	FRC letter and Good Practice Information

Background Papers

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

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

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Lincolnshire Pension Fund Stewardship Code Statement

Lincolnshire Pension Fund (LPF) is fully committed to responsible investment (RI) to improve the long term value for shareholders. LPF believe that well governed companies produce better and more sustainable returns than poorly governed companies. LPF also believe that asset owners, either directly (where resources allow) or through their external managers and membership of collaborative shareholder engagement groups (such as LAPFF), could influence the Board/Directors of underperforming companies to improve the management and financial performance of those companies.

As global investors we expect the principles of good stewardship to apply globally, whilst recognising the need for local market considerations in its application. Reflecting on this we have summarised our compliance with the UK Stewardship code and principles relating to good stewardship below.

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

Whilst the Lincolnshire Pension Fund takes its responsibilities as a shareholder seriously, it does not have a specific policy on Stewardship, other than that stated in the Statement of Investment Principles. It seeks to adhere to the Stewardship Code where possible, and expects its appointed asset managers to do so too. Resources do not currently allow for a dedicated role to oversee LPF's RI responsibilities at a Fund level, however the asset pooling arrangements currently being implemented will enable a more active role in the future.

In practice the Fund applies the Code in two ways; through arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum, a collaborative shareholder engagement group for Local Authority Pension Funds. Through these channels, LPF seeks to improve long term share performance through investment in better governed companies, therefore improving the funding level of the LPF and reducing the cost to stakeholders in the Local Government Pension Scheme.

As part of the manager appointment process, the Fund selects managers who show how their stewardship responsibilities are built in as an integral part of their investment process. Managers are asked to include information on stewardship and engagement activity in their quarterly reports to LPF, so that activity can be monitored. The Fund has regular meetings with its external managers where their stewardship activities are on the agenda. This assists the Fund in understanding the impact of any such activities undertaken and ensures that they are aligned with the engagement work done by LAPFF.

The Fund reports quarterly to the Pensions Committee on the engagement work undertaken by LAPFF and a member of the Pensions Committee regularly attends the LAPFF meetings. The Fund also attends the LAPFF Annual Conference to ensure a full understanding and input into the work programme of LAPFF.

Voting is carried out at Fund level, rather than by appointed managers, using a third party voting agency, Manifest. A general global voting template is agreed by the Pensions Committee using the best practice principles advised by Manifest. Voting decisions for non-standard items are made on a case-by-case basis using the analysis produced by Manifest and take into account any voting alerts provided by LAPFF, or where needed, additional information is requested from managers. The Fund reports quarterly to the Pensions Committee on all voting activity undertaken.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund expects the asset managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publically available on their respective websites. These are discussed prior to the appointment of a manager, and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, Pensions Committee and the Pension Board review the Pension Fund Code of Conduct and Conflicts of Interest Policy annually and all members are required to sign an annual declaration form in line with the published policy. The policy can be found on the shared LPF website at www.wypf.org.uk. In addition, Committee members are required to make declarations of interest prior to committee meetings which are documented in the minutes of each meeting and available on the Council's website at www.lincolnshire.gov.uk.

Principle 3 - Institutional investors should monitor their investee companies.

As investors we own a portion of the companies we invest in. With our voting policies and working through our external managers and LAPFF we can use our rights as owners to encourage companies to act more responsibly and improve their practices. All our managers are required to consider how environmental, social and governance factors might impact companies sustainability, and therefore their long term share performance.

Day-to-day responsibility for managing our externally managed equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor their investee companies and engage where necessary. Managers are asked to include information on stewardship and engagement activity in their quarterly reports to LPF, so that activity and impact can be monitored. The Fund has regular meetings with its external managers where their stewardship activities are on the agenda. This assists the Fund in understanding the impact and effectiveness of any such activities undertaken and ensures that they are aligned with the engagement work done by LAPFF. Reports on the Funds voting and engagement activity through LAPFF are received by the Pensions Committee on a quarterly basis.

In addition, the Fund receives an 'Alerts' service from the Local Authority Pension Fund Forum, which highlights corporate governance issues of concern at investee companies, and is used when making voting decisions.

Resources do not currently allow for a dedicated role to monitor investee companies at a Fund level, however the asset pooling arrangements currently being implemented will enable a more active role in the future.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code. We review each manager's policy on engagement and escalation prior to appointment and we review their engagement activity during regular review meetings with them, and support it when required. Escalation routes across our managers involve meetings with company management, meetings with Non-Executive Directors, collaborating with other institutional shareholders, submitting resolutions at general meetings and in the most extreme instances divestment of shares. The outcome of any engagement is reported to the Fund through the normal reporting routine.

On occasion, the Fund may itself choose to escalate activity through its participation in the Local Authority Pension Fund Forum. The areas where escalation might occur would be aligned with the LAPFF work programme. Fund involvement would be by either co-signing a shareholder resolution or publically supporting a shareholder resolution. This would happen following a request from LAPFF explaining the engagement activity taken so far and the reasons why a shareholder resolution is required. The Fund had an agreed process for this internally which requires a paper taken to our Pensions Committee (time allowing) or through delegation to the Council's Executive Director of Finance and Public Protection in consultation with the Chair and Vice Chair of the Pensions Committee to agree. Examples of escalation activity from LAPFF that the Fund has supported are shown below:

- Supporting the Human Rights Capital shareholder resolution at Sports Direct
- Part of the 'Aiming for A' investor coalition – successfully co-filing at BP, Shell, Anglo American, Rio Tinto and Glencore on strategic resilience resolutions
- Supported shareholder resolutions at National Express on workplace rights

The Fund monitors and participates in shareholder litigation through its contracts with IPS (Institutional Protection Services) and US law firm SRKW. In addition, supplementary monitoring is provided by BLBG.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund achieves this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members. The LAPFF agree planned work programmes each year which are discussed and approved at LAPFF meetings. This plan sets out the engagement areas for activity for the coming year. Lincolnshire Pensions Committee member Cllr Nev Jackson is the named representative responsible for attending these meetings and actively participates in any discussions and setting of the work programme. He raises any concerns that the Fund may have and feeds back to the Pensions Committee on a quarterly basis.

The contact for any potential collective action with the Fund is the Pension Fund Manager, Jo Ray, at jo.ray@lincolnshire.gov.uk.

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

Responsibility for the exercise of voting rights is maintained at Fund level, and not delegated to the Fund's appointed asset managers. The Fund exercises all votes for its UK, developed Europe, US, Canada and Japanese equity holdings. Votes are cast in accordance with a template that represents best practice corporate governance standards, that is agreed by the Pensions Committee. Advice on best practice is supplied by the voting agency Manifest. This includes consideration of company explanations of compliance with the Corporate Governance Code. Reports are presented to the Pensions Committee on a quarterly basis on how votes have been cast, and controversial issues are often discussed at committee meetings.

The Fund will only support the Board when the recommendations meet the best practice requirements in the guidance supplied by the Fund's voting advisor, Manifest. All votes cast by the Fund are logged in Manifest's on-line system, which also identifies where the Fund has voted against the Board and reasons why. The Fund always responds to requests from companies to explain voting outcomes, and will, wherever possible, explain in advance of the actual vote being cast.

The quarterly reports presented to the Pensions Committee include high level voting activity and are available on the Council's website, alongside all committee reports.

The Fund participates in stock lending through its Custodian, JPMorgan. Stock is not recalled ahead of company meetings to allow voting on the holdings participating in the stock lending programme, due to the restricted resources within the internal team.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports quarterly to the Pensions Committee on stewardship activity through a specific section on voting undertaken each quarter, in the Fund Update. This includes details of engagement activity undertaken through the Local Authority Pension Fund Forum. On an annual basis the Fund includes a section on Stewardship Responsibilities in its Annual Report and Accounts, detailing voting activity and highlighting the key engagements over the year through its membership of LAPFF. These are available on the Council's website.

Data to produce these reports is taken from the Councils voting service provider's online system, which records all votes undertaken, and from reports produced by LAPFF.

Although voting is not delegated to managers, they are required to share their engagement activity with the Fund on a regular basis.

Reviewed 6th October 2016 by the Pensions Committee

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Sir Winfried Bischoff
Chairman

CONFIDENTIAL

Councillor Mark Allan
Chairman
Lincolnshire Pension Fund
West Yorkshire Pensions Fund
PO Box 67
Bradford BD1 1UP

June 2016

Dear Mr Allan

In December, the FRC announced it would write to all signatories to the Stewardship Code (the Code) with an initial assessment of the quality of their reporting against the Code. I now write to explain further our work on assessing how signatories are implementing the Code and how we wish to encourage better reporting against the Code.

As you know, the Code is voluntary¹ and operates on a comply or explain basis. Every year we assess a sample of the statements by signatories for our 'Developments in Corporate Governance and Stewardship' Report. The research and evidence suggests that the quality and quantity of monitoring and engagement has improved; nevertheless reporting continues to be inconsistent across the market. The FRC now seeks to stimulate better reporting by highlighting the signatories who clearly demonstrate their commitment to stewardship. Good reporting by signatories enables clients to assess managers and others based on their different approaches to stewardship.

The elements of this process are explained below.

Communicating privately our initial assessment

We have been assessing the more than 300 statements made by signatories to the Code, which has involved a detailed review by the Corporate Governance and Stewardship team, with internal moderation by other members of the FRC. The focus of our assessment has been to understand how each signatory approaches the recommendations set out in the Code.

We have assessed your organisation's public statement against the Code. Our initial assessment of your reporting indicates that you are likely to be considered a Tier 2 signatory to the Code in our final assessment.

Engaging with you to promote improvement

We are happy to discuss our initial assessment and proposed improvements to your reporting. Some elements of best practice reporting include that better statements give a complete description of how the signatory approaches their stewardship responsibilities. Where signatories do not comply with a principle of the Code, they give appropriate explanations as

¹ Asset managers under the Conduct of Business Sourcebook must make a statement about the Code or if such a statement is not appropriate (given the business model) may consider disclose an alternative investment strategy.

to why they do not and how their approach continues to meet the spirit of the Code. The overall disclosure is sufficient for the reader to understand how the signatory approaches the recommendations set out in the guidance of the principles, and that the signatory takes stewardship seriously. The language is clear, open and transparent.

We expect that in some cases signatories may find explanation difficult and this may lead to the conclusion that their business model is not supported by the Code. Others may wish to redesign or amend their statements and we are happy to engage in that process. If you would like to meet FRC representatives, please contact the Corporate Governance and Stewardship team at stewardshipcode@frc.org.uk. Evidence which supports how you undertake your stewardship responsibilities can also be sent to this email address. It will be treated confidentially unless it is already public. The deadline for providing revised statements to the FRC is 19 August, but there is some flexibility.

We would be happy to meet you to discuss your signatory statement. We will also hold a seminar specifically for asset owners to explain the process and purpose of our tiering exercise and gather your thoughts on the evolution of the Code. If you wish to attend please email stewardshipcode@frc.org.uk. The seminar will take place in October.

Publicly tiering signatories

Over the summer the FRC will assess revised statements against the Code. We will focus on clear, meaningful, evidence-based statements about signatories' approach to the principles of the Code and the related guidance, including appropriate explanations where an organisation has chosen not to follow a principle or disclose information. We will make our assessment public.

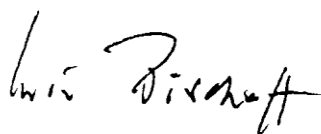
There will be two assessment tiers:

- Tier 1 – those that meet our reporting expectations, including clear and meaningful explanations for non-compliance. Asset managers in Tier 1 will have provided further evidence of their approach to conflicts of interest, engagement and the resourcing and integration of stewardship; and
- Tier 2 – those that do not currently meet these expectations.

After publication, new or existing signatories will be able to achieve Tier 1 by providing us with the information we require.

Future review

I encourage you to take this opportunity to reaffirm your commitment to stewardship in order to raise standards and ensure the UK remains at the forefront of stewardship practice. We will review the impact of this exercise and will consider if any updates to the Code are needed.



Good practice

In this section, we describe what we see in better statements against the Code principles.

Better statements give a complete description of how signatories approach their stewardship responsibilities. Where signatories do not comply with a principle of the Code, they give appropriate explanations as to why they do not and how their approach continues to meet the spirit of the Code. The overall disclosure is sufficient for the reader to understand how the signatory approaches the recommendations set out in the guidance of the principles, and that the signatory takes stewardship seriously. The language is clear, open and transparent.

Where a signatory has other policies that cover the disclosures required by the Code, the statements provide an overview of what is covered, as well as linking to the additional policy. Similarly, they explain clearly their escalation and collective engagement approaches, even if any activity would be undertaken on a case-by-case basis. Better statements provide a named person to approach in relation to collective engagement and explain their approach and mechanism to become an insider, where relevant.

If a signatory finds it difficult to explain why they have not followed the provisions in the Code, or that the reason for not complying is that their business model does not support it, they may wish to consider if it is appropriate to continue to be a signatory to the Code.

Specific areas of reporting that you may wish to consider addressing in order to meet our reporting expectations are outlined below.

Not all elements of the Stewardship Code are directly relevant to asset owners, as they may not be undertaking stewardship activity on a day-to-day basis. Asset owners are, however, still able to make relevant statements against the Code explaining their approach to their stewardship responsibilities.

Initial assessment of Lincolnshire Pension Fund's Stewardship Code statement

In this section, for each principle, we recognise any areas of good reporting that our assessment of your organisations statements has identified. We also highlight specific areas of good reporting practice that your organisation should aim for in order to meet the FRC's reporting expectations.

Principle 1: publicly disclose their policy on how they will discharge their stewardship responsibilities. Your statement notes that you seek to adhere to the Code and encourage your asset managers to do so as well as you consider ownership rights to be central to your responsibility. You also outline that your voting is carried out at the fund level.

Better statements by signatories also:

- Give a complete picture of their monitoring of the activities of external managers that fully explains the approach they take.
- Describe their activities with reference to their position in the investment chain and their duties to clients.
- Describe how they consider their stewardship activities enhance and protect the value to clients.

Principle 2: have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

Under Principle 2 you note that you expect your external managers to have conflicts of interest policies in place, which you review as part of your monitoring processes, and that your Pension Committee members declare relevant conflicts.

Better statements by signatories also:

- Describe how they put in place, maintain and publicly disclose a conflicts of interest policy.

Principle 3: monitor their investee companies.

Your statement notes that day-to-day stewardship activities are carried out by your asset managers and you receive reports on their activities. It also mentions the Local Authority Pension Fund Forum's 'Alerts' system.

The approach to reporting under Principle 3 varies widely. Better statements by signatories:

- Explain their approach to monitoring and to monitoring their manager – ideally this includes how they monitor effectiveness.

Principle 4: establish clear guidelines on when and how they will escalate their stewardship activities.

Under Principle 4 you note that responsibility for escalation rests with your external managers but that you may consider escalating your engagement through the Local Authority Pension Fund Forum.

Better statements by signatories:

- Disclose the way in which the manager escalates engagements, and why, and state how they assess the outcomes and effectiveness of intervention.
- Discuss the topics and issues on which they would be likely to intervene, and have previously intervened, and what may trigger intervention.

Principle 5: be willing to act collectively with other investors where appropriate.

Under Principle 5 you outline that you seek to work collaboratively through your membership of the Local Authority Pension Fund Forum.

Better statements by signatories:

- Provide a named contact for this purpose.
- Describe the circumstances in which they may consider engaging collectively.

Principle 6: have a clear policy on voting and disclosure of voting activity.

Your statement notes that you retain responsibility for exercising voting rights and outlines those holdings for which you vote your shares. You note that you have a policy, advised by Manifest, that reflects best practice corporate governance standards. You clearly outline your approach to stock lending and that your high level voting activity records are publicly disclosed.

Better statements by signatories:

- Explain thoughtfully their approach to voting and supporting the board. The Code recommends that signatories do not automatically support the board, that they register abstentions or votes against where appropriate and disclose their approach to informing the company in advance in these circumstances. Divergence from these recommendations should be explained appropriately.
- Publicly disclose their voting records, or those of their managers. The more effective statements provide links to comprehensive disclosures and state the coverage of the disclosures and their timeliness.

Principle 7: report periodically on their stewardship and voting activities.

Under Principle 7 you outline that you report annually on your voting and engagement activity. You also note the quarterly reporting presented to the Pensions Committee and explain your approach to independent assurance by your managers.

Better statements by signatories:

- Disclose how they record their activities and what is recorded.

Our initial assessment of your current reporting indicates that you are likely to be considered a Tier 2 signatory to the Code in our final assessment. We encourage you to take this opportunity to improve your reporting in order to reaffirm your commitment to stewardship and better explain your approach. We will only be able to list you as a Tier 1 signatory if your reporting improves. We would be happy to discuss your reporting if you would like to contact us at stewardshipcode@frc.org.uk.

Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	06 October 2016
Subject:	Pension Fund External Audit Progress Report

Summary:

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

Recommendation(s):

That the Committee note the Audit Progress Report.

Background

1. The Pension Fund Annual Report and Accounts for the year ended 31st March 2016 have been completed and were approved by this Committee in July. These have now been independently audited by the Council's external auditors, KPMG. In previous year KPMG have produced a separate ISA 260 report for the Pension Fund. This year it was approved by Lincolnshire County Council (LCC) that a joint ISA 260 would be prepared for LCC and the Pension Fund. At the time of writing this report, this is not yet available. In order to give reassurance to the Committee about the quality and accuracy of the Pension Fund accounts, officers requested a Progress Report from KPMG. Once finalised, the final ISA260 and Audit Opinion will be presented to the Audit Committee of the Council.
2. The Audit Progress Report is shown as Appendix A. The key points to note from the external auditor are:

Planning:

- Two significant risks were identified for the 2015/16 Pension Fund accounts:

- The change to the Authority's corporate financial systems in the year.
- The change in the Pension Fund's pension administration support services provider.

Financial Statements Audit:

- No material misstatements were identified and there were no adjusted or unadjusted audit differences that they need to report to the Audit Committee.
- No matters were identified directly arising from their audit work on the significant risks that apply to the Pension Fund.
- The draft Pension Fund Annual Report was reviewed and it was confirmed that:
 - It complies with the requirements of the LGPS (Administration) Regulations 2008; and
 - The financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

Completion:

- It is anticipated that an unqualified audit opinion on the Pension Fund accounts will be issued, following approval of the LCC Statement of Accounts by the Audit Committee and the signing of the standard Letter of Management Representations. The audit opinion is currently expected in mid October 2016.
 - It is anticipated that an unqualified opinion on the Pension Fund Annual Report will be issued at the same time as their opinion on the LCC Statement of Accounts.
3. No amendments were made to the core financial statements that were presented to this committee on 14 July 2016.
 4. The draft annual report will be finalised once the external auditor has issued his formal opinion and this has been incorporated into the report. Once 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 members in the Autumn newsletters sent by WYPF, as the Fund's scheme administrator.

Conclusion

5. The audit of the Pension Fund Accounts for the year ended 31st March 2016 has been completed. It is anticipated that the External Auditor, KPMG, will issue an unqualified audit opinion. 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 External Audit Progress Report

Background Papers

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

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

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External Audit: Progress Report

Lincolnshire Pension Fund

September 2016

Contents

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External audit progress report – September 2016

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

External audit progress report - September 2016

This document provides the Pensions Committee with a summary of the status of the audit of the Lincolnshire Pension Fund 2015/16 Accounts.

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<p>Planning</p>	<p>We presented the draft 2015/16 audit plan for the external audit of Lincolnshire County Council ('the Authority') and the Lincolnshire Pension Fund to the March 2016 Audit Committee. We continued to liaise with management on the significant financial and operational issues at the Council and the Fund.</p> <p>In our audit plan we identified two significant audit risks for the 2015/16 Pension Fund accounts:</p> <ul style="list-style-type: none"> • The changes to the Authority's corporate financial systems in the year, which affects the accounts of the Authority and Pension Fund; and • The change in the Pension Fund's pensions administration support services provider. <p>We identified in our audit plan the additional audit procedures required relating to these risks.</p> <p>We liaised with the pensions team as part of the interim and final accounts visits (carried out in February and June/July 2016 respectively) and agreed the working papers and other audit evidence required for our audit.</p>
<p>Financial statements Audit</p>	<p>The Authority published its draft financial statements (including the Pension Fund statements) on 1 July 2016.</p> <p>Our audit of the Pension Fund accounts is complete.</p> <ul style="list-style-type: none"> • Our audit of the Pension Fund accounts did not identify any material misstatements. There are no adjusted or unadjusted audit differences that we need to report to the Audit Committee. We identified a small number of presentational adjustments. Other minor presentational adjustments were required to address casting and cross-referencing issues. We understand that managers have processed these changes in the final version of the amended statements. • There are no matters directly arising from our audit work on the significant risks that apply to the Pension Fund that we need to report. <p>We have also reviewed the draft Pension Fund Annual Report and confirmed that:</p> <ul style="list-style-type: none"> • It complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and • The financial information it contains is not inconsistent with the financial information contained in the audited financial statements.
<p>Completion</p>	<p>The Authority publishes a single Statement of Accounts, including the accounts of the Authority and the Pension Fund.</p> <p>We anticipate issuing an unqualified audit opinion on the Pension Fund accounts following approval of the Statement of Accounts by the Audit Committee and the signing of the standard Letter of Management Representations. We expect to issue the audit opinion by, or shortly after 30 September 2016.</p> <p>We anticipate issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.</p> <p>We will update the Pension Fund managers if there are any further issues or changes to the anticipated audit opinions.</p>



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