

County Offices  
Newland  
Lincoln  
LN1 1YL

23 December 2016

**Pensions Committee**

A meeting of the Pensions Committee will be held on **Thursday, 5 January 2017** 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, 5 JANUARY 2017**

<b>Item</b>	<b>Title</b>	<b>Pages</b>
<b>1</b>	<b>Apologies for Absence</b>	
<b>2</b>	<b>Declarations of Members' Interests</b>	
<b>3</b>	<b>Minutes of the meeting held on 8 December 2016</b>	5 - 8
<b>4</b>	<b>Independent Advisor's Report</b> <i>(To receive a report by Peter Jones (Independent Advisor), which provides a market commentary on the current state of global markets)</i>	9 - 12
<b>5</b>	<b>Pensions Administration Report</b> <i>(To consider a report by Yunus Gajra (Business Development Manager, West Yorkshire Pension Fund), which provides an update on current administration issues)</i>	13 - 28
<b>6</b>	<b>Pension Fund Update Report</b> <i>(To receive a report by Jo Ray (Pension Fund Manager), which provides an update on Fund matters over the quarter ending 30 September 2016, and any current issues)</i>	29 - 46
<b>7</b>	<b>Investment Management Report</b> <i>(To receive a report by Nick Rouse (Investment Manager, Lincolnshire Pension Fund), which covers the management of the Lincolnshire Pension Fund assets over the period from 1 July to 30 September 2016)</i>	47 - 66
<b>8</b>	<b>2016 Valuation Update Report</b> <i>(To receive a report by Jo Ray (Pension Fund Manager), which updates the Committee on the March 2016 Valuation process and results)</i>	67 - 70
<b>9</b>	<b>Asset Pooling Update</b> <i>(To receive a report by Jo Ray (Pension Fund Manager), which provides details of the latest activity with the asset pooling requirements. The Committee will also receive a presentation on the implementation and governance for BCPP)</i>	71 - 78
<b>10</b>	<b>CONSIDERATION OF EXEMPT INFORMATION</b> In accordance with Section 100 (A)(4) of the Local Government Act 1972, agenda items 11 and 12 have not been circulated to the press and public on the grounds that they are considered to contain exempt information as defined in paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended. The press and public may be excluded from the meeting for the consideration of this item of business	
<b>11</b>	<b>Review of Investment Strategy</b> <i>(To receive a report by Jo Ray (Pension Fund Manager), which provides a review of the current investment strategy of the Fund undertaken by Paul Potter, Investment Consultant)</i>	79 - 104

**12 Hymans Robertson review of MiFID II**

105 - 110

*(To receive a report by Jo Ray (Pension Fund Manager), which provides a review of the current discussions surrounding MiFID II and the potential impact on the Pension Fund, by the Investment Consultant, Paul Potter)*

**Democratic Services Officer Contact Details**

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

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

Contact details set out above.

All papers for council meetings are available on:  
[www.lincolnshire.gov.uk/committeerecords](http://www.lincolnshire.gov.uk/committeerecords)



## **PENSIONS COMMITTEE 8 DECEMBER 2016**

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

Councillors N I Jackson, B W Keimach, A H Turner MBE JP and P Wood

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

In Attendance: Roger Buttery (Independent Chairman, LGPS Pensions Board), Peter Jones (Independent Advisor)

Officers in attendance:-

David Forbes (County Finance Officer), Paul Potter (Hymans Robertson) and Catherine Wilman (Democratic Services Officer)

### 89 APOLOGIES FOR ABSENCE

Apologies were received from Councillors C E D Mair, R J Phillips, Mrs S Rawlins, Mr J Grant.

### 90 DECLARATION OF MEMBERS' INTERESTS

Councillor M G Allan requested that a note be made in the minutes that he was currently in receipt of a North Kesteven District Council pension.

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

Councillor P Wood declared that he was a contributing member of the Pension Fund and was also in receipt of a Lincolnshire County Council pension.

### 91 MINUTES OF THE MEETING HELD ON 6 OCTOBER 2016

RESOLVED

That the minutes from the meeting held on 6 October 2016 be approved and signed by the chairman as a correct record.

**2**  
**PENSIONS COMMITTEE**  
**8 DECEMBER 2016**

92 CONSIDERATION OF EXEMPT INFORMATION

RESOLVED

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

93 MANAGER PRESENTATION - STANDARD LIFE - PROPERTY INVESTMENT

The Committee received a presentation from Standard Life – Property Investment which outlined their performance over the medium term together with the major factors that influenced that performance.

The Committee asked a range of questions in order to gain a better understanding of the relevant issues.

RESOLVED

That the report be noted.

94 MANAGER PRESENTATION - COLUMBIA THREADNEEDLE - GLOBAL EQUITIES

The Committee received a presentation from Columbia Threadneedle – Global Equities which outlined their performance over the medium term together with the major factors that influenced that performance.

The Committee asked a range of questions in order to gain a better understanding of the relevant issues.

RESOLVED

That the report be noted.

95 MANAGER PRESENTATION - SCHRODER INVESTMENT MANAGEMENT - GLOBAL EQUITIES

The Committee received a presentation from Schroder Investment Management – Global Equities which outlined their performance over the medium term together with the major factors that influenced that performance.

The Committee asked a range of questions in order to gain a better understanding of the relevant issues. The Committee requested that the Director of Finance and Public Protection write to the manager to express its concern over since-inception

performance and to indicate that they would be minded to review the mandate should performance not improve materially in the next year.

RESOLVED

1. That the report be noted;
2. That the Director of Finance and Public Protection write to Schroder Investment Management to express the Committee's concern over since-inception performance of the Global Equities mandate, and to indicate that they would be minded to review the mandate should performance not improve materially in the next year.

The meeting closed at 12.50pm

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**Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection**

Report to:	<b>Pensions Committee</b>
Date:	<b>05 January 2017</b>
Subject:	<b>Independent Advisor's Report</b>

**Summary:**

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

**Recommendation(s):**

That the Committee note the report.

**Background**

Investment Commentary

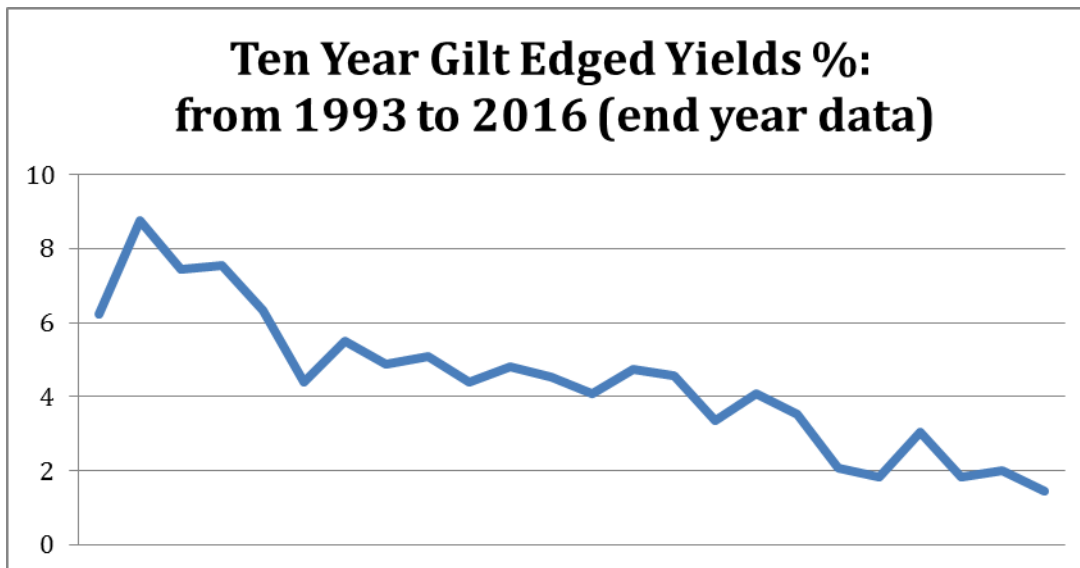
January 2017

**Interest rates on the rise? Yes, but to what level?**

Amid all the headline news about Brexit negotiations, President Elect Donald Trump, forthcoming elections in France and Germany, we should not lose sight of a possible change in the trend of interest rates. Both short term interest rates (e.g. Bank of England base rate) and longer term ones, such as those of British Government Gilt Stock, say of 10 years maturity.

**Long Term Trends**

The chart below shows 10 year gilt yields, annually, since the end of 1993. The peak yield in this period was almost 9% in 1994. The lowest point was 0.5% in the late summer of 2016, when the Bank of England Monetary Policy Committee cut its base rate to 0.25%. These recent low rates are without precedent in the 400 year old history of the Bank of England. The committee will be well aware of the dramatic effect that these low interest rates has had on the recent valuation of the LCC scheme's pension liabilities.



The trend seen in the chart is very clear. It has been falling, more or less continuously, for the best part of 20 years. Interestingly (and this is only annual data), the financial crisis of 2008/09 hardly shows up as a material deviation from the continuing downward trend. On this chart, there is no sign of a reversal in the downward trajectory.

Why has the trend been downwards? Clearly the causes are of a long term nature. There are perhaps two significant ones. First, demographics – and in particular the ageing populations of the developed world (UK, USA, Western Europe and Japan). Many of these regions have birth rates which are incapable, without immigration, of sustaining the population at a stable level. Peak personal expenditure by age groups is between say ages 20 to 55. As the population ages, it becomes increasingly difficult to sustain economic growth at the level that it once was. An extreme example of this phenomenon is found in Japan.

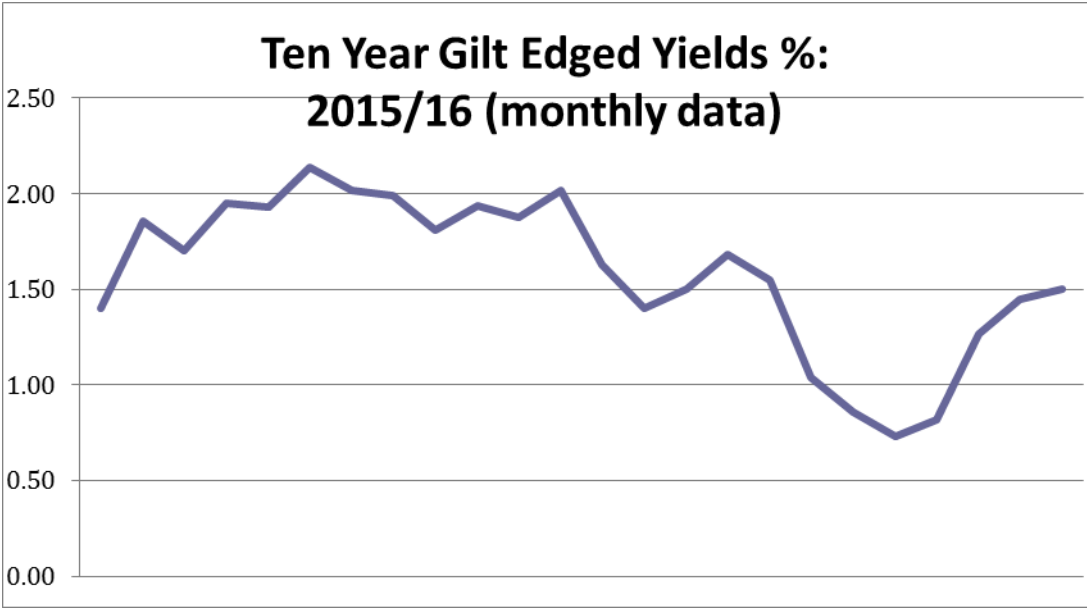
The second main cause is inflation. It too has been falling and is not unrelated to the lacklustre economic demand caused by the “adverse” demographic trends referred to above. Inflation in the UK has not been on a continuous downward trend; it had a low point in 2009 at the height of the financial crisis (when it was negative). It has been rising for about two years and (on an RPI basis) is now above 2%, exacerbated in recent months by the savage depreciation of the £ sterling.

#### **Short term trends in interest rates**

Of these two features (demographics and inflation), demographics cannot change trend materially in the near future, for obvious reasons. UK inflation will rise further in 2017 (maybe to 3%) as the sterling depreciation effect passes through. In the longer run, what happens to wage rates will be the key to future RPI. So why might there be a change in trend of longer term interest rates? One reason is what happens to very short term rates, e.g. Bank of England base rate and its US equivalent, the Fed funds rate. The Bank of England reduced its base rate to the amazingly low level of 0.25% in August 2016. In contrast, the US Federal reserve

increased the Fed funds rate by 0.25% in December 2016. Moreover, the Chair of the Fed indicated that two or three further rate increases are likely in 2017, because unemployment has reached a low level and the US economy is expanding at close to 3% per annum. Donald Trump, when he becomes President, is expected to further stimulate the US economy.

As the chart below for 2015/16 shows, UK 10 year gilt yields have been rising for some months and are now around 1.5%. So too have the equivalent US Treasury yields, which are already over 2.5%. Some market practitioners are convinced that a historic low point in longer term yields has already been passed. In the UK that is plausible, given the extreme low levels reached after the Brexit result and the Bank of England reduction in base rate. More relevant, however, is to what level might they rise?



**Conclusion**

My own view is that UK longer term interest rates cannot rise very far. Partly for demographic reasons and partly because inflation in the UK is likely to be well behaved, once the sterling depreciation effect has passed by mid 2017. Moreover, there are many pension schemes that will be “natural buyers” of gilts and other fixed interest stocks as prices fall and yields rise. If I have a caveat, it is that US Treasury bonds could be less well behaved and exert an upward influence on global bond yields.

**Peter Jones**  
**19<sup>th</sup> December 2016**

## **Consultation**

### **a) Have Risks and Impact Analysis been carried out??**

Yes

### **b) Risks and Impact Analysis**

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

## **Background Papers**

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

**Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection**

Report to:	<b>Pensions Committee</b>
Date:	<b>05 January 2017</b>
Subject:	<b>Pensions Administration Report</b>

**Summary:**

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

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

**Recommendation(s):**

That the Committee note the report.

**Background**

**1.0 Performance and Benchmarking**

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

**1.2** The table below shows the performance against key areas of work for the period 1 June 2016 to 31 August 2016 as measured against both the local indicators and the national CIPFA benchmarks.

KPI's for the period 1.9.16 to 30.11.16 -LPF					
WORKTYPE	TOTAL CASES	TARGET DAYS	TARGET	MINIUM	TARGET MET
		FOR EACH CASE	MET CASES	TARGET PERCENT	PERCENT
Transfer In Quote	53	35	31	85	58.49
Transfer In Payment Received	28	35	23	85	82.14
Divorce Quote	61	35	60	85	98.36
Deferred Benefits Set Up on Leaving	197	10	66	85	33.50
Refund Quote	136	35	98	85	72.06
Refund Payment	85	10	85	85	100.00
Transfer Out Quote	38	35	15	85	39.47
Transfer Out Payment	8	35	8	85	100.00
Pension Estimate	330	10	286	85	86.67
Retirement Actual	176	3	173	85	98.30
Deferred Benefits Into Payment	196	5	186	85	94.90
Death Grant Single Payment	32	5	31	85	96.88
Initial letter acknowledging death of active/deferred/pensioner member	160	5	158	85	98.75
Change of Address	1367	20	1361	85	99.56
Life Certificate Received	3956	20	3910	85	98.84
Death Grant Nomination Received	1331	20	1297	85	97.45
Payroll Changes	70	20	70	85	100.00
Change to Bank Details	51	20	51	85	100.00
Death Notificatoin	160	5	158	85	98.75
Potential Spouse	9	10	8	85	88.89
AVC In-house (General)	77	10	71	85	92.21
Letter notifying amount of dependant's benefits	56	3	45	85	80.36
Initial Letter Death in Retirement	139	5	103	85	74.10
Initial Letter Death in Service	4	5	4	85	100.00
Initial Letter Death in Deferment	9	5	8	85	88.89

## 2.0 Scheme Information

2.1 Membership numbers as at 22 December 2016 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	24,743	27,006	3,119	18,957	1,867
Councillors	14	30	0	38	-
<b>Totals nos</b>	<b>24,757</b>	<b>27,036</b>	<b>3,119</b>	<b>18,995</b>	<b>1,867</b>
Change	+624	-288	+116	+292	+23

## 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	493	1750	1655	2156	2587	3602	4238	3851	2836	1293	242	40	24743
Beneficiary Pensioner	90	42	2	1	4	14	46	70	130	224	283	1485	2391
Deferred	5	487	1576	2042	2211	3639	5345	6072	4522	1023	34	10	26966
Deferred Ex Spouse	0	0	0	0	2	0	12	9	12	4	0	0	39
Pensioner	0	1	1	0	6	21	43	114	1134	4235	4938	6055	16548
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	3	8	3	3	17
Preserved Refund	14	108	71	117	154	220	309	309	246	168	106	46	1868
	602	2388	3305	4316	4964	7496	9994	10425	8885	6955	5606	7639	72575
Undecided													3119
Councillors													82
<b>Total</b>													<b>75776</b>

## 2.3 Employer Activity

### Academies and Prime Account Schools

Between 1 July 2016 and 30 September 2016 3 academies and 2 Prime Account Schools became Scheme employers in the Fund.

WYPF are currently working on 9 schools that are in the process of converting to academies or Prime Account Schools.

### Town and Parish Councils

Between 1 April 2016 and 30 June 2016 no Town and Parish Council became Scheme employers. 3 have not yet decided whether to become Scheme employers in the Fund.

### Admission Bodies

Between 1 April 2016 and 30 June 2016 the admission of no Admission Bodies were completed.

WYPF are currently working on the admissions for 7 Admission Bodies.

### Employers ceasing Participation

Between 1 July 2016 and 30 September 2016 1 employer ceased its participation in LPF.

### Number of Employers

These changes to employers bring the total number of employers in LPF as at 30 June 2016 to 235.

### 3.0 Praise and Complaints

3.1 Over the quarter July to September we received **2** online customer responses.

Over the quarter July to September **143** Lincolnshire member's sample survey letters were sent out and **18 (12.58%)** 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
83.94%	80.16%	80.34%	80.71%	79.55%

Appendix 1 shows full responses.

### 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 July 2016 to 30 November 2016 four Stage 1 appeals were received and there were a total of four Stage 2 appeals, as detailed below:

July 16 to Nov 16	Number of appeals	Outcomes	Details
<b>STAGE 1</b>	6		
<b>AGAINST EMPLOYER</b>	3	3 turned down	
			Member appealed against employer decision to refuse to grant early release of deferred benefits on ill health grounds.
			Member appealed against employer decision to refuse an ill health pension.



			Member was awarded deferred benefits but applied for ill health benefits to be backdated to date of leaving
<b>AGAINST LPF</b>	3	3 turned down	Member complained that he was not allowed to transfer out his benefits as he was outside time limits.
			Member was given an incorrect estimate which was higher than it should have been.
			Complaint against administration of pension benefits and delays in concluding award of benefits.
<b>STAGE 2</b>	4		
<b>AGAINST EMPLOYER</b>	3	1 turned down 2 referred back to Employer	Member was award tier 3 benefits and on termination has appealed that he should have been awarded tier 1 benefits.
			Member complained that Employer has not waived reductions to benefits according to their discretionary policy.
			Member turned down for ill health benefits.
<b>AGAINST LPF</b>	1		Complaint against administration of pension benefits and delays in concluding award of benefits. Excess time taken due to AVC's.

4.2 The Pensions Ombudsman can consider appeals and allegations of maladministration, once the two stages of the IDRP have been exhausted. From 1 July 2016 to 30 November 2016 the Pensions Ombudsman issued one determination against LPF for maladministration. They have instructed LPF to pay compensation of £750 for maladministration. The complaint resulted around a refusal to allow a transfer out of the LGPS and the time limits around when this had to be done by.

## 5.0 Administration Update

5.1 Life certificates - are still being returned to us. There has been a good response with only two people refusing to complete them.

- 5.2 Death Grant Nominations - The number of death grant nomination for LPF members is around two thirds now with some nominations still coming in. The exercise has now been rolled out to pensioner members and so far 40% have been returned.
- 5.3 The National Fraud Initiative has helped to identify £939 million worth of fraud, overpayment or error across UK public bodies since 1996. Under the initiative, public agencies and local authorities 'share and compare' information they hold, and when fraud is detected, it's investigated, often by the police. WYPF take part in the NFI and pensioners were notified of this in the autumn newsletter.
- 5.4 Information was provided to the NFI for LPF Pensioners, dependants (for the first time) and dependants on 19<sup>th</sup> October. Results are expected shortly.
- 5.5 Tell Us Once – This is up and running and we receive 15-20 notifications of death per week.
- 5.6 Annual Benefit Statements - Work on this continues. 8% of LPF members have not had an ABS due to errors on records. Fire ABS work is ongoing. Testing is currently taking place and we hope to meet the revised deadline of 31 December, even though we only received the year end return from Lincolnshire Fire last week (second attempt).

## **6.0 Current Issues**

- 6.1 Consultation on indexation and equalisation of GMP in public service pension schemes

On 28 November, HM Treasury commenced a consultation that proposes options for the indexation of GMP elements for members of public service pension schemes who will reach SPA on and after 6 December 2018.

On 6 April 2016 the government introduced the new State Pension, designed to radically simplify pension provision whilst ensuring that pensioners have security in retirement. This simplification removed layers of complexity from the system, harmonised the rate of National Insurance contributions paid by employees and employers and was intended to promote private saving by giving people a better understanding of the amount of support they can expect to receive from the State when they reach State Pension age.

Among the layers of complexity that has been removed is the Additional State Pension (AP), an earnings related element of the old state system.

The removal of AP has led to the need to consider how public service pension payments for a specific group of members should be increased in the future. Those who were in 'contracted-out' employment during the period 6 April 1978 to 5 April 1997 (inclusive) who accrued a guaranteed minimum

pension (GMP) from their public service pension scheme and who will reach SPA after 5 December 2018 will be affected.

The consultation aims to consider two issues by putting forward a number of solutions. The two issues that are considered are:

1. How best to avoid the unequal payments to men and women in public service schemes that result from the abolition of AP? and
2. Whether, following the introduction of the new State Pension, public service pension schemes should, for someone who reaches SPa after 5 December 2018, provide full indexation on any GMP the public service pension scheme pays?

The consultation document is on the Drafts and Consultations page of [www.lgpsregs.org](http://www.lgpsregs.org) and the consultation period closes on 20 February 2017.

## 6.2 Government consultation covering the increases to Public Service Pensions for those reaching SPA beyond 5 December 2018

On 28 November, HM Treasury [commenced a consultation](#) that proposes options for the indexation of GMP elements for members of public service pension schemes who will reach SPA on and after 6 December 2018.

On 6 April 2016 the government introduced the new State Pension, designed to radically simplify pension provision, whilst ensuring that pensioners have security in retirement. This simplification removed layers of complexity from the system, harmonised the rate of National Insurance contributions paid by employees and employers and was intended to promote private saving by giving people a better understanding of the amount of support they can expect to receive from the State when they reach State Pension age.

Among the layers of complexity that are being removed is the Additional State Pension (AP), an earnings related element of the old state system.

The removal of AP has led to the need to consider how, public service pension payments for a specific group of members should be increased in the future. Those who were in 'contracted-out' employment during the period 6 April 1978 to 5 April 1997 (inclusive), who accrued a guaranteed minimum pension (GMP) from their public service pension scheme and who will reach SPa after 5 December 2018, will be affected.

The consultation aims to consider two issues by putting forward a number of solutions. The two issues that are considered are:

1. How best to avoid the unequal payments to men and women in public service schemes that result from the abolition of AP? and

2. Whether, following the introduction of the new State Pension, public service pension schemes should, for someone who reaches SPa after 5 December 2018, provide full indexation on any GMP the public service pension scheme pays?

The consultation document is on the [Drafts and Consultations](http://www.lgpsregs.org) page of [www.lgpsregs.org](http://www.lgpsregs.org) and the consultation period closes on 20 February 2017.

### 6.3 Salary sacrifice

Following the Government consultation undertaken earlier this year on limiting the salary sacrifice benefits that achieve tax and National Insurance advantages, the Chancellor confirmed in the statement that the Government plan to proceed with the changes.

Under the reforms, childcare vouchers/workplace nursery provision, the Cycle to Work scheme, pensions (including advice) and ultra-low emission cars will retain their tax and NI advantages but most other benefits will lose these.

Most of the reforms will come into effect in April 2017, although arrangements already in place before April 2017 will maintain the advantages until April 2018, and arrangements for (non ultra-low emission) cars, accommodation and school fees will keep the advantages until April 2021.

### 6.4 Consultation on tackling pensions scams

The Government also announced that they plan to undertake a consultation before the end of the year on steps to tackle pension scams, including ending 'cold calling'. In addition, the consultation will contain options for giving schemes greater power to block suspicious transfers.

### 6.5 Termination payments

As announced at Budget 2016, from April 2018 termination payments over £30,000, which are subject to income tax, will also be subject to employer NICs. Following a technical consultation, tax will only be applied to the equivalent of an employee's basic pay if their notice is not worked, making it simpler to apply the new rules. The government will monitor this change and address any further manipulation. The first £30,000 of a termination payment will remain exempt from income tax and National Insurance.

### 6.6 Exit payments

Exit payment recovery – delay in implementation

The Small Business, Enterprise and Employment Act 2015 makes provision for the introduction of the recovery of public sector exit payments in certain situations.

Under the reforms, when a person leaves a relevant public sector employment with a salary of £80,000 or higher and subsequently re-joins another part of the public sector within 12 months, they may have to pay a proportion of the exit payments they received back to their prior employer.

It was expected that the reforms would take effect from April 2016. However, the regulations have since been delayed a number of times. We understand the Government hope that the regulations will pass through both Houses of Parliament before the end of the year, coming into force early in 2017. The regulations are subject to the affirmative process and must be passed by resolutions of both Houses before they can become law.

#### 6.7 Exit payment cap

The introduction of the exit payment cap has been subject to delays following the Enterprise Act 2016 gaining Royal Assent in May. When introduced, the cap will restrict the total exit payments made in respect of an individual's exit from a public sector employment to a total of £95k. LGPS strain payments resulting from redundancy pensions being put into payment will be included in the cap. Before the cap becomes law, there will be a further consultation on the regulations that will govern the cap. We understand the government hope to commence this consultation in early 2017, with a view to the exit payment cap becoming effective soon after.

We also await Treasury directions which will provide detail on the circumstances in which the cap may be relaxed by permitted bodies (guidance on the relaxation will be prescriptive rather than permissive in so much that it will set out a list of situations an authority may be able to consider a waiver rather than a discretion).

The exit payment cap regulations are subject to the affirmative process and must be passed by resolutions of both Houses of Parliament before they can become law.

#### 6.8 DCLG publication of late retirement guidance

On 4 October 2016, DCLG published new late retirement actuarial guidance for the LGPS in England and Wales. The effective date for the new guidance is 4 January 2017 and all late retirements taking place from this date onwards should be calculated using the factors contained in the new guidance.

#### 6.9 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 [SI 2016/946] and DCLG guidance on preparing and maintaining an investment strategy statement

On 23 September the above regulations were laid before parliament effective from 1 November 2016. The regulations revoke and replace the

LGPS (Management and Investment of Funds) Regulations 2009 (with some transitional provisions). The regulations facilitate the pooling of investment funds and introduce:

- A requirement to publish an investment strategy no later than 1 April 2017 in accordance with guidance issued by the Secretary of State.
- A power for the Secretary of State to intervene where an authority fails to comply with its statutory obligations as regards its pension fund or were it fails to act in accordance with guidance.

On 15 September DCLG published its [guidance](#) to assist administering authorities in the formulation, publication and maintenance of their Investment Strategy Statement (ISS). The new ISS is required by regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016. An administering authority's duty to prepare, maintain and review their funding strategy statement under Regulation 58 of the LGPS (2013) Regulations is unaffected.

Earlier this year, an e-petition was set up on the Government website in response to the consultation on the new investment regulations for the LGPS in England and Wales, which was underway at the time. The e-petition set out concerns about:

- the proposed Government intervention power in scheme investments,
- the requirement for an improved capacity for investment in infrastructure, and
- ensuring that investments be made in the interests of scheme members.

As the e-petition succeeded in getting over 100,000 signatures, the Government granted a debate on the subject and this debate was held on 24 October 2016.

On 25 October, MPs from the Labour Party submitted an Early Day Motion (EDM) praying that the LGPS (Management and Investment of Funds) Regulations 2016 [SI 2016/946] be annulled. It is understood that the Early Day Motion has been submitted because of similar concerns to those that gave rise to the e-petition (as detailed above). Historically, it is very rare that an EDM to annul a statutory instrument is successful. Albeit the EDM has so far, attracted 85 signatures.

#### 6.10 Government drops plan to convert all schools to academy status

It was reported on 27 October 2016 that the Government had dropped its bill to require all schools in England to convert to academy status by 2022.

The Government are still of the view that schools would benefit from the freedom and autonomy that academy status brings, but they will now focus their efforts on encouraging schools to convert voluntarily. No new primary legislation is needed for this purpose.

6.11 Scheme Advisory Board (SAB) (England & Wales) – implications for the LGPS of a significant increase in academy employers.

The Scheme Advisory Board has commissioned PWC to investigate the implications for the LGPS of a significant increase in academy employers and to develop options to manage to those implications. They will present their findings to the SAB in March 2017 in the form a comprehensive report covering the administrative, actuarial, legal and investment issues relating to the implications identified and options proposed.

Between now and the end of the year PWC will be looking to engage with stakeholders, including administering authorities, to gain their input. As part of their engagement PWC held a voluntary session at the Pensions Managers Conference in Torquay, providing an ideal opportunity for administering authorities to contribute.

6.12 Publication of September 2016 CPI rate

On 18 October 2016, the Office for National Statistics (ONS) announced that the Consumer Prices Index (CPI) rate of inflation for September 2016 was 1.0%.

We await confirmation from the Government in due course that revaluation and pensions increase for April 2017 will apply to Fire pensions at a rate of 1.0%.

6.13 National Framework for Third Party Administration

WYPF have been selected for the National LGPS Framework for both Lots 1 (Pensions administration services) and Lot 2 (Pension Administration support services). If we get new business as a result, then we will look at our current branding to come up with a new name for us.

**7.0 Finance**

7.1 Cost per member

**Shared service cost per member 2016/17 £13.76 (£15.45 for 2017/18 initial budget)**

The projected shared service pension admin cost per member of £13.76 will be used to recharge LPF. Our cost target for shared service pension admin is to maintain a cost target of £17. The initial budget for 2017/18 Pension Admin shared services of £8.86m less £0.5m contingency will give us a projected cost of £14.91 per member for 2017/18. Our projected cost per member is below our target cost of £17.

## **8. News**

### **8.1 LGC Investment awards**

WYPF received a high commendation in the Best Collaboration category at this year's LGC awards held on 9 November at One Great George Street, London. The winners in this category were Project Pool.

WYPF were also shortlisted in five other categories.

Pension Age Awards have also shortlisted WYPF under the following categories:

DB Pension Scheme of the Year  
Pension Scheme Communication Award  
Pension Administration Award

The Pensions Age Awards will be held on 23 February 2017 at the London Marriott Hotel, Grosvenor Square.

## **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.

## **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Survey Results – July to September 2016

## **Consultation**

### **a) Have Risks and Impact Analysis been carried out??**

Yes

### **b) Risks and Impact Analysis**

The Pension Fund has a risk register which can be obtained by contacting the author of this 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 Yunus Gajra, who can be contacted on 01274 432343 or [Yunus.gajra@wypf.org.uk](mailto:Yunus.gajra@wypf.org.uk)

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## Customer Survey Results - Lincolnshire Members (1<sup>st</sup> July to 30<sup>th</sup> September 2016)

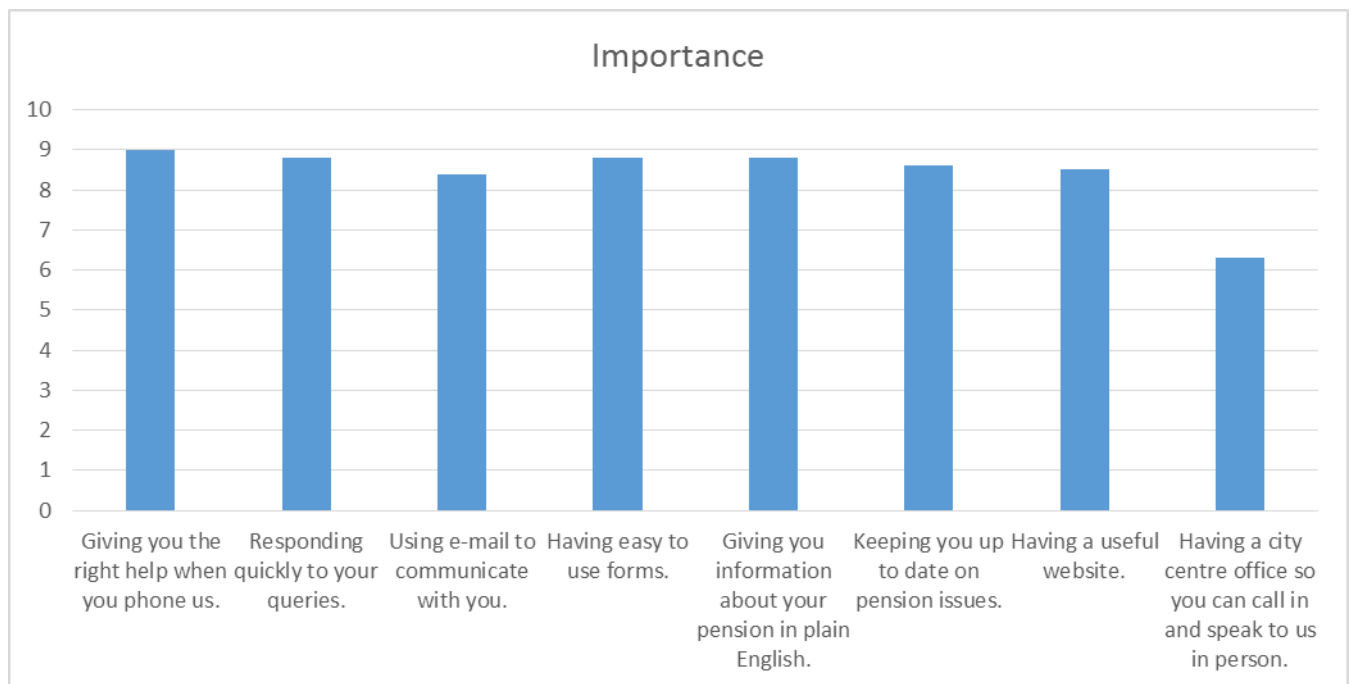
Over the quarter July to September we received **2** online customer responses.

Over the quarter July to September **143** Lincolnshire member's sample survey letters were sent out and **18 (12.58%)** returned:

Overall Customer Satisfaction Score;

July to September 2015	October to December 2015	January to March 2016	April to June 2016	July to September 2016
83.94%	80.16%	80.34%	80.71%	79.55%

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



**Sample of positive comments:**

<b>Member Number</b>	<b>Comments</b>
8038008	All information was supplied promptly.
8110789	Easy to understand and deal with. I have had limited use of your service so far I have only just joined the pension scheme. Service so far is good.
8108333	Quick to sort out my pension. Forms easy to fill in

**Complaints/Suggestions:**

<b>Member Number</b>	<b>Comments</b>	<b>Corrective/ Preventive Actions</b>
8106303	Poor. Over 10 months to sort pension refund. Emails ignored for quite some time.	<p>The following response has been sent by Anisa;</p> <p>Thank you for completing the customer survey form.</p> <p>I have looked through your record and have noted the following:</p> <p>You joined the pension scheme on 1 March 2015 and opted out of the scheme on 9 June 2015. As this was within 3 months of joining, the pension scheme regulations state pension contributions need to be refunded via the employer.</p> <p>Unfortunately, your employer deducted 4 months of contributions therefore the refund needed to be paid by the West Yorkshire Pension Fund (WYPF).</p> <p>You made initial contact with WYPF regarding claiming a refund of contributions on 9 November 2015. Details of you leaving the scheme were requested immediately from your employer and reminders were routinely sent until we received all the information on 7 April 2016. A refund quote was calculated and sent to you on the same day. We received your refund option form on 3 May 2016 and this was processed and released for payment on 5 May 2016.</p> <p>The WYPF administers the local government pension scheme and relies on the information from employers to calculate benefits and entitlements. I appreciate there was a considerable delay in calculating the refund owed to you. Unfortunately this was due to the delay in receiving details from your employer.</p> <p>Please accept my sincere apology for the inconvenience this has caused you.</p>

**Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection**

Report to:	<b>Pensions Committee</b>
Date:	<b>05 January 2017</b>
Subject:	<b>Pension Fund Update Report</b>

**Summary:**

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

**Recommendation(s):**

That the Committee note the report.

## **Background**

### **1 Fund Summary**

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £106m (5.8%) to £1,943.1m on 30<sup>th</sup> September 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 30<sup>th</sup> September. All asset classes are within the agreed tolerances. One portfolio, Blackrock Interim, exceeded their tolerance level of +/- 1% by -0.5%, to account for 5.7% of the Fund. This was not rebalanced as wider rebalancing was planned in the following quarter. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 3.2%

UK Equities underweight by 0.7%

Global Equities overweight by 3.9%

Underweight Alternatives by 1.3%

Underweight Property by 1.1%

Underweight Bonds by 0.7%

Underweight Cash by 0.1%

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 30<sup>th</sup> September 2016.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 30<sup>th</sup> September, accounting for 10.2% of the Fund, compared to 10.3% last quarter. Equity holdings in the Fund are now shown on the Pensions website, and updated on a quarterly basis.

	<b>Company</b>	<b>Total Value £M</b>	<b>% of Fund</b>
1	HSBC	32.2	1.7
2	ROYAL DUTCH SHELL	28.9	1.5
3	UNILEVER	22.3	1.1
4	RECKITT BENCKISER	22.1	1.1
5	MICROSOFT	19.5	1.0
6	BRITISH AMERICAN TOBACCO	17.5	0.9
7	BP	14.5	0.8
8	GLAXOSMITHKLINE	14.4	0.7
9	NESTLE	13.2	0.7
10	APPLE	13.0	0.7
	<b>TOTAL</b>	<b>197.6</b>	<b>10.2</b>

- 1.6 Appendix D presents summarised information in respect of votes cast by the Manifest Voting Agency, in relation to the Fund's equity holdings. Over the three months covered by this report, the Fund voted at 115 company events and cast votes in respect of 1,503 resolutions. Of these resolutions, the Fund voted 'For' 1,168, 'Against' 325, abstained on 1 and withheld votes on 9.
- 1.7 A breakdown of the issues covered by these resolutions together with an analysis of how the votes were cast between 'For', 'Abstain' or 'Against' a resolution is given in Appendix D. Votes were cast in accordance with the voting template last reviewed at the 9<sup>th</sup> January 2014 meeting of this Committee, and effective from 1<sup>st</sup> March 2014.

## 2 Local Authority Pension Fund Forum

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

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

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

- LAPFF was one of a number of shareholders and shareholder groups supporting a UNITE-backed resolution at the Sports Direct AGM that called for an independent review of the Company's human capital management strategy. The AGM received a lot of media coverage, and LAPFF's Executive Committee member, Jane Firth, spoke about the Forum's support for the independent human capital assessment for Channel Five, BBC TV and Radio Five Live.
- In July, LAPFF and Carbon Tracker Initiative launched the report 'Engaging for a Low Carbon Transition' which sets out how a 2°C business model can be less risky than 'business-as-usual' for oil and gas companies.
- LAPFF continued with its engagement to promote women on boards, having meetings with Weir Group, Tullow Oil and Telecom Plus.
- LAPFF attended eight AGMs this quarter – Sainsbury, BT, British Land, SSE, Vodafone, National Grid, Vedanta and Sports Direct. At least four of these, Sainsbury, BT, SSE and Vedanta, have led to further engagements with the companies.

- LAPFF co-signed a letter with other investors to Alphabet, parent company to Google, requesting further disclosure about its tax practices. Google has faced a number of legal challenges to the amount of tax it pays in various countries.
- In the run-up to binding votes on remuneration policy at most companies' 2017 AGMs, LAPFF has maintained a focus on executive pay policies and how companies apply them in practice.
- Collaborative engagement with oil & gas, integrated mining and utility companies has continued through the 'Aiming for A' investor group with LAPFF separately also meeting with BP and Anglo American in the last quarter.

2.3 The LAPFF Annual Conference was held in Bournemouth in December. The Pension Fund Manager and Cllr Ray Phillips attended. The theme of the conference was Protecting Portfolio Value and subjects covered in the agenda included:

- Infrastructure investment;
- Impact Investment;
- Share buy backs;
- Mergers and acquisitions;
- Human capital investment;
- LGPS pooling; and
- Directors' pay

2.5 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 £12.4m. The invested cash has outperformed the benchmark from 1<sup>st</sup> April 2016 by 0.33%, annualised, as shown in the table below, and earned interest of £41.2k.

3.3 The Pension Fund Average Balance to 30th September 2016 has been inflated due to an eight day period in early September where the Pension Fund bank balance was £115m, due to a realignment of the asset allocation following the termination of the BMO.



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

<b>Pension Fund Balance – Q1 to 30<sup>th</sup> September 2016</b>				
<b>Pension Fund Average Balance £'000</b>	<b>Interest Earned £'000</b>	<b>Cumulative Average Yield Annualised</b>	<b>Cumulative Weighted Benchmark Annualised</b>	<b>Performance</b>
		<b>%</b>	<b>%</b>	<b>%</b>
12,382.5	41.2	0.70	0.37	0.33

#### **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. The Board are completing self-assessments ahead of the March 17 meeting.*

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 the deadline of 31<sup>st</sup> 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 the deadline of 31<sup>st</sup> 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.

5.2 Over the quarter there has been one removal from the register, shown below, as approval has now been received.

Risk 24 removed.

Risk 24	Consequences	Controls	Risk Score	
			L	I
Government consultation on asset pooling - approval to proceed with BCPP proposition.	Volatility of market Lower gilt yields leading to higher liabilities Inflation increasing liabilities Uncertainty of political direction re pooling	Increased monitoring of managers Review investment strategy Regular communications with Committee and Board	3	2

5.3 One additional risk has been added at risk 29.

Risk 29	Consequences	Controls	Risk Score	
			L	I
Asset pooling - creation of BCPP within Government's timetable.	Potential intervention by Secretary of State if April 18 deadline not met	Resource dedicated to BCPP work when required Ensuring understanding of Members to get full Council approval in February Regular communications with Govt to reassure progress is being made	3	2

5.4 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 Uncertainty of political direction re pooling	Increased monitoring of managers Review investment strategy Regular communications with Committee and Board	4	3

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

## 6 Lincolnshire Pension Fund – Scheme Member Annual Meeting

- 6.1 The first Scheme Member Meeting took place on 23rd November, at the Alive Centre in Lincoln. Having allowed attendance for up to 200 scheme members, there was a disappointing turnout of around 40. The Pension Fund Manager, Chair of Pensions Committee and Independent Chair of the Pension Board all presented, and guest speakers from Trading Standards and Lincolnshire Police spoke about scams and how to avoid them. Despite the low number of attendees, feedback was very positive, with requests to hold this event annually. The Committee will be asked to consider this at the January meeting. The presentations from the event were circulated with the monthly update letter that was sent to the Committee and the Pension Board on 25<sup>th</sup> November.
- 6.2 Given the positive feedback, the Fund would look to run another annual meeting next year, but with a minimum number of attendees required to proceed. The meeting will be mentioned in the Spring scheme member newsletters, with comments from the attendees, to encourage attendance in future.

### **Conclusion**

- 7 This reporting period saw the value of the Fund rise, increasing by £106m to £1,943.1m. At the end of the period the asset allocation, compared to the strategic allocation, was;
- overweight equities; and
  - underweight property, fixed interest, alternatives and cash.
- 8 The first scheme member meeting took place on 23<sup>rd</sup> November with a disappointing attendance. Feedback was very positive and requests were made to hold the event annually, however a minimum number of attendees would be required to proceed.

### **Consultation**

**a) Have Risks and Impact Analysis been carried out??**

Yes

**b) Risks and Impact Analysis**

The Pension Fund has a risk register which can be obtained by contacting the

author of this report.

## **Appendices**

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

## **Background Papers**

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

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## APPENDIX A

## DISTRIBUTION OF INVESTMENTS

INVESTMENT	30 Sept 2016			31 Jul 2016			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
<b>UK EQUITIES</b>								
UK Index Tracker	375,383,384	30.6%	19.3%	364,160,744	30.6%	19.2%	20.0	+/- 2%
<b>TOTAL UK EQUITIES</b>	<b>375,383,384</b>		<b>19.3%</b>	<b>364,160,744</b>		<b>19.2%</b>	<b>20.0</b>	
<b>GLOBAL EQUITIES</b>								
Invesco	477,875,995	38.9%	24.6%	417,510,569	35.1%	22.0%	22.5	+/- 2.5%
Threadneedle	110,601,734	9.0%	5.7%	106,545,578	8.9%	5.6%	5.0	+/- 1%
Schroder	105,594,640	8.6%	5.4%	101,897,858	8.6%	5.4%	5.0	+/- 1%
Neptune	-	-	-	59,733,586	5.0%	3.2%	-	-
Morgan Stanley	158,690,970	12.9%	8.2%	140,867,997	11.8%	7.4%	7.5	+/- 1%
<b>TOTAL GLOBAL EQUITIES</b>	<b>852,763,338</b>		<b>43.9%</b>	<b>826,555,588</b>		<b>43.6%</b>	<b>40.0</b>	
<b>TOTAL EQUITIES</b>	<b>1,228,146,723</b>	<b>0%</b>	<b>63.2%</b>	<b>1,190,716,332</b>	<b>100%</b>	<b>62.9%</b>	<b>60.0</b>	<b>+/- 6%</b>
<b>ALTERNATIVES</b>	<b>265,360,619</b>		<b>13.7%</b>	<b>260,599,120</b>		<b>13.8%</b>	<b>15.0</b>	<b>+/- 1.5%</b>
<b>PROPERTY</b>	<b>202,993,914</b>		<b>10.4%</b>	<b>199,480,933</b>		<b>10.5%</b>	<b>11.5</b>	<b>+/- 1.5%</b>
<b>FIXED INTEREST</b>								
Goodhart F & C	-	-	-	109,372,531	45.2%	5.8%	-	-
Blackrock Interim	137,764,126	55.6%	7.1%				6.75	+/- 1%
Blackrock	110,000,000	44.4%	5.7%	132,479,140	54.8%	7.0%	6.75	+/- 1%
<b>TOTAL FIXED INTEREST</b>	<b>247,764,126</b>	<b>0%</b>	<b>12.8%</b>	<b>241,851,671</b>	<b>100%</b>	<b>12.8%</b>	<b>13.5%</b>	<b>+/- 1.5%</b>
<b>TOTAL UNALLOCATED CASH</b>	<b>-1,165,277</b>		<b>-0.1%</b>	<b>1,569,218</b>		<b>0.1%</b>	<b>0.0</b>	<b>+ 0.5%</b>
<b>TOTAL FUND</b>	<b>1,943,100,106</b>		<b>100%</b>	<b>1,894,217,273</b>		<b>100%</b>	<b>100</b>	

## APPENDIX B

**PURCHASES AND SALES OF INVESTMENTS – QTR ENDED 30<sup>th</sup> SEPT 2016**

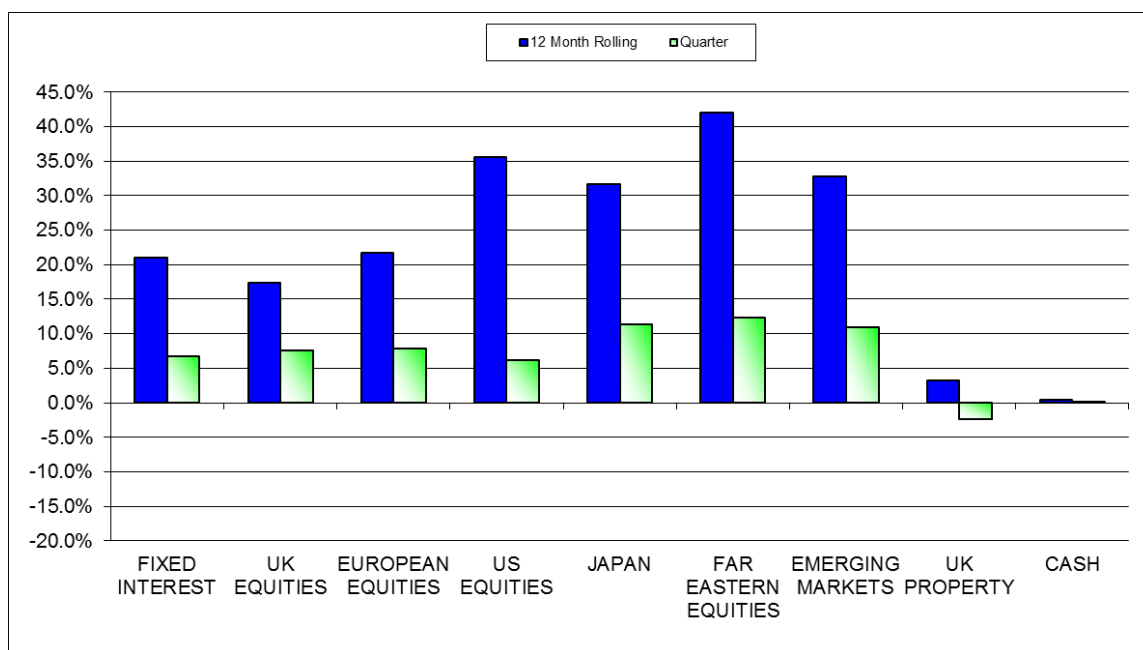
<b>Investment</b>	<b>Purchases £000's</b>	<b>Sales £000's</b>	<b>Net Investment £000's</b>
<b>UK Equities</b>			
In House	3,233	182	3,051
<b>Global Equities</b>			
Invesco	111,002	63,851	47,151
Threadneedle	11,908	8,549	3,359
Schroders	9,554	9,022	532
Neptune	0	91,557	(91,557)
Morgan Stanley Global Brands	45,000	0	45,000
<b>Total Equities</b>	<b>180,697</b>	<b>173,161</b>	<b>7,536</b>
<b>Alternatives</b>			
Morgan Stanley	0	0	0
<b>Total Alternatives</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Property</b>	<b>139</b>	<b>1,830</b>	<b>(1,691)</b>
<b>Fixed Interest</b>			
BlackRock	0	0	0
Blackrock Interim	110,000	0	110,000
Goodhart F & C	0	107,935	(107,935)
<b>Total FI</b>	<b>110,000</b>	<b>107,935</b>	<b>2,065</b>
<b>TOTAL FUND</b>	<b>290,836</b>	<b>282,926</b>	<b>7,910</b>

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



APPENDIX C

**MARKET RETURNS TO 30<sup>th</sup> SEPTEMBER 2016**



INDEX RETURNS	12 Months to Sept 16	Jul-Sept 16
	%	%
<b>FIXED INTEREST</b>	<b>21.0%</b>	<b>6.7%</b>
<b>UK EQUITIES</b>	<b>17.4%</b>	<b>7.6%</b>
<b>EUROPEAN EQUITIES</b>	<b>21.7%</b>	<b>7.9%</b>
<b>US EQUITIES</b>	<b>35.6%</b>	<b>6.2%</b>
<b>JAPANESE EQUITIES</b>	<b>31.6%</b>	<b>11.4%</b>
<b>FAR EASTERN EQUITIES</b>	<b>42.0%</b>	<b>12.3%</b>
<b>EMERGING MARKETS</b>	<b>32.8%</b>	<b>10.9%</b>
<b>UK PROPERTY</b>	<b>3.3%</b>	<b>-2.3%</b>
<b>CASH</b>	<b>0.5%</b>	<b>0.1%</b>

## APPENDIX D

<b>Votes Summarised by Votes Cast</b>				
<b>Votes Cast at Management Group Level</b>				
<b>Report Period: 01 Jul 2016 to 30 Sept 2016</b>				
<b>Voting Guideline Code</b>	<b>For</b>	<b>Abstain</b>	<b>Against</b>	<b>Total</b>
(Other) Restructuring	0	0	0	0
Adjourn Meeting	8	0	0	8
All Employee Share Schemes	4	0	2	6
Annual Incentive Plan Metrics	2	0	0	2
Anti-Takeover Provisions	0	1	1	2
Approve CSR Report	1	0	0	1
Auditor - Appointment	65	0	22	87
Auditor - Discharge	1	0	0	1
Auditor - Remuneration	38	0	30	68
Auth Board to Issue Shares	64	0	5	69
Auth Board to Issue Shares w/o Pre-emption	46	0	55	101
Authorise Option Grants/Dilution	1	0	0	1
Authorise Political Donations & Expenditure	33	0	4	37
Authorised Capital	0	0	1	1
Authorised Capital [DE/CH/AT]	1	0	0	1
Board Rem - Allow Board to Set	1	0	0	1
Capital Raising	0	0	2	2
Chairs Corporate Responsibility Committee	4	0	1	5
Change of Name	1	0	0	1
Delegate Powers	6	0	0	6
Director - Discharge from Liability	5	0	0	5
Director Election - All Directors [Single]	600	0	123	723
Director Election - Chairman	25	0	46	71
Director Election - Chairs Audit Committee	63	0	11	74
Director Election - Chairs Nomination Com	33	0	38	71
Director Election - Chairs Remuneration Com	64	0	7	71
Director Election - Chairs Risk Com	7	0	0	7
Director Election - Executives	169	0	17	186
Director Election - Lead Ind. Director/DepCH	45	0	12	57
Director Election - Non-executive/Sup Board	413	0	78	491
Director Election - Sits on Audit Committee	199	0	26	225
Director Election - Sits on Nomination Com	264	0	30	294
Director Election - Sits on Risk Com	30	0	1	31
Director Election - Sits on Remuneration Com	191	0	30	221
Distribute/Appropriate Profits/Reserves	12	0	0	12
Dividends - Ordinary	63	0	8	71

Dividends - Scrip	2	0	0	2
EGM Notice Periods	55	0	0	55
Financial Statements	43	0	30	73
Financial Statements - Environmental Issues	41	0	29	70
Individual Share Award	2	0	0	2
Insert New Holding Company	0	0	0	0
Issue Bonds (Other)	2	0	0	2
Long-term Deferral Systems	1	0	1	2
Long-term Incentive Plans	0	0	24	24
LTI: Performance Share Plan	1	0	0	1
Merger Related Compensation [US]	7	0	0	7
NED Remuneration - Fee Rate/Ceiling	7	0	0	7
NED Remuneration - Fees proposed for year	1	0	0	1
NED Remuneration - Policy	4	0	0	4
NED Share Plan	1	0	0	1
New Class of Capital	1	0	0	1
Other Changes to Governance Arrangements	23	0	0	23
Other Payments to Directors/Corp Auditors	0	0	0	0
Provision of Financial Assistance	1	0	0	1
Ratification of a Prior Act	0	0	0	0
Reduce or Reclassify Capital or Reserves	0	0	0	0
Reduce Share Premium Account	1	0	0	1
Reissue (Use) Treasury Shares	1	0	0	1
Related Party Transaction - Mandate	1	0	0	1
Related Party Transaction - Specific Transaction	0	0	0	0
Remove Supermajority Provisions	1	0	0	1
Remuneration Policy	9	0	5	14
Remuneration Report	40	0	41	81
Return of Capital	0	0	0	0
Scheme of Arrangement	0	0	0	0
SH: Adopt Diversity & Equality Policies	0	0	0	0
SH: Animal Welfare Policy & Disclosure	0	0	0	0
SH: Political Spending - Improve Disclosure	1	0	2	3
SH: Report on Human Rights Issues	0	0	0	0
SH: Request Advisory Vote on Remuneration	1	0	0	1
SH: Restrict Accelerated Vesting of LTIP Awards	1	0	0	1
Share Buy-back Authority (inc Tender Offer)	64	0	5	69
Share Consolidation	1	0	0	1
Share Issue - Preferred Shares	1	0	2	3
Share Split	1	0	0	1
Significant Transactions	0	0	3	3
Sits on Corporate Responsibility Committee	6	0	5	11
Stock Exchange Listing.	1	0	0	1

Substitute Member Audit & Sup Board (JP)	2	0	0	2
Treasury Shares - Set Re-issue Price Range	1	0	0	1
Unclassified	0	0	0	0
	<b>2784</b>	<b>1</b>	<b>697</b>	<b>3482</b>

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

### Summary Results Dashboard

No	Completed	Compliant
<b>Reporting Duties</b>		
A1	G	G
A2	G	G
A3	G	G
A4	G	G
<b>Knowledge &amp; Understanding</b>		
B1	G	G
B2	G	G
B3	G	G
B4	G	G
B5	G	G
B6	G	G
B7	G	G
B8	G	G
B9	G	G
B10	A	A
B11	G	G
B12	A	A
<b>Conflicts of Interest</b>		
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
<b>Publishing Scheme Information</b>		
D1	G	G
D2	G	G
D3	G	G
D4	G	G
<b>Risk and Internal Controls</b>		
E1	G	G
E2	G	G
E3	G	G
E4	G	G
E5	G	G
E6	G	G
E7	G	G
E8	G	G

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

No	Completed	Compliant
<b>Providing Information to Members and Others</b>		
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
<b>Internal Dispute Resolution</b>		
I1	G	G
I2	G	G
I3	G	G
I4	G	G
I5	G	G
I6	G	G
I7	G	G

No	Completed	Compliant
I8	G	G
I9	G	G
<b>Reporting Breaches</b>		
J1	G	G
J2	G	G
J3	G	G
<b>Scheme Advisory Board Requirements</b>		
K1	G	G
K2	G	G
K3	G	G
K4	G	G
K5	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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**Open Report on behalf of Pete Moore - Executive Director of Finance & Public Protection**

Report to:	<b>Lincolnshire Pension Fund</b>
Date:	<b>05 January 2017</b>
Subject:	<b>Investment Management Report</b>

**Summary:**

This report covers the management of the Lincolnshire Pension Fund assets, over the period from 1st July to 30th September 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**

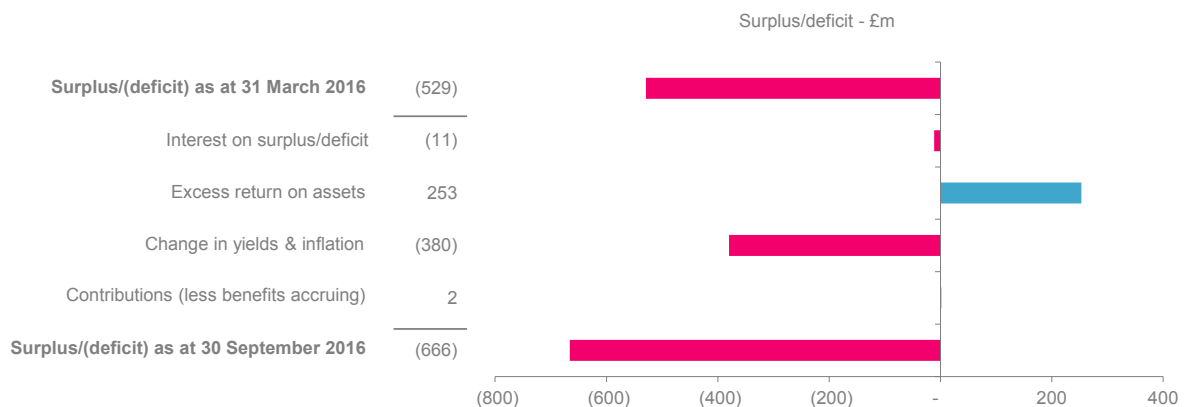
- 1.1 The funding update is provided to illustrate the estimated development of the funding position from 31<sup>st</sup> March 2016 to 30<sup>th</sup> September 2016, for the Fund.
- 1.2 As the graph below shows, the funding level at the latest formal valuation was 76.9%. As at 30<sup>th</sup> September 2016 the funding level has decreased to 75.5%.

## Change in funding level since last valuation



1.3 As shown below, the deficit in real money has increased from £529m to £666m between the period 31<sup>st</sup> March 2016 and 30<sup>th</sup> September 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 strong asset performance.

1.4 What's happened since last valuation?



## 2. Fund Performance & Asset Allocation

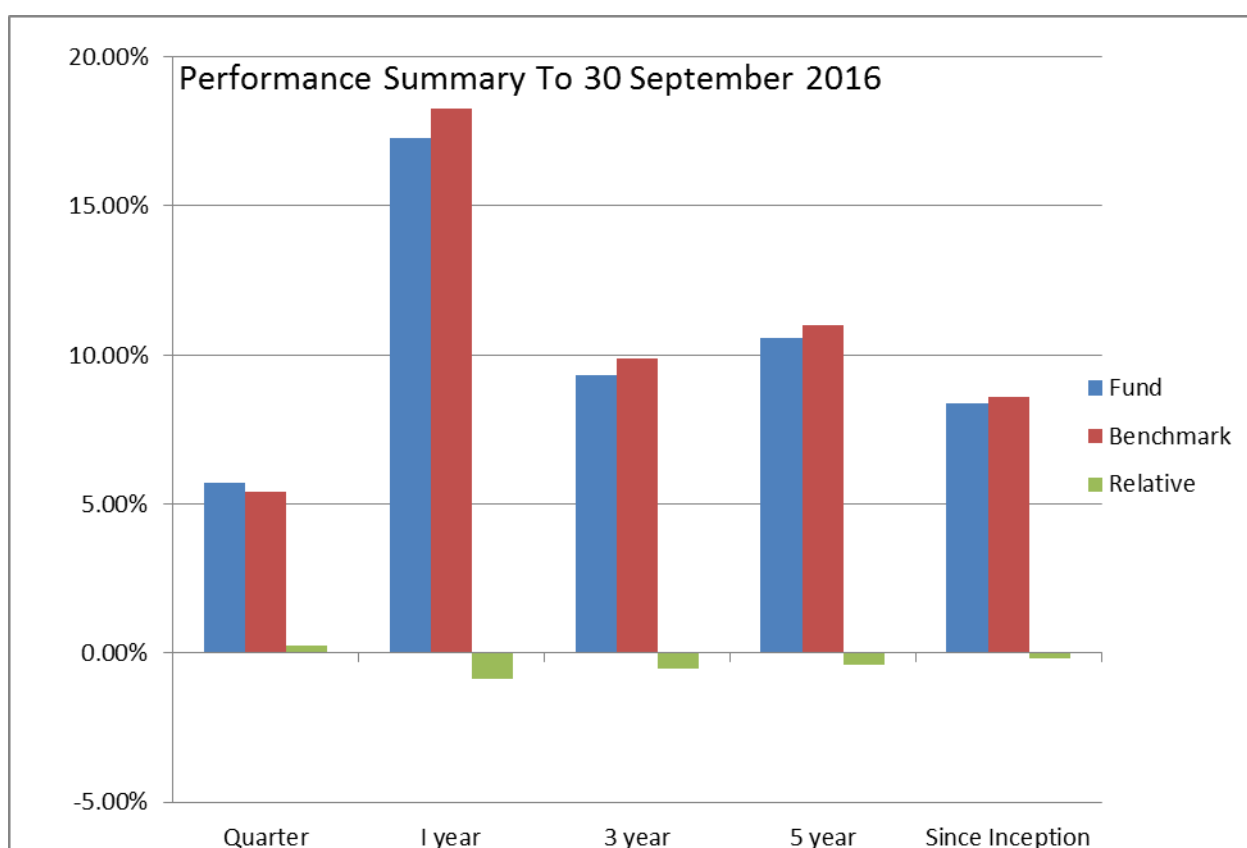
2.1 The Fund increased in value by £106m during the quarter from £1,837.1m to £1,943.1m, as the table below shows.



Asset Class	Q3 2016 £m	Q2 2016 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	375.4	352.8	19.3	20.0	(0.7)
Global Equities	852.8	788.2	43.9	40.0	3.9
Alternatives	265.4	256.9	13.7	15.0	(1.3)
Property	202.4	203.4	10.4	11.5	(1.1)
Fixed Interest	247.8	236.4	12.8	13.5	(0.7)
Cash	(1.2)	(0.5)	(0.1)	0.0	0.1
<b>Total</b>	<b>1,943.1</b>	<b>1,837.1</b>	<b>100.0</b>	<b>100.0</b>	

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

2.3 Over the quarter, the Fund produced a positive return of 5.71% outperforming the benchmark which returned 5.43%. The Fund is behind the benchmark over all other periods.



\* Since Inception figures are from March 1987

### 3. Hymans Robertson Manager Ratings

3.1 Hymans Robertson regularly meet managers to discuss current issues, management changes and performance. The manager is then allocated one

of five ratings between replace and retain. The table below shows Hymans Robertson's rating of all managers that have been appointed by the Lincolnshire Pension Fund.

3.2 The Fund has 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 4.2.

4.2 Manager Returns – As shown below it was a good quarter for the Fund with all managers producing a positive absolute return. All managers except for the In House Portfolio and Morgan Stanley Global Brands outperformed their benchmark. This is generally expected in periods of significant growth as these portfolios tend to hold overweight positions in more defensive stocks. Over the 12 month period all managers, except for BMO, have produced a positive absolute return. The mandate with BMO was terminated in August 2016 and the money placed with Blackrock in an under five year corporate bond portfolio. As the investment has only been with Blackrock for one month an individual report has not been prepared in this paper.

Manager	3 months ended 30/09/16			Previous 12 months			Target p.a. %
	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	
Passive UK Equity In house	7.4	7.6	(0.2)	17.2	17.4	(0.2)	+/- 0.5
Invesco (Global Equities (ex UK))	8.7	8.0	0.6	30.9	30.8	0.1	+1.0
Threadneedle (Global Equities)	8.9	8.5	0.4	31.0	31.3	(0.2)	+2.0
Schroder's (Global Equities)	8.9	8.4	0.5	29.5	30.6	(0.8)	+3.0
Morgan Stanley Global Brands	5.6	7.9	(2.2)	32.7	29.9	2.2	n/a
Blackrock (Fixed Interest)	6.8	6.7	0.1	21.1	21.0	0.1	Match Index
BMO (Fixed Interest) *July-Aug only ** to 31 Aug	0.5*	0.1*	0.4*	(3.5)**	2.5**	(5.9)**	3M LIBOR + 3%
Blackrock Corporate Under 5 Years *Sept only	0.2*	0.1*	0.1*	0.2*	0.1*	0.1*	Match Index
Morgan Stanley (Alternative Investments)	3.4	1.1	2.3	5.9	4.6	1.2	3M LIBOR + 4%

**Lincolnshire Pension Fund  
UK Equities – In House (Passive UK)  
Quarterly Report September 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 30.06.16	Value at 30.09.16
£352,763,615	£375,383,384

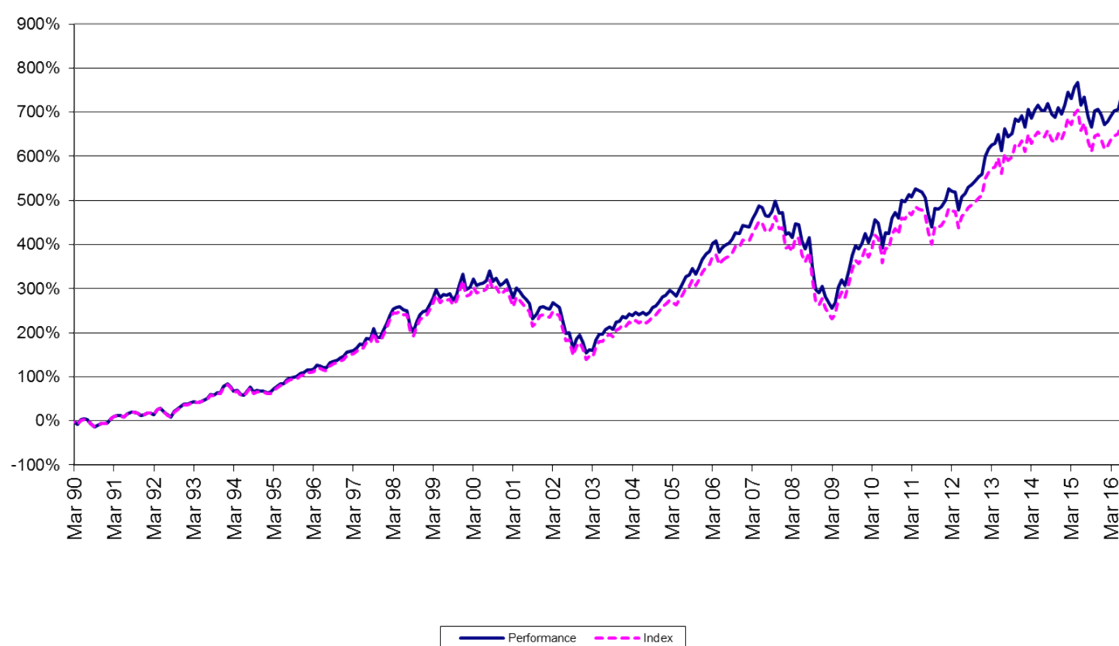
**Performance**

During the quarter the portfolio produced a positive return of 7.4% which was 0.2% below the benchmark. The portfolio is slightly behind the benchmark over one, three and five year time periods but ahead since inception.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
UK Equities – In House	7.4	17.2	6.1	10.7	8.4
MSCI UK IMI	7.6	17.4	6.2	10.8	8.2
Relative Performance	(0.2)	(0.2)	(0.1)	(0.1)	0.3

\* annualised, inception date 01/10/1989

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



## Turnover

Holdings at 31.06.16	Holdings at 30.09.16	Turnover in Qtr %	Turnover in Previous Qtr %
284	279	0.0	1.0

## Purchases and Sales

During the quarter the manager made no new purchases or sales.

## Largest Overweights

Randgold	0.17%
Indivior	0.17%
Tullow Oil	0.11%
Paddy Power	0.11%
Babcock	0.11%

## Largest Underweights

Shire Plc	(0.39%)
Melrose Industries	(0.15%)
BP	(0.10%)
HSBC	(0.10%)
Mediclinic	(0.09%)

\* Measured against MSCI UK IMI

## Top 10 Holdings

1	Royal Dutch Shell	£27,543,691	6	Astrazeneca	£11,138,350
2	HSBC	£19,803,454	7	Vodafone	£10,824,306
3	Brit Amer Tobacco	£15,856,170	8	Diageo	£9,550,908
4	GlaxoSmithKline	£14,406,047	9	Reckitt Bncsr	£8,333,079
5	BP	£14,093,209	10	Unilever	£8,162,063

## Risk Control

The portfolio has a tracking error limit of 0.5%. At the end of September 2016 the tracking error was 0.27%.

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

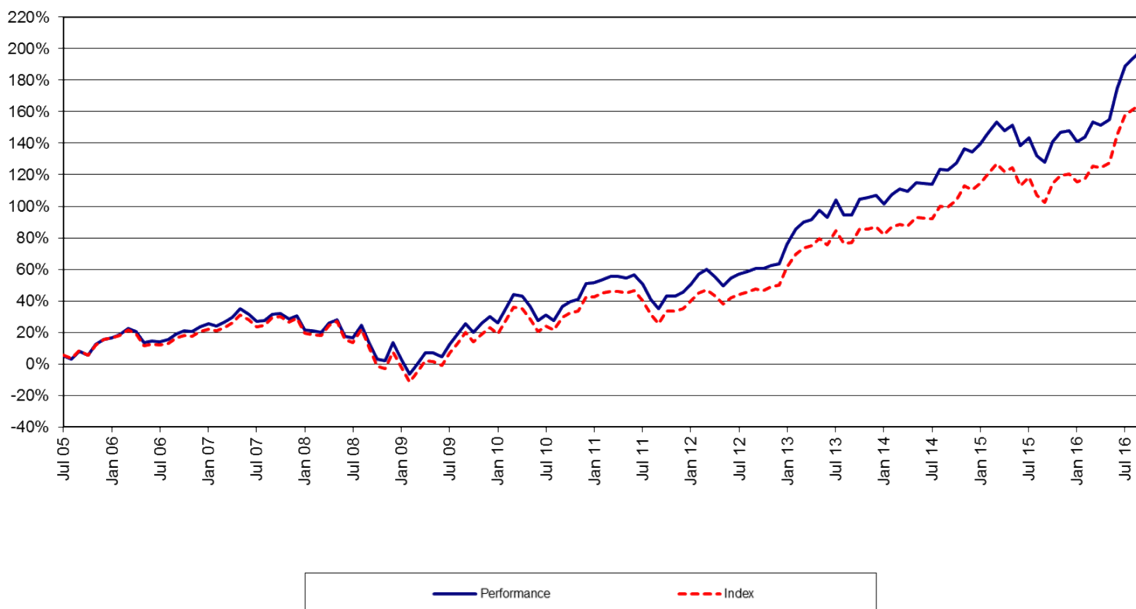
**Portfolio Valuation**

Value at 31.06.16	Value at 30.09.16
£397,419,103	£477,875,995

**Performance**

During the quarter Invesco's strategy outperformed its benchmark. Stock Selection had the largest positive impact on relative performance. An overweight position in Information Technology and an underweight position in Utilities also contributed positively during the quarter. Over the longer timeframe Invesco continue to perform well and are ahead of the benchmark in all time periods.

**Invesco Performance Since Inception**



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Invesco	8.7	30.9	15.4	17.2	10.2
MSCI World ex UK	8.0	30.8	14.4	16.1	9.0
Relative Performance	0.6	0.1	0.9	0.9	1.1

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

## Turnover

Holdings at 31.06.16	Holdings at 30.09.16	Turnover in Qtr %	Turnover in Previous Qtr %
496	530	16.1	9.0

## Purchases and Sales

During the quarter a further £42m was invested with Invesco following the termination of Neptune. Invesco made a number of stock adjustments to the portfolio. They added Baxter International, Applied Materials, Daiwa House Industry and CAE. Invesco also increased their position in Boeing. They sold out of ComfortDelGro and decreased their position in Apple, General Electric, Amerisourcebergen and Target.

## Largest Overweights

Johnson & Johnson	0.96%
Verizon	0.86%
JPMorgan Chase	0.83%
AT&T	0.80%
Gilead Sciences	0.78%

## Largest Underweights

Alphabet	(0.78%)
Exxon Mobil	(0.73%)
Chevron	(0.63%)
Visa	(0.51%)
Medtronic	(0.39%)

\* Measured against MSCI World ex UK (NDR)

## Top 10 Holdings

1	Apple	£10,917,574	6	AT&T	£7,030,689
2	Johnson & Johnson	£9,558,544	7	Procter & Gamble	£6,325,234
3	Microsoft	£8,593,358	8	Intel	£6,049,396
4	JPMorgan Chase	£7,684,121	9	Citigroup	£5,337,786
5	Verizon	£7,305,667	10	Facebook	£5,303,129

## 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 1.1% (actual target 1%).

**Lincolnshire Pension Fund  
Global Equities – Schroders  
Quarterly Report September 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.

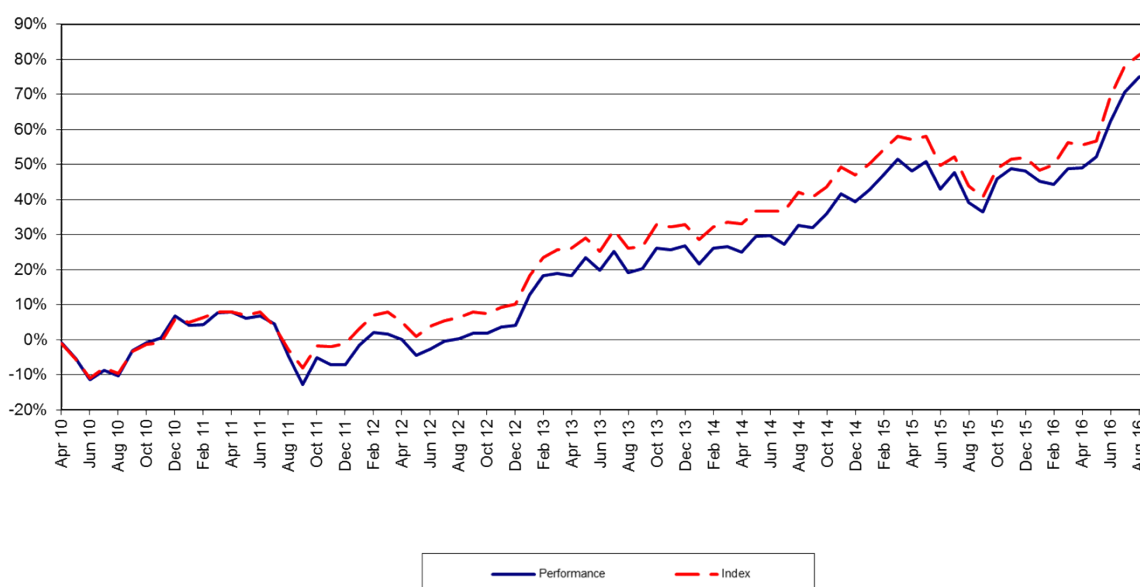
**Portfolio Valuation**

Value at 31.06.16	Value at 30.09.16
£97,002,603	£105,594,640

**Performance**

During the quarter the portfolio outperformed the benchmark, with stock selection in North America the standout contributor. Performance over 12 months has been significantly affected by the dominance of macro factors on share price returns, most notably in Q1 2016, which saw stocks across the portfolio lag more defensive, income oriented names in the benchmark. Schroders remain confident that their investment approach, and enhancements to team and process made over the past two years, will generate significant outperformance going forward, despite a delicately balanced market environment.

Schroders Performance Since Inception





	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Schroders	8.9	29.5	13.7	15.2	9.2
MSCI ACWI (Net)	8.4	30.6	13.2	14.8	9.8
Relative Performance	0.5	(0.8)	0.4	0.3	(0.6)

\*annualised since Inception April 16 2010

## Turnover

Holdings at 31.06.16	Holdings at 30.09.16	Turnover in Qtr %	Turnover in Previous Qtr %
79	81	7.7	7.4

## Purchases and Sales

During the quarter Schroder's purchased Chinese internet and gaming stock Tencent, T-Mobile US and Danone. They sold out of TripAdvisor and Carnival.

## Top 5 Contributions to Return

Hewlett Packard	0.3%
TWN Semicond	0.2%
Sumitomo Mitsui	0.2%
Alphabet	0.2%
Alibaba Group	0.1%

## Bottom 5 Contributions to Return

Capita	(0.3%)
Reckitt Benckiser	(0.2%)
Kroger	(0.2%)
Statoil ASA	(0.2%)
Estee Lauder	(0.1%)

## Top 10 Holdings

1	Alphabet	£3,239,964	6	Amazon	£2,246,964
2	TWN Semicont	£3,117,036	7	US Bancorp	£2,147,515
3	Comcast	£2,721,417	8	Amgen	£2,125,809
4	Citigroup	£2,608,768	9	Visa	£2,103,674
5	Nestle	£2,492,564	10	Reckitt Benckiser	£2,070,319

## 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 September 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.

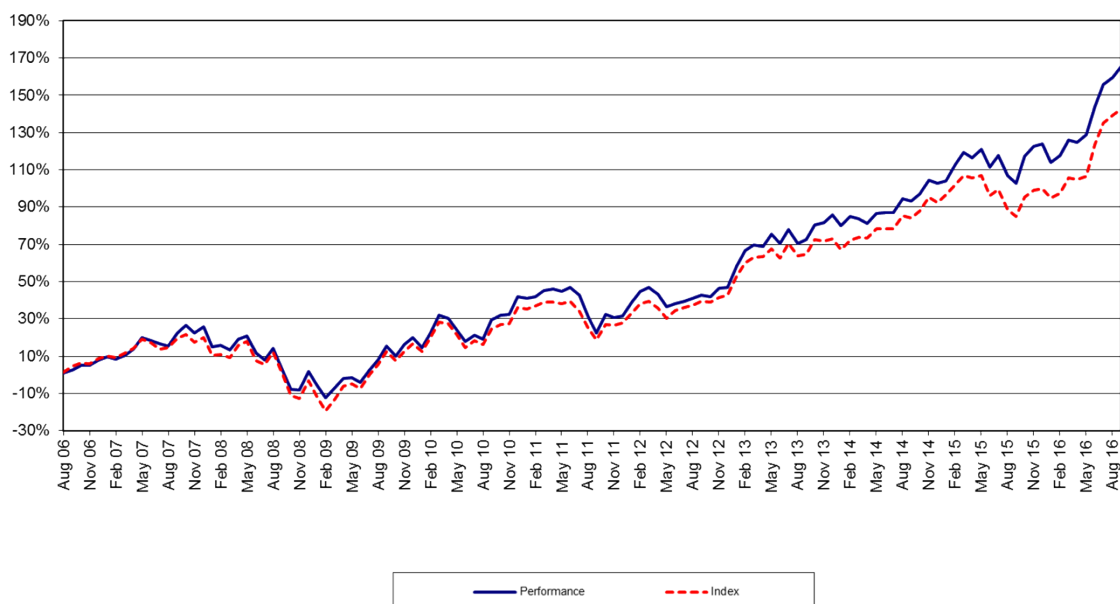
### Portfolio Valuation

Value at 31.06.16	Value at 30.09.16
£101,510,274	£110,601,734

### Performance

Threadneedle outperformed its benchmark in the quarter. At the regional level, allocation effects were negative but stock selection added value, notably in emerging markets, Japan and the US. Performance over the one year has seen a slight underperformance but all other periods have seen an outperformance against their benchmark but they are still slightly behind their target.

Threadneedle Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Threadneedle	8.9	31.0	15.5	16.7	10.1
MSCI ACWI	8.5	31.3	13.8	15.3	9.1
Relative Performance	0.4	(0.2)	1.5	1.2	0.9

\* annualised, inception date 01/08/2006

## Turnover

Holdings at 31.06.16	Holdings at 30.09.16	Turnover in Qtr %	Turnover in Previous Qtr %
84	84	8.1	8.4

## Purchases and Sales

Threadneedle opened a position in Deutsche Telecom and added to their position with Suncor Energy. They exited their position in Apple, Total and American Express.

### Top 5 Contributions to Return

Nintendo	0.84%
Amazon	0.59%
Alphabet	0.53%
Tencent	0.47%
Alibaba	0.39%

### Bottom 5 Contributions to Return

Bristol-Myers Squibb	(0.47%)
Novo Nordisk	(0.30%)
Criteo SA	(0.18%)
Sherwin-Williams	(0.05%)
Novartis	(0.04%)

## Top 10 Holdings

1	Alphabet	£3,439,560	6	Aon	£2,457,506
2	Amazon	£3,276,210	7	Tencent	£2,361,845
3	Unilever	£2,743,593	8	Visa	£2,220,298
4	Pfizer	£2,672,583	9	Facebook	£2,173,826
5	Activision	£2,457,506	10	Gilead Sciences	£2,060,443

## Hymans Robertson View

Columbia Threadneedle has announced that Michelle Scrimgeour will join in 2017 as CEO of its EMEA business. Scrimgeour has been M&G's Chief Risk Officer since 2012 and before that held senior positions at BlackRock and Merrill Lynch Investment Managers. She will report to Global CEO Ted Truscott and will join the executive leadership team at Columbia Threadneedle's parent company, Ameriprise Financial. Scrimgeour replaces Campbell Fleming (who was also COO) who joined Aberdeen earlier this year as its Global Head of Distribution.

## 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 September 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.

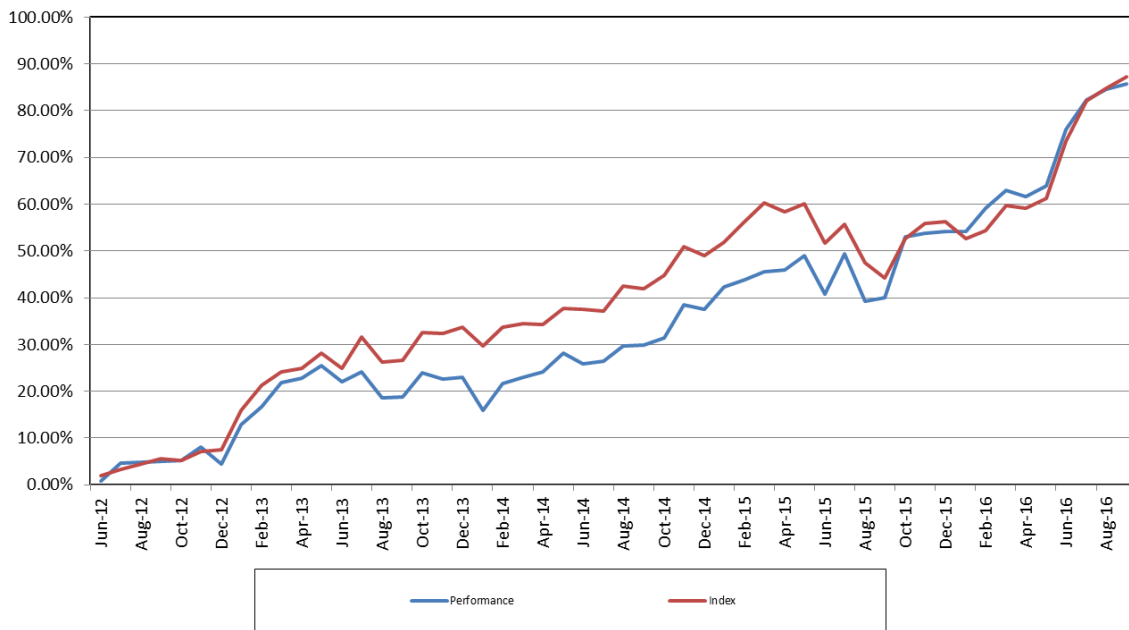
**Portfolio Valuation**

Value at 31.06.16	Value at 30.09.16
£106,966,954	£158,690,970

**Performance**

During the quarter, a decidedly risk-on period, Morgan Stanley Global Brands returned 5.6% but underperformed its benchmark by 2.2%, which returned 7.9%. The return on capital approach that the Fund has makes it virtually impossible to outperform in such a risk-on quarter, especially when the rally is led by the second largest constituent, Japan.

**Morgan Stanley Global Brands Performance Since Inception**



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley Global Brands	5.6	32.7	16.0	N/A	15.4
MSCI World Index	7.9	29.9	13.9	N/A	15.6
Relative Performance	(2.2)	2.2	1.9	N/A	(0.2)

\*annualised, inception date 18/06/2012

### Purchases and Sales

During the quarter Morgan Stanley added to their position with Pernod Ricard and Coca Cola and sold out of their position in Mondelez.

### Top 3 Contributions to Return

Microsoft	113bps
SAP	62bps
Visa	60bps

### Bottom 3 Contributions to Return

Reynolds American	(45bps)
21 <sup>st</sup> Century Fox	(26bps)
Altria	(22bps)

### Top Ten Holdings

Company	Industry	% Weighting
British American Tobacco	Tobacco	7.64
Microsoft	Software	7.61
Reckitt Benckiser	Household Products	7.49
Unilever	Personal Products	6.97
L'Oreal	Personal Products	6.81
Accenture	IT Services	4.81
Nestle	Food Products	4.70
Reynolds American	Tobacco	4.50
Visa	IT Services	4.45
Altria	Tobacco	4.40

### Hymans Robertson View

There were no relevant business issues reported over the period.

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

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

**Portfolio Valuation at 30<sup>th</sup> September 2016**

<b>Portfolio</b>	<b>31.06.16 £</b>	<b>30.09.16 £</b>
Corporate Bond All Stocks Index Fund	62,542,960	68,193,938
Over 5 Years UK Index-Linked Gilt Index Fund	39,844,065	41,049,074
Overseas Bond Index Fund	26,567,430	28,521,202
Cash (residual)	10	10
<b>Total</b>	<b>128,954,465</b>	<b>137,764,224</b>

**Performance**

Over all periods the portfolio has slightly outperformed the benchmark.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	6.8	21.1	11.3	8.8	9.0
Composite Benchmark	6.7	21.0	11.2	8.7	8.9
Relative Performance	0.1	0.1	0.1	0.1	0.1

\*annualised since inception 28/07/10

**Hymans Robertson View**

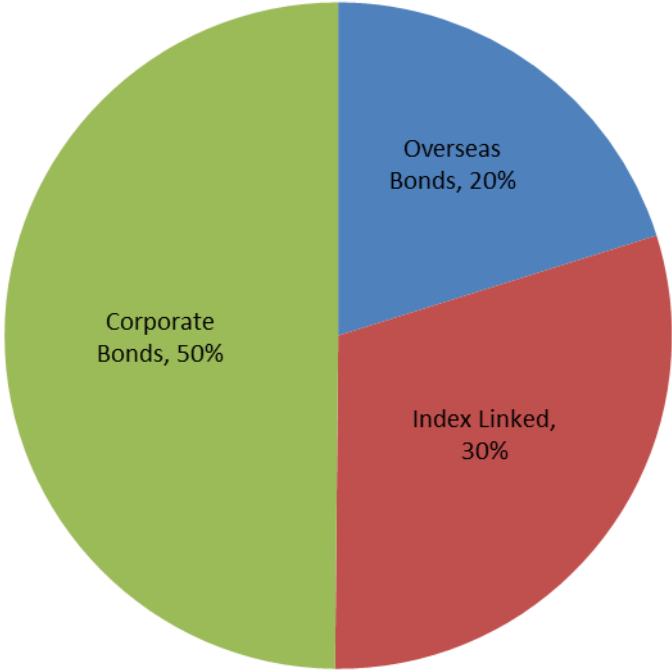
There were no significant developments within the Index Fixed Income team over the quarter; as such Hymans continue to rate Blackrock as one of their preferred passive fixed income managers.

**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 30<sup>th</sup> September 2016.



**Lincolnshire Pension Fund  
Alternative Investments – Morgan Stanley  
Quarterly Report September 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 31.06.16	Value at 30.09.16
£199,911,984	£212,351,228

**Performance**

The portfolio returned 3.4% during the first quarter. Most asset classes generated positive performance. Most asset classes, with the exception of commodities, global macro and listed infrastructure, generated positive performance. Hedge funds drove absolute returns, followed by credit and real assets.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley	3.4	5.9	2.1	4.5	3.9
3 Month LIBOR + 4%	1.1	4.6	4.7	4.7	4.8
Relative Performance	2.3	1.2	(2.4)	(0.2)	(0.8)

\* 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.

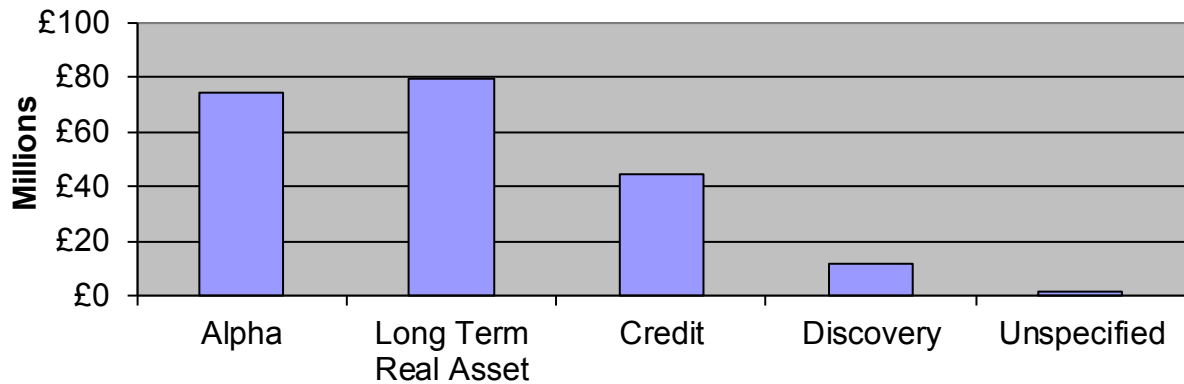
Long Term Real Asset – These are long term investments that seek to access illiquidity premium. Investments include Private Equity, Infrastructure, Real Estate, Commodities and Inflation – linked strategies.

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.

### Allocation as at 30th September 2016



### Portfolio Positioning

Within the portfolio, the largest allocation remains to hedge funds. Year-to-date, the space has been challenged. Broadly speaking, there was a wide dispersion of returns within strategies. However, there is unusual concentration of underperformance across the largest managers in many strategies. Significant commonalities in factor exposures and risk management techniques across managers led to negative alpha amid market volatility earlier in the year. Technical factors rather than fundamentals drove performance. As an example, if you look at hedge funds in the equity space, Morgan Stanley have been underweight low volatility and yielding stocks, both of which have been substantially bid up due to a combination of smart beta products and continued low yields. Similarly value has performed very poorly, also hurting hedge fund managers. This has created short term recent dislocations, but also future opportunities for alpha. All of that said, after a difficult 2015 and early 2016, Morgan Stanley are beginning to see a reversal in some of the factors that they know correlate to hedge fund performance. Market recovery since March has helped the beta component of returns, but they are also seeing recovery in style factors related to value, profit and trade activity which they know correlate to hedge fund alpha.

Morgan Stanley continue to believe private markets with limited access are an area offering attractive risk adjusted returns and yields that can take advantage of the illiquidity premium not present in the public markets. The portfolio has exposure to private markets across private equity, debt, infrastructure and a small allocation to private real estate.

### Hymans Robertson View

There were no significant changes over the quarter.

### Risk Control

Portfolio volatility since inception is 4% which is within the guidelines specified by the mandate.

## **Conclusion**

Over the quarter the Fund has produced a positive return of 5.71% and outperformed the benchmark which returned 5.43%.

## **Consultation**

### **a) Have Risks and Impact Analysis been carried out??**

Yes

### **b) Risks and Impact Analysis**

The Pension Fund has a risk register that can be obtained by contacting the author of this report.

## **Background Papers**

This report was written by Nick Rouse, who can be contacted on 01522 553641 or [nick.rouse@lincolnshire.gov.uk](mailto:nick.rouse@lincolnshire.gov.uk).

**Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection**

Report to:	<b>Pensions Committee</b>
Date:	<b>05 January 2017</b>
Subject:	<b>2016 Valuation Update Report</b>

**Summary:**

This report updates the Committee on the March 2016 Valuation process and results.

**Recommendation(s):**

That the Committee note the report.

**Background**

1. As part of the Local Government Pension Scheme (LGPS), the Lincolnshire Pension Fund is required to undertake a valuation of the Fund's assets and liabilities every three years – this is called the Triennial Valuation. The purpose of the valuation is to understand the overall funding level of the Pension Fund (i.e. does it have enough assets to meet its liabilities), to understand the individual funding levels of each employer and to set the contribution rates for all the employers for the next three year period.
2. The Fund's appointed Actuary, Hymans Robertson, received the membership and cashflow data from the Fund as at 31<sup>st</sup> March 2016, and presented the draft Fund results to the Pensions Committee and Pension Board on 6<sup>th</sup> October. The initial Funding level for the Fund had improved from 71.5% funded to 76.9% funded.
3. At the October meeting, much debate was had on the basis used for calculating the liabilities, known as the "Gilts+" basis. Following additional information from the Actuary detailing the reasoning behind that approach, there were still concerns amongst both the Committee and the Board that this was the most appropriate approach in the current economic environment. However, after consideration it was agreed that Hymans would continue with their "Gilts+" approach for this valuation, but that further discussion on the most relevant approach should be had before the 2019 valuation.

4. The financial assumptions used to calculate the liabilities are shown below, and compared to the assumptions used at the 2013 valuation.

	<b>31 Mar 2013</b> <b>% p.a.</b>	<b>31 March 2016</b> <b>% p.a.</b>
Pre-retirement Discount Rate	4.6	4.0
Post-retirement Discount Rate	4.6	4.0
Salary Increases	3.8	2.6
Pension Increases/CARE Revaluation	2.5	2.1

5. 152 individual employer results were received in November, covering all employers/pools within the Fund at March 2016. An example employer draft results report is attached at appendix A. The tables on page 4 show the surplus/deficit at the 2013 and 2016 valuations, and the experience over the three year period to get from one to the other. The tables on page 5 show the current and required primary and secondary contribution rates. The generic employer results report, which accompanied the individual results, is attached at appendix B. These reports were sent to the strategic contacts for each employer in mid-November.
6. To assist employers understanding of their valuation results, two days of employer surgeries were held at County Offices. These days consisted of a presentation from the Actuary each day and bookable 15 minute appointments with the Fund Actuary and the Pension Fund Manager. Around 50 employers attended these events and feedback was very positive.
7. Overall, the results of the Valuation have been well received. Excluding the stabilised employers (the Councils and Police), the breakdown of rising or falling rates (compared to current rates) amongst the other groups of employers is shown below.

<b>Establishment Type</b>	<b>No. Rising Rate</b>	<b>No. Falling Rate</b>
Pre 2013 Academies/MAT's	31	52
Post 2013 Academies/MAT's	19	14
Colleges	4	2
Small Scheduled Bodies (pool)		1
Internal Drainage Boards	3	6
Admission Bodies	11	3

8. Employers have been asked to complete a declaration form confirming their payment of the agreed rates by 16th December. A handful of employers are considering alternative proposals, and these will be agreed by the end of January. Once all contributions have been agreed and declarations received, the Funding Strategy Statement will be finalised and sent for consultation to all employers. This will then be taken to the March Pensions Committees for approval, ahead of the 31<sup>st</sup> March 2017 deadline.

## Conclusion

9. The Lincolnshire Pension Fund's triennial valuation has now been undertaken by Hymans Robertson. The overall funding position has improved by 6%, from 71% in March 2013 to 77% at March 2016, when assessed under the prudent "Gilts+" approach. Individual employers rates have been mixed, however a large number of employers have seen an improvement in their funding position, and lower contribution rates.

## Consultation

### a) Have Risks and Impact Analysis been carried out??

Yes

### b) Risks and Impact Analysis

The Pension Fund has a risk register that can be obtained by contacting the author of this report.

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Employer Draft Results Report Redacted
Appendix B	LPF Employer Valuation Results Report 2016

## Background Papers

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

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**Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection**

Report to:	<b>Pensions Committee</b>
Date:	<b>05 January 2017</b>
Subject:	<b>Asset Pooling Update</b>

**Summary:**

This paper updates the Pensions Committee on the latest activity with the asset pooling requirements. In addition, the Pension Fund Manager will provide a presentation on the implementation and governance for BCPP.

**Recommendation(s):**

That the Committee note the report.

### Background

1. As previously reported, Border to Coast Pensions Partnership (BCPP) met the 15<sup>th</sup> July 2016 deadline for the final submission to DCLG. The expectation at the date of submission was that a response would be received by the end of September, to enable the already tight timetable included in the submission to be met.
2. Approval from Government was finally received on 12<sup>th</sup> December, but whilst awaiting this approval work has continued to ensure that once it has been received, BCPP would be in a position to progress quickly.

### CIPFA Guidance

3. CIPFA published guidance on Investment Pooling Governance Principles for Administering Authorities October 2016. This looked at the potential structure of any oversight body (the Joint Committee), how it should ensure it meets the governance principles set out in existing guidance and frameworks (including the Myners principles), and how existing governance structures could be adapted to meet the requirements with new pooling arrangements.

### Investment Regulations

4. The long awaited Investment Regulations came into force on 1<sup>st</sup> November 2016. These contain the requirement for all Funds to pool assets as set out

in the Guidance issued by the Secretary of State, and bring in the powers of intervention should such guidance not be followed.

### **Member Steering Group**

5. Member Steering Group (MSG) meetings were held on 30<sup>th</sup> September and 18<sup>th</sup> November.
6. The September meeting agenda items were:
  - Feedback from Officers from the BCPP Officer Operations Group meetings and national working groups
  - Presentation from legal advisors (Eversheds) on next steps
  - Phase 3 project delivery, budget requirements and proposed next steps
  - Update on work towards proposed approach to asset structuring and next steps
7. The November meeting agenda items were:
  - Feedback from Officers from the BCPP Officer Operations Group meetings and national working groups
  - Update on Phase 3 Project Delivery
  - Update on executive search and remuneration
  - Update on Joint Committee membership following publication of CIPFA's guide "Investment Pooling/Governance Principles"
  - Responsible Investing Presentation
  - Update on work towards proposed approach to asset structuring and next steps
8. The next meeting of the MSG is arranged for 31<sup>st</sup> January 2017.

### **Senior Officers Group (SOG)**

9. There have been two meetings of the Senior Officers Group (SOG), which is made up of the Funds S151 and Legal/Monitoring officers; one on 5<sup>th</sup> September and one on 29<sup>th</sup> November.
10. The September 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 how the authority would buy a share in the Teckal company that would be created.
11. The November meeting received an update on BCPP progress and a presentation from the legal firm Eversheds on the requirements to be FCA authorised and the timetable and process for getting each Fund through the approvals required by each Administering Authority's Full Council. It was



acknowledged that the timetable was extremely tight, but that the implications of not meeting the deadline of end of March for all Funds to get reports through their Councils would be a potential three to six months added to the overall timetable, and therefore the likelihood of meeting the April 2018 deadline would be at risk.

12. Discussions were had about working together to prepare a number of documents/communications that could be used by all Funds to ensure a consistent message was given. Types of communications required would be a FAQ document for Council Members, briefing presentations for Members, information for scheme members and also employers.
13. An additional challenge that Administering Authorities have to consider is the County Council elections that will be taking place in May for a number of the partner Funds. This could potentially mean new Pension Committee members and/or new Chairs and therefore having to bring all new Committee Members up to speed in a short period of time.

### **Legal Advisors**

14. At the September SOG meeting, it was agreed that two legal advisors should be appointed, one to act on behalf of BCPP and one to act on behalf of the partner Funds. The ConsultancyOne Framework (a framework for government to buy consultancy services) was used to tender for the two services.
15. Two responses were received for the BCPP Legal Advisor and four were received for the Funds' Legal Advisor. Different groups evaluated and moderated these submissions, and two companies were awarded the contracts; Eversheds to represent BCPP and Squire Patton Boggs to represent the partner Funds.
16. The initial role for the BCPP Legal Advisor is to draft the documents required to take through Full Council to get each Administering Authority to approve. These include the Shareholder Agreement, the Articles of Association and the Inter Authority Agreement. The Funds' Legal Advisor will then review these on behalf of the Funds to finalise them.
17. A meeting was held on Monday 12th December with both Legal Advisors, the Legal/Monitoring Officers and Fund representatives to discuss the initial documents. As mentioned in paragraph 11 above, the timetable for agreeing these documents and getting them to each Council is very tight, with the final date for agreeing them being the week commencing 16<sup>th</sup> January 2017.
18. The expectation is get the approvals required from Lincolnshire County Council at the Full Council meeting held to the 24<sup>th</sup> February

## **Workstreams**

19. In order to meet the Government's imposed deadline of April 2018, a detailed project plan has been created. Within this plan, three workstreams have been identified and dedicated resource has been approved across some of the partner funds. Overseeing the whole project is Fiona Miller (Cumbria) and she is supported by Steve Halford (Cumbria) as the project manager.
20. The three workstreams and lead officers are:
  - Operating Model – Mark Lyon (East Riding) and Jo Ray (Lincolnshire)
  - People – Nick Orton (Durham) and Steve Barrett (SYPF)
  - Governance and Monitoring – Phil Triggs (Surrey) and Tom Morrison (N Yorkshire)
21. In addition to the officers, each workstream has a Member Sub Group to work with. Membership of these sub groups is:
  - Operating Model – Cllr Mark Allan (Lincolnshire), Cllr Denise Le Gal (Surrey), Cllr Stephen Bloudele (Teesside) and Cllr Bob Stevens (Warwickshire)
  - People – Cllr Doug McMurdo (Beds), Cllr Mark Davinson (Durham), Cllr John Holtby (East Riding) and Cllr Tony Reid (Northumberland)
  - Governance and Monitoring – Cllr Mel Worth (Cumbria), Cllr John Weighell (N Yorkshire), Cllr Sue Ellis (S Yorkshire) and Cllr Eileen Leask (Tyne & Wear)
22. The main responsibilities of each workstream are:

### **Operator Model**

Procurement Advice & Implementation:  
Legal Advice  
Tax & Accounting  
Asset Servicing (Depositary / Custodian)  
Audit Services  
Bank  
FCA Compliance  
ICT  
Company set up  
Asset Structuring - Sub-Fund Offering  
Asset Transition  
Policy & Legal

### **People**

Acquisition of Premises  
Recruitment and Remuneration  
Directors (Executive and Non-Executive)  
Compliance Manager  
HR Policy and Procedures

TUPE of existing staff  
Recruit Additional Staff

### **Governance and Monitoring**

Establish Joint Committee (TOR, etc.)

Define Shareholder Reserved Matters

Approval by individual Funds to commit to participate in Joint Committee and acquire full shareholding

Confirmation TOR Officer Operations Group

Agree information requirements from BCPP to Funds on set up

23. Officers have been very diligent to ensure that any potential conflicts of interest are managed, and declarations are made at the beginning of each Officer and Member meeting. One example of this is in the work being done to look at the executive remuneration, where the officers working on this have declared no interest in a role in the new company. Other officers that might wish to apply for a role in the new company have left the meeting when remuneration has been discussed.

### **Service Provider Tenders**

24. In addition to the Legal Advisors that have been appointed (as mentioned at paragraph 14 above), progress is also being made within the operating and regulatory model workstream. At the time of writing, specifications are being finalised for two tenders; an Operating and Regulatory Model Advisor and a Tax and Financial Services Advisor.
25. The Tax and Financial Services Advisor will be called off from the ConsultancyOne framework, and is expected to be appointed in early February.
26. The Operating and Regulatory Model Advisor will be a full OJEU procurement, and timetables are still being finalised.

### **Asset Structuring**

27. The initial asset structure for BCPP was set out in the July submission. Since then, this has been refined following discussions with Officers.
28. To ensure that the structure is fit for purpose, and aware that each Fund will be looking at its asset allocation following its valuation, the Investment Consultants and Independent Advisors from the partner funds were invited to one of two meetings to discuss the proposed asset structure of BCPP. Mark Lyon (East Riding Pension Fund), the workstream lead on the asset structure, talked them through the thinking behind the sub-funds that would be offered within BCPP. Generally the consultants and advisors were happy that the underlying asset allocations of their funds could be met with the sub-funds offered. It was understood that all sub-funds would not be available on day one, and that this was not set in stone, as requirements could change over the coming years.

29. Paul Potter (Hymans Robertson), the Lincolnshire Investment Consultant, attended one of the meetings and will present today to this Committee on his thoughts of the structure on offer, and how the Lincolnshire investment strategy will fit.

### **Government Approval**

30. At the Cross Pool Collaboration Group (CPCG) meeting on 20<sup>th</sup> October, Teresa Clay from DCLG informed the group that the Minister wished to meet with all pools to discuss their submissions, before any approval was given. These meetings were expected to take place over the following four to six weeks.
31. The BCPP meeting was held on 24<sup>th</sup> November, and the pool was represented by the three officers that attended the original meeting with the Minister in June, three Chairs of the Pension Funds within BCPP and a S151 Officer. Feedback was very positive about the submission and the progress to date, and the main concern from Government was that we meet the April 2018 deadline. The response from BCPP was that as there had already been a two month delay in receiving any approval, the timescale was very difficult but that we were still working towards meeting it.
32. The letter of approval was received on 12<sup>th</sup> December, and was circulated to Committee and Board members.
33. At the time of writing, letters of approval have also been received by the LGPS Central pool and the Wales pool.

### **BCPP Budget**

34. To enable BCPP to complete the final submission due in July 2016, an initial budget of £50k per fund was agreed in February 2016. This provided a total budget of £600k. Very little of this has actually been spent to date (approximately £100k 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 from each Fund to spend up to another £300k to meet the cost requirements.
35. To ensure that funds are available when required and to meet the potential costs of the set-up of BCPP, it was requested at the October meeting of this Committee that authority be 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). This was conditional on approval being received from Government on the pooling proposal.

36. All other partner funds have gained similar approvals for the total budget.

### **Conclusion**

33. Work continues across all areas to progress the creation of BCPP in the required timescale. The next critical date is to have all administering authorities having approved the creation of the new company and the Joint Committee by April 2017.

### **Consultation**

**a) Have Risks and Impact Analysis been carried out??**

Yes

**b) Risks and Impact Analysis**

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

### **Background Papers**

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



# Agenda Item 11

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

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# Agenda Item 12

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