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Lincolnshire
COUNTY COUNCIL
Working for a better future

County Offices
Newland
Lincoln
LN1 1YL

28 February 2017

Pensions Committee

A meeting of the Pensions Committee will be held on **Wednesday, 8 March 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
WEDNESDAY, 8 MARCH 2017

Item	Title	Report Reference
1	**Apologies for Absence**	
2	**Declaration of Members' Interests**	
3	**Minutes of the meeting of the Pensions Committee held on 8 December 2016 and 5 January 2017**	(Pages 5 - 14)
4	**Independent Advisor's Report** *(A report which provides a market commentary by the Committee's Independent Advisor, Peter Jones, on the current state of global investment markets)*	(Pages 15 - 18)
5	**Pensions Administration Report** *(Yunus Gajra, Business Development Manager, will present the quarterly report by the Fund's pension administrator, West Yorkshire Pension Fund)*	(Pages 19 - 34)
6	**Pension Fund Update Report** *(A report by Jo Ray, Pensions Fund Manager, which provides updates on Fund matters over the quarter ending 31st December 2016 and any current issues)*	(Pages 35 - 50)
7	**Investment Management Report** *(A report by Nick Rouse, Investment Manager, which covers the management of the Lincolnshire Pension Fund assets over the period from 1st October to 31st December 2016)*	(Pages 51 - 74)
8	**Lincolnshire Pension Fund Funding Strategy Statement** *(A report by Jo Ray, Pensions Fund Manager, which sets out how the Pension Fund aims to become fully funded over the long term, whilst considering affordability, transparency, stability and prudence)*	(Pages 75 - 126)
9	**Lincolnshire Pension Fund Investment Strategy Statement** *(A report by Nick Rouse, Investment Manager, which brings the Investment Strategy Statement to the Committee for approval)*	(Pages 127 - 142)
10	**Asset Pooling Update** *(A report by Jo Ray, Pensions Fund Manager, which updates the Committee on the latest activity with the asset pooling requirements)*	(Pages 143 - 156)

<u>Democratic Services Officer Contact Details</u>

Name:	**Catherine Wilman**
Direct Dial	**01522 553788**
E Mail Address	catherine.wilman@lincolnshire.gov.uk

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

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

Contact details set out above.

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Lincolnshire COUNTY COUNCIL
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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 noted be made in the minutes that we 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.

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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Lincolnshire COUNTY COUNCIL Working for a better future

PENSIONS COMMITTEE
5 JANUARY 2017

PRESENT: COUNCILLOR M G ALLAN (CHAIRMAN)

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

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

Officers in attendance:-

David Forbes (County Finance Officer), Jo Ray (Pension Fund Manager) and Nick Rouse (Investment Manager)

96 APOLOGIES FOR ABSENCE

Apologies were received from Councillors C E D Mair and R J Phillips and from Mr J Grant (Small Scheduled Body Representative)

97 DECLARATIONS OF MEMBERS' INTERESTS

Councillor M G Allan requested that a noted 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.

98 MINUTES OF THE MEETING HELD ON 8 DECEMBER 2016

RESOLVED

That the minutes of the meeting held on 8 December 2016 be approved and signed by the Chairman as a correct record.

99 INDEPENDENT ADVISOR'S REPORT

The Committee received a report from the Independent Advisor which provided a market commentary on the current state of global investment markets.

The following points were noted:

- Most markets had been up by 15% following the US election;
- As for 2017, with elections in France and Italy, Donald Trump's first year as President of the US and Brexit in the UK, there was a lot to potentially affect the markets.

RESOLVED

That the report be noted.

100 PENSIONS ADMINISTRATION REPORT

The Committee considered a report from the West Yorkshire Pension Fund, the Fund's administrator which provided an update on current administration issues.

On considering the KPIs, it was reported that certain targets would be reviewed and altered according to importance and priority to ensure that, if not met, they would not suggest poor performance. Certain work-types on the system did not require action until something triggered them. Changes in the legislation from GAD (Government Actuary's Department) had affected many of the KPI results due to stockpiling work in some areas.

Following a question it was confirmed that LPF had been reported to the Pensions Ombudsman twice in the current year. The Ombudsman could consider appeals and allegations of maladministration, once the two stages of the IDRP (Internal Dispute Resolution Procedure) had been exhausted.

RESOLVED

That the report be noted.

101 PENSION FUND UPDATE REPORT

Consideration was given to a report which updated the Committee on Fund matters over the quarter ending 30 September 2016 and any other current issues.

It was highlighted that the Pension Fund value in Quarter 1 had increased. There had been a realignment of the asset allocation, following the termination of manager BMO.

In relation to the Risk Register, the only red risk was the UK leaving the EU. This was added to the register in June 2016 following the referendum as it was unknown, at this stage, how Brexit would affect markets.

The Pension Fund Manager reminded the Committee members that they were required to complete The Pension Regulator's Toolkit and, once complete, pass the certificates to her.

It was reported that Lincolnshire Pension Fund had held its first Annual Scheme Members Meeting in November 2016. Roger Buttery (Independent Chairman of the Board), Jo Ray (Pension Fund Manager) and Cllr Mark Allan (Chairman of the Pensions Committee) all presented. Those who had attended fed back that they had found the event interesting and useful, however attendance from members had been low. It had been decided to repeat the event in 2017, with a disclaimer that the event could be cancelled if the expected number of attendees was low. The event would be promoted in the scheme members' newsletter.

RESOLVED

That the report be noted.

102 INVESTMENT MANAGEMENT REPORT

The Committee considered a report which covered the management of the Lincolnshire Pension Fund assets over the period from 1 July to 30 September 2016.

It was highlighted that there was no individual summary for Blackrock's Corporate Bond Fund performance in the report, as this mandate had only been given within the quarter, following the termination of BMO.

The Investment Manager took the Committee through the report and the following was confirmed as a result of questions from Members:

- As at 30 September, the funding level had decreased from 76.9% to 75.5%. The Fund aimed for a 100% funding level. The model used by Hymans to calculate the funding level was cautious and when using the Scheme Advisory Board common assumption, the Fund came out at 93% funded;
- There was a range of funding levels across the Fund, with some employers being over 100% funded;
- The rolled forward funding level was reported quarterly, as part of this report.

RESOLVED

That the report be noted.

103 2016 VALUATION UPDATE REPORT

The Committee considered a report which provided an update on the March 2016 Valuation process and results.

As part of the Local Government Pension Scheme (LGPS), the Lincolnshire Pension Fund was required to undertake a valuation of the Fund's assets and liabilities every three years – the Triennial Valuation. The purpose of the valuation was to understand the Fund's overall funding level.

Following much deliberation, the Fund had decided to retain Hyman's Gilts+ method of working out the valuation. There was an expectation that this would change for the March 2019 valuation.

In the report was a table demonstrating the change in valuation between March 2013 and March 2016 from 71.5% funded in 2013 to 76.9% funded in 2016.

RESOLVED

That the report be noted.

104 ASSET POOLING UPDATE

Consideration was given to a report which updated the Committee on the latest activity with the asset pooling requirements.

The Pension Fund Manager gave a presentation on the implementation and governance for the Fund's pool – Border to Coast Pensions Partnership (BCPP).

During discussion and the presentation, the following points were noted:

- The BCPP proposal had received approval from Government in December 2016;
- The present investment regulations and guidance made asset pooling statutory for all local government funds;
- BCPP had decided to build an operator, rather than rent. Renting an operator would be more expensive over a long period of time. Building its own operator would provide the Partnership with an opportunity to tailor-make its own. Appointing managers would be the operator's decision, so it was felt this should be kept within the Partnership. The operator board would not consist of any elected members from any fund;
- At its meeting on 24 February 2017, the Full Council would be considering, with a view to approve, the shareholding in the Partnership of £1. It was not clear at this point whether it would be the Council (as the administering authority) or the Fund who would own the share;
- All partner funds within the BCPP were expected to have full council approval by the end of March 2017;
- In April 2018, the assets would begin to be moved across but would take a number of years to complete this;
- Auditors would be appointed by BCPP;
- There were three project workstreams within BCPP: People, Operating Model and Governance & Monitoring. The latter would be responsible for remuneration and recruitment;
- The Operating Model stream was the stream under which the Pension Fund Manager was working and the Chairman of the Committee was overseeing in a Member Sub-Group;
- The Fund had approved a budget spend of £350,000 per Fund to cover implementation costs;

- In terms of savings, the best case would be that the Fund would make savings in two years' time. Worst case would be five years. Following a question, it was confirmed that savings would be reinvested into the Fund;
- In response to a question, it was confirmed that the forthcoming County Council elections were not expected to delay the timetable. This was why every fund had committed to acquire approval by full councils in March 2017, two months before the election was due to take place. Seven of the twelve partner funds had elections in this council year;
- The Joint Committee of the Partnership was a Section102 committee. The shareholder function was expected to be represented by an officer of the Council rather than an elected member;
- In answer to a question, it was confirmed that entering into the Partnership posed no risk to the members of the Fund and equally, members would have no say in how the Partnership would be run;
- All employers within the Fund would receive a briefing on the changes expected and all Lincolnshire County Councillors would be receiving a briefing note prior to the Full Council on 24 February 2017.

Members of the Committee complimented the Pension Fund Manager on her explanation and clarity on what was a complicated subject.

RESOLVED

That the report be noted.

105 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.

106 REVIEW OF INVESTMENT STRATEGY

The Committee considered a report which provided a review of the current investment strategy of the Fund, by the investment consultant Paul Potter.

Following discussion of the report, the recommendations, as amended by the Committee, were approved.

RESOLVED

1. That the report be noted;

2. That the recommendations within the report be approved subject to the amendments as agreed.

107 HYMANS ROBERTSON REVIEW OF MIFID II

Consideration was given to a report which provided a review of the current discussions surrounding MiFID II and the potential impact on the Pension Fund by the Investment Consultant Paul Potter.

RESOLVED

That the report be noted.

The meeting closed at 1.20 pm

Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**08 March 2017**
Subject:	**Independent Advisor's Report**

Summary:

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

Recommendation(s):

That the Committee note the report.

Background

Investment Commentary

March 2017

Climbing the "wall of worry" - politics again a major influence on markets in 2017?

Politics was clearly a major influence on markets in 2016, most notably in the USA (after Donald Trump's election as President) and in the UK (after the Brexit vote). This is unusual. Political events usually have only a short term influence over market sentiment – and hence over prices of securities. The exception is when political events can be expected to exert a significant influence over economic and financial matters – as has been the case in the two examples cited above.

The factors that largely determine the prospects for equity markets are the trends in profits and dividends, on the one hand, and the valuation rate of those profits and dividends, itself a function of long term interest rates, on the other. Of course, markets move quickly to "discount" events that they expect to happen – so perception rather than reality is crucially important. For bond markets and thus interest rates, the dominant influences are more difficult to identify; but they include inflation, supply and demand for government debt, the ageing profile of the population and international factors.

Equity markets have done well over the last three months or so, since Donald Trump's election as President. Virtually all markets are in a rising trend, with both the US and European equity markets up over 10% and the UK rather less so, at around 8%.

Recent political factors

President Trump was inaugurated as US President on 20th January. Perhaps the most controversial aspects of what he said in his inauguration speech were a potential trade war with China and the imposition of tariff barriers on imports into the US economy: best summarised as his “America First” policy. Both proposals are potentially destabilising for world trade – which has been a decisive factor in the growth of the global economy for the best part of 60 years. To date, the US equity market has focussed on the boost to the domestic US economy that such tariffs might provide. The risks to the rest of the world seem to have been ignored, real though they are. Of course, Presidential rhetoric is one thing and legislation to give effect to his proposals another. Particularly with regard to the proposed major re-structuring of the US tax code and its implied tax cuts. Time will tell. And we should not forget that this particular Republican Party President is by no means guaranteed to find it easy to get on with a Republican controlled Congress. So far, markets have reacted positively to the inauguration speech and chosen to ignore the chaotic nature of the new administration’s public announcements.

Just days earlier, Mrs May set out the high level topics that will form the backbone of the UK’s negotiating stance to take the UK out of the European Union. Her speech was generally well received. Whilst vocal critics of Brexit remain, many business leaders have expressed a willingness to focus on adapting their organisations to best cope with the uncertainties that lie ahead. Sterling strengthened after the speech and has held onto it gains since. As in the US, the UK equity market has so far reacted positively – choosing to ignore the uncertainties and complexities of the negotiations with the European Union that undoubtedly lie ahead.

Both of these speeches contained elements of great potential economic significance. In my view, they are positive for markets. But their impact is likely to be long term – with many short term worries interjecting.

Future political events.

These come thick and fast in Europe in 2017, starting with the Dutch election on March 15th where Geert Wilders, an extreme anti-immigration “populist” is likely to win the largest share of the vote. The French presidential elections – in a two stage process – take place in April and May; Marine Le Pen is likely to win through to the second stage process but whether she can actually win the French Presidency seems too close to call. A key plank of her policies is to reinstate the French franc and take France out of the Euro currency. If such a dramatic move came about, it would put the whole Euro currency in jeopardy.

The German election is in either September or October, where Angela Merkel is likely to be returned to power but in an awkward multi party coalition. And, an election in Italy cannot be ruled out, with a populist party waiting in the wings.

Conventional wisdom has it that a populist win in any of these elections would be negative for the local market concerned and maybe for European markets as a whole. I do wonder whether – in the event that the populists lose everywhere – that the political elite in the European Union will not see that as a signal that all is just fine: that much needed reform in the EU is not, after all, required. That could well be a long term negative influence on European equities, with a need for continuing low interest rates.

Markets

Equity markets have performed surprisingly well in the early months of 2017. They continue to climb the "wall of worry". Bond markets too have delivered generally positive, if small, returns – which is at variance with stance of the US Federal Reserve and the Bank of England – which are expected to increase short term interest rates in 2017. Long term US and UK interest rates had been rising since their low points last summer. That trend has now stalled and is being partially reversed. Whilst the investment portfolio of the Lincolnshire pension fund is probably at a record high value, and will have benefited the solvency of the scheme, the recent fall in the all important valuation rate adopted by the actuary to the scheme will have been an offset.

Conclusion

Peter Jones
27th February 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 Peter Jones, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**08 March 2017**
Subject:	**Pensions Administration Report**

Summary:

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

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

Recommendation(s):

That the Committee note the report.

Background

1.0 Performance and Benchmarking

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

1.2 The table below shows the performance against key areas of work for the period 1 December 2016 to 31 January 2017.

KPI's for the period 1 .12.16 to 31.1.17					
WORKTYPE	**TOTAL CASES**	**TARGET DAYS FOR EACH CASE**	**TARGET MET CASES**	**MINIUM TARGET PERCENT**	**TARGET MET PERCENT**
Transfer In Quote	19	35	12	85	63.15
Transfer In Payment Received	19	35	19	85	100.00
Divorce Quote	24	35	24	85	100.00

WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIMUM, TARGET PERCENT	TARGET MET PERCENT
Divorce Settlement Pension Sharing order Implemented	4	80	3	100	75.00
Deferred Benefits Set Up on Leaving	259	10	92	85	35.52
Refund Quote	94	35	83	85	88.30
Refund Payment	49	10	49	95	100.00
Transfer Out Quote	38	35	30	85	78.95
Transfer Out Payment	3	35	3	85	100.00
Pension Estimate	199	10	189	75	94.97
Retirement Actual	96	3	92	90	95.83
Deferred Benefits Into Payment Actual	117	5	110	90	94.01
Death Grant Single Payment	20	5	20	90	100.00
Payment of Beneficiary Pension	50	5	45	85	90.00
Potential Spouse Pension Enquiry	1	10	1	85	100.00
Initial letter acknowledging death	117	5	117	85	88.03
Divorce Quote Fire	24	40	24	85	100.00
Change of Address	274	20	268	85	97.81
Life Certificate Received	2704	20	2665	85	98.56
Death Grant Nomination Received	939	20	904	65	96.27
Payroll Changes	33	5	33	90	100.00
Change to Bank Details	28	5	28	90	100.00
Death Notification	117	5	117	90	100.00
AVC In-house (General)	52	10	49	85	94.23
Death in Retirement	87	5	78	85	89.66
Death in Service	6	5	6	85	100.00
Death in Deferment	8	5	8	85	100.00
Deferred Benefits Into Payment Quote	142	35	122	85	85.91

Reasons for under performing KPI's:

Transfer in quote	Delays in receiving appropriate documentation.
Deferred Benefits set up on leaving	Given low priority due to volumes. Members are however, informed in writing that they will receive details of their benefits as soon as possible.
Transfer out quote	Delays in receiving appropriate documentation.

2.0 Scheme Information

2.1 Membership numbers as at 22 February 2017 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	24,805	26,885	3,119	19,115	1,924
Councillors	14	30	0	38	-
Totals nos	**24,819**	**26,915**	**3,119**	**19,153**	**1,924**
Change	+62	-121	0	+158	+57

2.2 Age Profile of the Scheme

					Age Groups								
STATUS	U20	B20 25	B26 30	B31 35	B36 40	B41 45	B46 50	B51 55	B56 60	B61 65	B66 70	O70	TOTAL
Active	497	1767	1675	2184	2585	3594	4253	3797	2842	1324	247	40	24805
Beneficiary Pensioner	89	44	2	1	5	15	41	73	127	233	290	1487	2407
Deferred	5	476	1554	2064	2200	3514	5381	6027	4528	1051	30	10	26840
Deferred Ex Spouse	0	0	0	0	3	0	13	10	12	4	0	0	42
Pensioner	0	1	1	0	6	20	41	113	1089	4318	4968	6134	16691
Pensioner Deferred	0	0	0	0	0	0	1	0	2	0	0	0	3
Pensioner Ex Spouse	0	0	0	0	0	0	0	0	2	8	4	3	17
Preserved Refund	27	124	79	118	154	224	307	314	256	165	109	47	1924
	618	2412	3311	4367	4953	7367	10037	10334	8858	7103	5648	7721	72729
Undecided													3119
Councillors													82
Total													**75,930**

2.3 Employer Activity

Academies and Prime Account Schools

Between 1 October 2016 and 31 December 2016 2 academies and 1 Prime Account Schools became Scheme employers in the Fund.

Technical are currently working on 10 schools that are in the process of converting to academies or Prime Account Schools.

Town and Parish Councils

Between 1 October 2016 and 31 December 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 October 2016 and 31 December 2016 the admission of no Admission Bodies was completed.

Technical are currently working on the admissions for 10 Admission Bodies.

Employers ceasing Participation

Between 1 October 2016 and 31 December 2016 no employers ceased their participation in LPF.

Number of Employers in WYPF

These changes to employers bring the total number of employers in LPF as at 31 December 2016 to 238.

Training

Over the quarter October to December two Employer sessions were held in Lincolnshire:

- Secure Administration, and
- Pensionable Pay

Feedback from these events is attached at Appendix 2.

3.0 Praise and Complaints

3.1 Over the quarter October to December we received **3** online customer responses.

Over the quarter October to December **98** Lincolnshire member's sample survey letters were sent out and **18** (**18.4%)** returned:

Overall Customer Satisfaction Score;

October to December 2015	January to March 2016	April to June 2016	July to September 2016	October to December 2016
80.16%	80.34%	80.71%	79.55%	77.22%

Appendix 1 shows full responses.

4.0 Internal Disputes Resolution Procedures

4.1 All occupational pension schemes are required to operate an IDRP. 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 December 2016 to 31 January 2017 four Stage 1 appeals were received and there were a total of three Stage 2 appeals, as detailed below:

December 16 – January 17	Number of appeals	Outcomes	Details
STAGE 1	4		
AGAINST EMPLOYER	2	2 turned down	
			Member appealed against being turned down for payment of deferred benefits on ill health grounds.
			Member appealed against being turned down for payment of deferred benefits on ill health grounds.
AGAINST LPF	2	2 turned down	Incorrect pension quote issued to member at retirement. Error was identified when payment was claimed. £500 compensation paid.
			Member appealed against being refused the option of a CETV within 12 months of normal retirement date and lack of information provided.
STAGE 2	3		
AGAINST EMPLOYER	1	1 turned down	Member appealed against being turned down for payment of deferred benefits on ill health grounds.
AGAINST LPF	2	2 turned down	Member appealed against poor administration causing undue delay in

			making payment of retirement benefits.
			Member appealed against not being able to draw 100% of pension benefits as a lump sum and felt that documentation provided was misleading.

4.2 The Pensions Ombudsman can consider appeals and allegations of maladministration, once the two stages of the IDRP have been exhausted. From 1 December 2016 to 31 January 2017 there were no Pensions Ombudsman determinations.

5.0 Administration Update

5.1 Life Certificates - 54 pensions were suspended due to non-return of the life certificates. Some pensioners have since responded but 34 still remain suspended. 3 pensioners have recently made contact which leaves 31 that we still have had no contact despite their January 2017 pension not been paid. Further investigations are underway for the remaining 31. Of these 31 only 16 pensions are over £1000.00 p.a. 12 of these are age 70 or above.

5.2 Annual Benefit Statements - Fire ABS were issued by the revised deadline of 31 December as agreed with the Pensions Regulator. For LGPS 97.4% of members have had ABS's. The outstanding cases are with Employers for queries to records.

6.0 Current Issues

6.1 **Update on May 2016 consultation on amendment regulations**
After a series of changes to the personnel in the DCLG pensions team during 2016, a number of new recruits have recently joined the DCLG pensions team from elsewhere in the Department.

The LGPC Secretariat have held productive initial discussions with the new members of the DCLG team and those conversations have in particular focused on the issues addressed in DCLG's May 2016 consultation on amendments to the LGPS in England and Wales, including Fair Deal and Freedom and Choice for AVCs.

Further to those conversations, we understand that the following approaches are being considered in respect of the matters covered in the consultation document:

- Fair Deal – the consultation responses highlighted a number of gaps in the draft regulations and a further consultation may need to be undertaken on an amended set of draft regulations. The policy intent, to extend the principles of Fair Deal to the LGPS, has not changed.

- Freedom and Choice for AVCs – the consultation responses noted a number of deficiencies with the draft regulations, meaning that a further consultation may be necessary to address these. Separately, due to the potential administrative complexities of bringing elements of Freedom and Choice to AVCs in the LGPS, the advantages and disadvantages of offering UFPLSs from LGPS AVCs are being considered.
- Other amendments – these are being considered on a case by case basis and DCLG will try to move these forward as appropriate.

DCLG are working on a formal response to the consultation which will be published in due course.

6.2 **Exit payment cap – Enterprise Act 2016 commencement order**

On 24th January, HM Treasury issued SI2017/70, the Enterprise Act 2016 (Commencement No. 2) Regulations 2017, effective from 1st February 2017.

The regulations commence certain parts of the Enterprise Act 2016 including changes to the Small Business, Enterprise and Employment Act 2015, which enable the £95k exit payment cap to be introduced. However, the commencement order does not itself bring the exit payment cap into effect, but merely allows the Government to make regulations providing for the introduction of the cap.

The LGPC Secretariat remain of the understanding that HM Treasury plan to undertake a further consultation on draft regulations covering the cap before this becomes effective.

6.3 **Publication of September 2016 CPI rate**

As reported in November, the September 2016 rate of CPI was 1.0% and Government policy in recent years has been to base pensions increase under the Pensions (Increase) Act 1971 on the September rate of CPI for the previous year. Given this, we expect that 2017's pensions increase will apply at a rate of 1.0% and employee contribution bandings will be uprated at the same rate.

However, the Government have not yet confirmed this to be the case. The LGPC Secretariat have approached HM Treasury about this and asked that confirmation be provided as soon as possible so that employers and administering authorities can prepare for 1st April 2017.

6.4 **GMP reconciliation and LGPS pension funds**

HMRC have recently provided the LGPC Secretariat with an update on where LGPS pension funds are up to with the reconciliation of their deferred and pensioner GMP records, as outlined in the below table.

Scheme	Total administering authorities (as	Deferred and pensioner GMP data	No. of authorities that have raised queries with	No. of authorities that have yet to raise any queries

	recorded by HMRC)	issued by HMRC to authority	HMRC on their deferred and pensioner data	with HMRC on their deferred and pensioner data
LGPS England & Wales	88	86	36	52 (59%)
LGPS Scotland	12	12	6	6 (50%)

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 Awards
WYPF have been shortlisted by Pensions Age Awards for the following categories:

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

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

8.2 National LGPS Framework
WYPF has been successful in being shortlisted to the National LGPS Framework for third party pensions administration. Under this framework, the London Borough of Hackney has recently sent out an invite to interested parties to submit a bid. WYPF is working on submitting a bid. In preparation for this, moves are already underway to strengthen our staffing numbers by filling vacant posts and also the creation of a Member Services Manager post.

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 1	Lincolnshire Survey Results – October to December 2016
Appendix 2 -	Employer Feedback – October to 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

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.

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Customer Survey Results - Lincolnshire Members
(1st October to 31st December 2016)

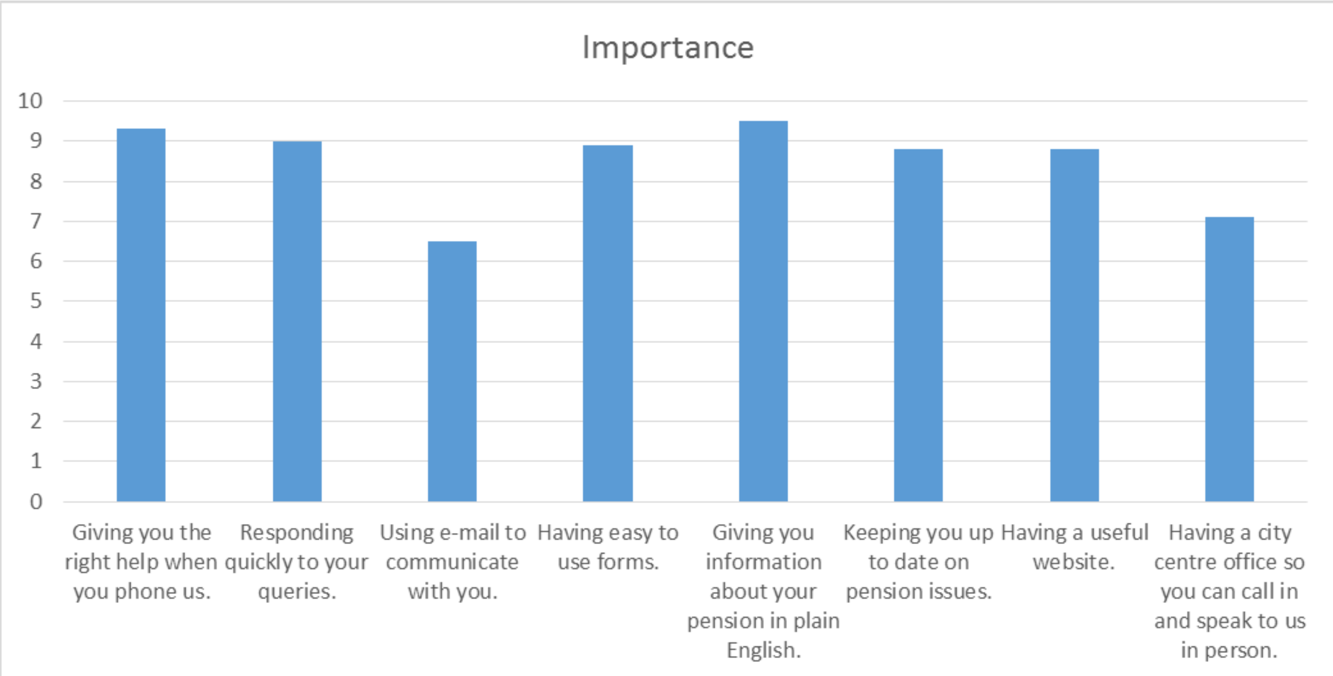
Over the quarter October to December we received **3** online customer responses.

Over the quarter October to December **98** Lincolnshire member's sample survey letters were sent out and **18** **(18.4%)** returned:

Overall Customer Satisfaction Score;

October to December 2015	January to March 2016	April to June 2016	July to September 2016	October to December 2016
80.16%	80.34%	80.71%	79.55%	77.22%

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



Sample of positive comments:

Member Number	Comments
Pat Barsley (Email 8031700)	Dear Ms Whitley Many thanks for your prompt reply and information which was a great help. I would like to say that on each occasion I have needed to telephone you, the staff have always been friendly, helpful and are a real credit to the business. Thank you again
8058661	Excellent with very helpful and understanding staff. I am very pleased with the very personal service you offer. I would like to be able to use email exclusively so that I can communicate. This also gives a clear evidence trail of advice given and acted upon.
8032432	Excellent service. Every question I asked was answered clearly. Very helpful. Just a big thank you for being taken through process with ease.

Complaints/Suggestions:

Member Number	Comments	Corrective/ Preventive Actions
8112849	I am little disappointed. I have not heard back or had any correspondence in relation to my previous pensions I hold with Local Govt. I completed the form along with expression of wish nearly two months ago so would have expected some updated correspondence. Please someone could update me on this	Response has sent by WYPF Thank you for returning your customer feedback form. I am sorry to hear that you are disappointed that you haven't heard from us regarding the possibility of transferring you previous pension rights to WYPF. I can confirm that we received your form on 7/10/16, and on that same date my colleague wrote to London Pension Fund Authority to request details of the benefits you hold with them. As yet we haven't received a reply from them. Unfortunately my colleague made an error and omitted to contact East Riding Pension Fund to request your membership details. he has therefore sent them a letter today requesting this information. Please accept my apologies for this error. With regards to your non LGPS pension with Writtle Holdings Ltd we have not had a transfer form from yourself. You need to print a pack from our website and also request a transfer value from your other pension scheme. Instructions regarding this were on the form you completed. I enclose a copy of the form and have highlighted the part that is relevant to this transfer. Once we have received information we need from all 3 companies we will write to you with a quotation/further information. I had this clarifies the position.

8112304	Slow and unsatisfactory. Issues are still unresolved yet. You feel it appropriate to send a satisfaction survey. All I want is pension statement surely it is not to much to ask.	Response has sent by WYPF: Your pension record has now been amended and shows continuous membership from 2 July 2012. A 2016 pension statement has been sent to you showing the current value of your benefits. Please accept my apologies for any confusion caused when you received our letter dated 3 August 2016.

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Employer Feedback (LPF)
Quarter 3 October – December 2016

Secure Administration – 10 October 2016

Feedback score: 95.01%

Comment	Action taken
None	

A summary of the compliments

- Very helpful information as I'm new to pensions and just started training.
- Course material well designed and easy to use.
- Really useful and informative session.

Pensionable Pay (additional session run for HR solutions) – 17 November 2016

Feedback score: 97.59%

Comment	Action taken
It would be helpful to have something about the portal included in the session	Discussed and being considered for the future

A summary of the compliments

- I really enjoyed the workshop & learnt a lot. Stopping to ensure we understand is a good idea. Very good overview of the basics
- The exercises were a good test.

Complete guide – 22 November 2016

Feedback score: 95.51%

Comment	Action taken
None	

A summary of the compliments

- Looking forward to dates for future workshops
- Very informative and a good tool to know what is expected and to check if payroll doing what they should.
- Thank you for the informative & friendly workshop, nice to meet PFR's
- Very useful, provided me with a good understanding of different pension issues etc.

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**08 March 2017**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Committee on Fund matters over the quarter ending 31st December 2016 and any current issues.

Recommendation(s):

That the Committee note the report.

Background

Fund Summary

1.1 Over the period covered by this report, the value of the Fund increased in value by £36.7m (1.9%) to £2,004.9m on 31st December 2016. Fund performance and individual manager returns are covered in the separate Investment Management report, item 7 on the agenda.

1.2 Appendix A shows the Fund's distribution as at 31st December. All asset classes are within the agreed tolerances, other than cash which was held ahead of the rebalancing in January. One portfolio, Blackrock Interim, exceeded their tolerance level of +/- 1% by -0.25%, to account for 5.5% of the Fund. This was rebalanced in January. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 2.2%

UK Equities underweight by 0.7%

Global Equities overweight by 2.9%

Underweight Alternatives by 1.5%

Underweight Property by 1.1%

Underweight Bonds by 1.3%

Overweight Cash by 1.7%

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

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

1.4 Appendix C shows the market returns over the three and twelve months to 31st December 2016.

1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 31st December, accounting for 10.5% of the Fund, compared to 10.2% last quarter. Equity holdings in the Fund are now shown on the Pensions shared website (www.wypf.org.uk), and updated on a quarterly basis.

	Company	**Total Value £M**	**% of Fund**
1	ROYAL DUTCH SHELL	35.2	1.7
2	BRITISH AMERICAN TOBACCO	27.4	1.4
3	RECKITT BENCKISER	24.8	1.2
4	HSBC	24.0	1.2
5	UNILEVER	21.6	1.1
6	MICROSOFT	19.8	1.0
7	BP	17.5	0.9
8	GLAXOSMITHKLINE	14.2	0.7
9	JPMORGAN	13.3	0.7
10	L'OREAL	12.7	0.6
	TOTAL	**210.5**	**10.5**

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 77 company events and cast votes in respect of 722 resolutions. Of these resolutions, the Fund voted 'For' 531, 'Against' 178, abstained on 4 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 9th January 2014 meeting of this Committee, and effective from 1st March 2014.

2 Local Authority Pension Fund Forum

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

- **Corporate Governance** – to develop and monitor, in consultation with Fund Managers, effective company reporting and engagement on governance issues.

- **Overseas employment standards and workforce management** - to develop an engagement programme in respect of large companies with operations and supply chains in China.

- **Climate Change** - to review the latest developments in Climate Change policy and engage with companies concerning the likely impacts of climate change.

- **Mergers and Acquisitions** - develop guidance on strategic and other issues to be considered by pension fund trustees when assessing M&A situations.

- **Consultations** – to respond to any relevant consultations.

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

- LAPFF met with Rolls Royce and Rio Tinto to discuss a range of issues, including climate change and strategic resilience.

- After attending the Sky AGM, Ian Greenwood met with Sky's Deputy Chairman, to discuss Twenty-First Century Fox's anticipated takeover bid and James Murdoch's appointment as Chairman of Sky. LAPFF has long opposed the appointment of James Murdoch as a board member of his father's companies, both because of his role during the phone hacking scandal and because of the governance issues raised by his family ties.

- Antofagasta requested a meeting with LAPFF to introduce the Company's new Senior Independent Director. LAPFF Chairman Kieran Quinn took the meeting and asked about measures taken to promote greater diversity, not only at board level but throughout the organisation and at recruitment, as well as governance challenges related to the fact that Antofagasta is a family-owned company.

- After attending the Vedanta AGM, Councillor Richard Greening met with the Company to discuss its human rights and environmental record. LAPFF has engaged in previous years with the Company due to specific concerns raised, related to both issues. However, Vedanta has appointed a former Shell employee as a director and Chair of the CSR Committee to help improve performance in these areas.

- Councillors Toby Simon and Doug McMurdo met with Shell's remuneration chairman to discuss the Company's executive remuneration arrangements in advance of the AGM vote. They questioned how the performance indicators used by Shell such as 'production available for sale' and 'project delivery' aligned with low carbon, low demand scenarios.

- LAPFF met with representatives of Rio Tinto and BP to discuss the companies' respective responses to the strategic resilience resolutions on climate change passed at their 2016 and 2015 AGMs respectively. The Rio Tinto meeting provided confirmation that disclosure would not be able to fully address all five elements of the resolution in the course of one year but that reporting would be a work in progress. The BP meeting explored a greater use of scenario planning, having introduced the 'faster transition' scenario which will be built on, other scenarios included consideration of the mobility revolution, e.g. the role of electric vehicles and autonomous driving.

2.3 Members of the Committee should contact the author of this report if they would like further information on the Forum's activities.

3 Treasury Management

3.1 At the April 2010 meeting, the Pensions Committee agreed a Service Level Agreement with the Treasury team within Lincolnshire County Council, for the continued provision of cash management services to the Pension Fund.

3.2 The Treasury Manager has produced the outturn report detailing the performance of the cash balances managed by the Treasury. This shows an average cash balance of £10.5m. The invested cash has outperformed the benchmark from 1st April 2016 by 0.35%, annualised, as shown in the table below, and earned interest of £52.1k.

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

Pension Fund Balance – Q1 to 31st December 2016				
Pension Fund Average Balance £'000	**Interest Earned £'000**	**Cumulative Average Yield Annualised %**	**Cumulative Weighted Benchmark Annualised %**	**Performance %**
10,520.5	52.1	0.68	0.33	0.35

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 The Areas that are not fully completed and compliant are listed below. This has not changed since the last Pensions Committee meeting.

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 31st August 2016 were issued. This compares to 38% across all members at this time last year. Total across all members this year is over 90%.

H3 - Maintaining Contributions - Has a benefit statement been provided to all active, deferred and pension credit members who have requested one within the required timescales?
Amber - 96.9% of Statements as at the deadline of 31st August 2016 were issued. This compares to 38% across all members at this time last year. Total across all members this year is over 90%.

H5 - Maintaining Contributions - Has an annual benefit statement been provided to all members with AVCs within the required timescales?
Grey – provided directly by Prudential, with no Pension Fund involvement.

H6 – Maintaining Contributions - Do these meet the legal requirements in relation to format?
Grey – provided directly by Prudential, with no Pension Fund involvement.

H7 - Maintaining Contributions - Is basic scheme information provided to all new and prospective members within the required timescales?
*Amber - New starter information is issued by WYPF, **when they have been notified by employers**. This is done by issuing a notification of joining with a nomination form, transfer form and a link to the website. However, because the SLA relates to when notified, it does not necessarily mean the legal timescale has been met which is within 2 months of joining the scheme. The monthly data returns are improving this process.*

K7 – Scheme Advisory Board Guidance - Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.
Amber - Annual Training Plan of Committee shared with PB and all PB members invited to attend. Annual self-assessment not yet carried out and no personal training plans in place.

5 Risk Register Update

5.1 The risk register is a live document and updated as required. Any changes are reported quarterly, and the register is taken annually to Committee to be approved.

5.2 One additional risk has been added over the quarter, at risk 30, linked to risk 29 of meeting the Government's deadline.

Risk 30	Consequences	Controls	Risk Score	
			L	I
Asset pooling - creation of BCPP within Government's timetable, to the detriment of BCPP.	In pushing to meet the deadline, the work is rushed and not properly considered, leading to BCPP not being fit for purpose.	Resource dedicated to BCPP work when required Ensuring understanding of Members that it is better to get it right than to meet the imposed deadline Regular communications	1	2

		with Govt to reassure progress is being made		

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 – Employers' Annual Meeting

6.1 The Annual Meeting for scheme employers has been postponed, due to a low take up from employers. The original meeting was due to be held on 15th February, however this was in the school holiday week for a number of academies. The date has been rearranged to Thursday 23rd March. Committee members are welcome to attend.

Conclusion

7 This reporting period saw the value of the Fund rise, increasing by £36.7m to £2,004.9m. At the end of the period the asset allocation, compared to the strategic allocation, was;

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

Consultation

a) 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.

APPENDIX A

DISTRIBUTION OF INVESTMENTS

INVESTMENT	31 Dec 2016			30 Sept 2016			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
UK Index Tracker	387,302,456	31.1%	19.3%	375,383,384	30.6%	19.3%	20.0	+/- 2%
TOTAL UK EQUITIES	**387,302,456**		**19.3%**	**375,383,384**		**19.3%**	**20.0**	
GLOBAL EQUITIES								
Invesco	469,214,863	37.6%	23.4%	477,875,995	38.9%	24.6%	22.5	+/- 2.5%
Threadneedle	113,862,906	9.1%	5.7%	110,601,734	9.0%	5.7%	5.0	+/- 1%
Schroder	111,187,288	8.9%	5.5%	105,594,640	8.6%	5.4%	5.0	+/- 1%
Morgan Stanley	165,210,491	13.3%	8.2%	158,690,970	12.9%	8.2%	7.5	+/- 1%
TOTAL GLOBAL EQUITIES	**859,475,547**		**42.9%**	**852,763,338**		**43.9%**	**40.0**	
TOTAL EQUITIES	**1,246,778,002**	**100%**	**62.2%**	**1,228,146,723**	**100%**	**63.2%**	**60.0**	**+/- 6%**
ALTERNATIVES	**270,456,752**		**13.5%**	**265,360,619**		**13.7%**	**15.0**	**+/- 1.5%**
PROPERTY	**209,131,915**		**10.4%**	**202,993,914**		**10.4%**	**11.5**	**+/- 1.5%**
FIXED INTEREST								
Blackrock Interim	133,944,838	54.9%	6.7%	137,764,126	55.6%	7.1%	6.75	+/- 1%
Blackrock	109,943,995	45.1%	5.5%	110,000,000	44.4%	5.7%	6.75	+/- 1%
TOTAL FIXED INTEREST	**243,888,832**	**100%**	**12.2%**	**247,764,126**	**100%**	**12.8%**	**13.5%**	**+/- 1.5%**
TOTAL UNALLOCATED CASH	**34,596,763**		**1.7%**	**-1,165,277**		**-0.1%**	**0.0**	**+ 0.5%**
TOTAL FUND	**2,004,852,265**		**100%**	**1,943,100,106**		**100%**	**100**	

APPENDIX B

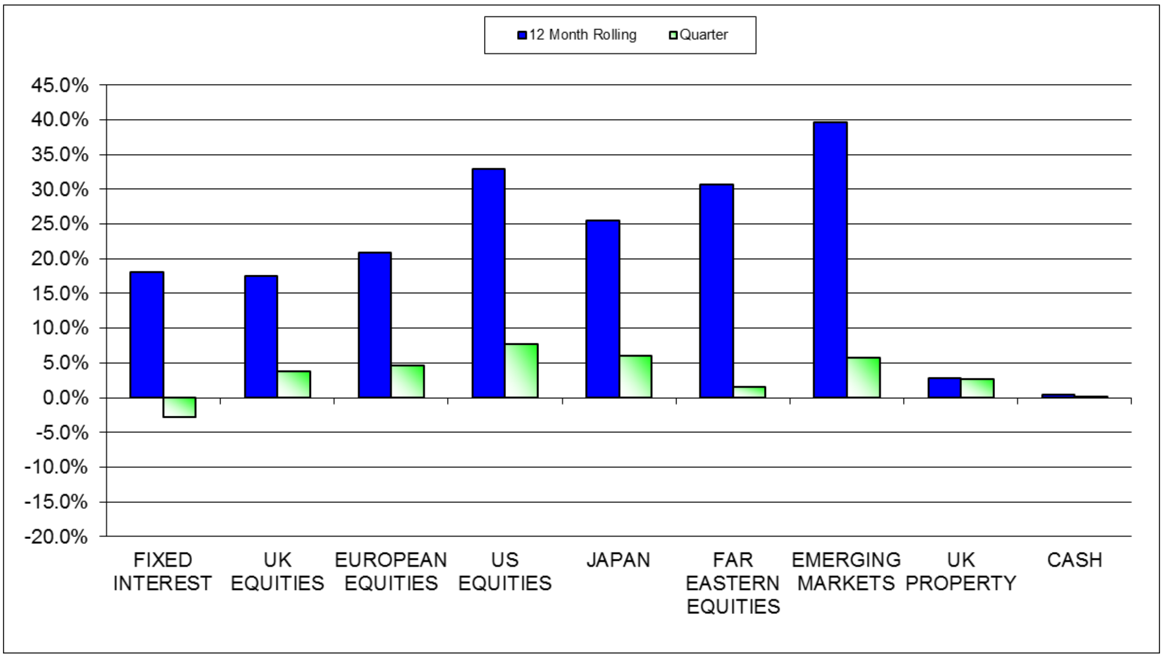
PURCHASES AND SALES OF INVESTMENTS
Quarter Ended 31st December 2016

Investment	Purchases £000's	Sales (£000's)	Net Investment £000's
UK Equities			
In House	12,506	2,102	10,404
Global Equities			
Invesco	37,592	86,369	(48,777)
Threadneedle	9,032	7,787	1,245
Schroders	7,300	6,331	969
Morgan Stanley Global Brands	0	0	0
Total Equities	**66,430**	**102,589**	**(36,159)**
Alternatives			
Morgan Stanley	0	0	0
Total Alternatives	**0**	**0**	**0**
Property	**196**	**4,400**	**(4,204)**
Fixed Interest			
BlackRock	0	0	0
Blackrock Interim	15,000	0	15,000
Total FI	**15,000**	**0**	**15,000**
TOTAL FUND	**81,626**	**106,989**	**(25,363)**

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

APPENDIX C

MARKET RETURNS TO 31st DECEMBER 2016



INDEX RETURNS	**12 Months to Dec 16**	**Oct-Dec 16**
	%	**%**
FIXED INTEREST	18.1%	-2.8%
UK EQUITIES	17.5%	3.8%
EUROPEAN EQUITIES	20.8%	4.6%
US EQUITIES	32.9%	7.7%
JAPANESE EQUITIES	25.5%	6.0%
FAR EASTERN EQUITIES	30.7%	1.6%
EMERGING MARKETS	39.7%	5.8%
UK PROPERTY	2.8%	2.6%
CASH	0.4%	0.1%

APPENDIX D

Votes Summarised by Votes Cast				
Votes Cast at Management Group Level				
Report Period: 01 Jul 2016 to 30 Sept 2016				
Voting Guideline Code	**For**	**Abstain**	**Against**	**Total**
(Other) Restructuring	0	0	0	0
Adjourn Meeting	2	0	0	2
All Employee Share Schemes	3	0	2	5
Approval of Executive's Remuneration Package	1	0	0	1
Auditor - Appointment	33	0	6	39
Auditor - Remuneration	17	0	12	29
Auth Board to Issue Shares	22	0	6	28
Auth Board to Issue Shares w/o Pre-emption	14	0	27	41
Authorise Board to set Board Size	1	0	0	1
Authorise Political Donations & Expenditure	8	0	1	9
Authorised Capital	0	0	0	0
Board Rem - Allow Board to Set	2	0	0	2
Board Size for Year	1	0	0	1
Board Size Range	1	0	0	1
Cancel Treasury Shares	1	0	0	1
Capital Raising	0	0	8	8
Chairs Corporate Responsibility Committee	2	0	0	2
Convert to REIT	1	0	0	1
Corporate Governance Policy	1	0	0	1
De-classify the Board	1	0	0	1
Delegate Powers	4	0	0	4
Director Election - All Directors [Single]	294	1	79	374
Director Election - Chairman	18	0	19	37
Director Election - Chairs Audit Committee	36	0	3	39
Director Election - Chairs Nomination Com	20	0	15	35
Director Election - Chairs Remuneration Com	33	1	10	44
Director Election - Chairs Risk Com	4	0	2	6
Director Election - Executives	73	0	5	78
Director Election - Lead Ind. Director/DepCH	21	0	8	29
Director Election - Non-executive/Sup Board	212	1	61	274
Director Election - Sits on Audit Committee	92	0	19	111
Director Election - Sits on Nomination Com	122	1	19	142
Director Election - Sits on Risk Com	18	0	4	22
Director Election - Sts on Remuneration Com	96	0	22	118
Directors' Pensions	1	0	0	1
Distribute/Appropriate Profits/Reserves	2	0	0	2
Dividends - Ordinary	17	0	1	18
EGM Notice Periods	16	0	0	16

Financial Statements	17	0	7	24
Financial Statements - Environmental Issues	16	0	7	23
Individual Share Award	15	0	0	15
Investment Management Agreement	1	0	0	1
Investment Strategy/Policy	1	0	0	1
Issue Bonds (Other)	1	0	0	1
Long-term Deferral Systems	2	0	0	2
Long-term Incentive Plans	0	0	10	10
LTI: Discretionary Share Option Plan	1	0	0	1
Merger Related Compensation [US]	3	0	0	3
NED Remuneration - Fee Rate/Ceiling	2	0	0	2
NED Share Plan	1	0	0	1
Other Changes to Governance Arrangements	11	0	0	11
Other Payments to Directors/Corp Auditors	2	0	0	2
Proportional Takeover Provisions	1	0	0	1
Ratify Co-option to Board	0	0	1	1
Reduce Share Premium Account	2	0	0	2
Reissue (Use) Treasury Shares	0	0	1	1
Related Party Transaction - Specific Transaction	0	0	0	0
Remuneration Policy	1	0	3	4
Remuneration Report	21	0	31	52
Research Pending	0	0	0	0
Resolution Issues	0	0	1	1
Return of Capital	0	0	1	1
Right to Nominate Directors - 'Proxy Access'	2	0	0	2
Scheme of Arrangement	0	0	0	0
Set Exclusive Jurisdiction	1	0	0	1
SH: Improve CSR Disclosure	0	0	0	0
SH: Lobbying - Improve Disclosure	3	0	0	3
SH: Remove Supermajority Provisions	1	0	0	1
SH: Restrict Accelerated Vesting of LTIP Awards	1	0	0	1
SH: Right to Nominate Directors - 'Proxy Access'	1	0	0	1
SH: Shareholder Resolution - Other	0	0	0	0
Share Buy-back Authority (inc Tender Offer)	21	0	1	22
Share Consolidation	2	0	0	2
Significant Transactions	2	0	1	3
Sits on Corporate Responsibility Committee	3	0	1	4
Special Meetings - Lower Threshold	1	0	0	1
Stock Exchange Listing.	1	0	0	1
Unclassified	0	0	0	0
Waive Mandatory Takeover Requirement	0	0	3	3
	1327	**4**	**397**	**1728**

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Appendix E

The Pension Regulator’s and Scheme Advisory Board Compliance Checklist

Summary Results Dashboard

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

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

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

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

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

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Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**08 March 2017**
Subject:	**Investment Management Report**

Summary:

This report covers the management of the Lincolnshire Pension Fund assets over the period from 1st October to 31st December 2016.

Recommendation(s):

That the committee note this report.

Background

This report is split into four areas:

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

1. Funding Level Update

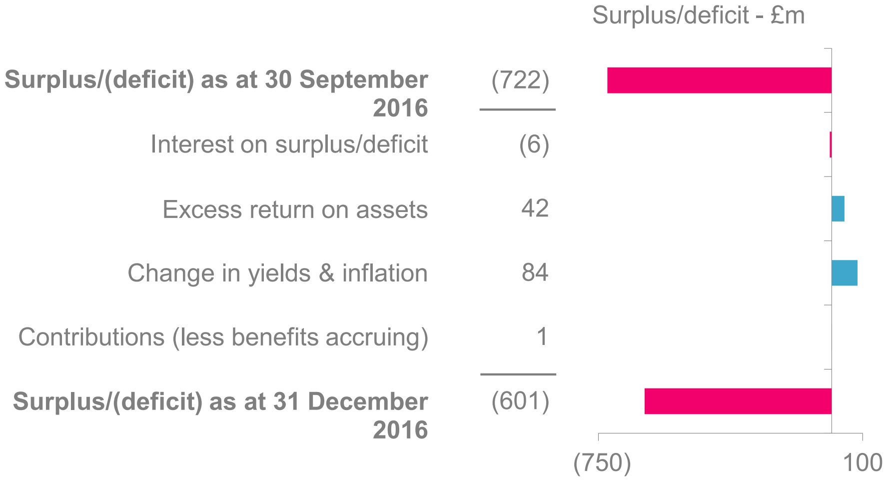
1.1 The funding update is provided to illustrate the estimated development of the funding position from 31st March 2016 to 31st December 2016, for the Fund.

1.2 As the graph below shows, the funding level at the latest formal valuation was 76.9%. As at 31st December 2016 the funding level has increased to 77.3%.

Change in funding level since last valuation

1.3 As shown below, the deficit in real money has decreased from £722m to £601m between the period 30th September 2016 and 31st December 2016. This is largely as a result of an increase in bond yields and greater return on assets than expected.

1.4 What's happened since last valuation?



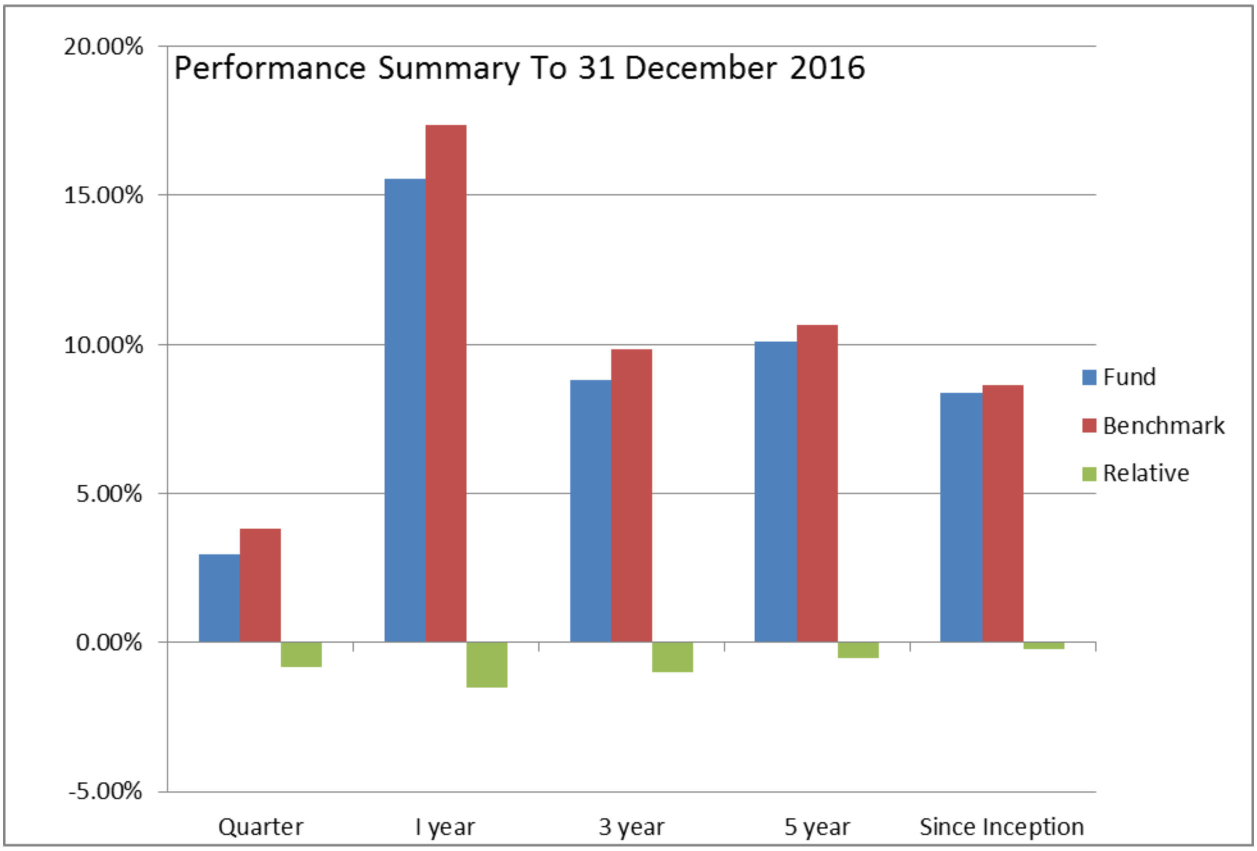
2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £61.8m during the quarter from £1,943.1m to £2,004.9m, as the table below shows.

Asset Class	Q4 2016 £m	Q3 2016 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	387.3	375.4	19.3	20.0	(0.7)
Global Equities	859.5	852.8	42.9	40.0	2.9
Alternatives	270.5	265.4	13.5	15.0	(1.5)
Property	209.1	202.4	10.4	11.5	(1.1)
Fixed Interest	243.9	247.8	12.2	13.5	(1.3)
Cash	34.6	(1.2)	1.7	0.0	1.7
Total	**2,004.9**	**1,943.1**	**100.0**	**100.0**	

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

2.3 Over the quarter, the Fund produced a positive return of 2.98% but underperformed the benchmark which returned 3.81%. The Fund is behind the benchmark over all periods.



* Since Inception figures are from March 1987

2.4 Following the Pensions Committee meeting in January and the approval to implement the asset allocation changes following the investment strategy review, the following have been completed:

- Transfer of assets from the internally managed UK Equity portfolio to LGIM was completed on the 15th February.

- Change to the passive benchmark for Blackrock, substituting Overseas Government Bonds with UK Fixed Interest Government Bonds was completed on the 20th February.

- Notice has been given to both the Currency Overlay managers, HSBC Trinkhaus and Record. They will both start a phased withdrawal with this being completed by 31st December 2017.

3. Hymans Robertson Manager Ratings

3.1 Hymans Robertson regularly meet managers to discuss current issues, management changes and performance. The manager is then allocated one of five ratings between replace and retain. The table below shows Hymans Robertson's rating of all managers that have been appointed by the Lincolnshire Pension Fund.

3.2 The Fund has eighteen managers and during the quarter there was one rating change where Aviva Pooled Property Fund has been moved from "on watch" to "retain". Seventeen managers remained rated as "retain", and one manager, Rreef Ventures Fund 3, as "on watch". Officers continue to monitor managers closely and arrange meetings to discuss any potential issues

Manager	Rating				
	Replace		On Watch		Retain
Invesco Global Equities (Ex-UK)				X	
Threadneedle Global Equity				X	
Schroders Global Equity				X	
Morgan Stanley Global Brands					X
Morgan Stanley Alternative Investments					X
Blackrock Fixed Interest					X
Standard Life European Property				X	
Innisfree Continuation Fund 2					X
Innisfree Secondary Fund					X
Innisfree Secondary Fund 2					X
Franklin Templeton European Real Estate				X	
Franklin Templeton Asian Real Estate				X	
RREEF Ventures Fund 3			X		
Igloo Regeneration Partnership				X	
Aviva Pooled Property Fund				X	
Royal London PAIF				X	
Standard Life Pooled Property Fund				X	

Blackrock Property				X	

4. Individual Manager Update

4.1 The manager returns and index returns for equity, fixed interest and alternative managers are shown in the table below. A detailed report on each manager outlining the investment process, performance, purchases and sales and Hymans Robertson's manager view can be found after the table at 4.3.

4.2 Manager Returns – As shown below it was a good quarter for the Fund with all managers, except for Blackrock, producing a positive absolute return. Disappointingly over the quarter, only two managers outperformed their benchmark, Invesco and Blackrock. Over the 12 month period all managers have produced a positive absolute return. Morgan Stanley Alternatives, Blackrock and Invesco have both outperformed their benchmark over the 12 month period.

	3 months ended 31/12/16			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	Target p.a. %
Passive UK Equity In house	3.7	3.8	(0.1)	17.2	17.5	(0.2)	+/- 0.5
Invesco (Global Equities (ex UK))	8.7	7.3	1.3	30.9	28.9	1.5	+1.0
Threadneedle (Global Equities)	3.0	6.5	(3.3)	22.0	29.4	(5.7)	+2.0
Schroder's (Global Equities)	5.3	6.4	(1.0)	25.6	28.7	(2.4)	+3.0
Morgan Stanley Global Brands	4.1	7.1	(2.8)	25.5	28.2	(2.1)	n/a
Blackrock (Fixed Interest)	(2.8)	(2.8)	0.1	18.2	18.1	0.1	Match Index
Blackrock Interim (Fixed Interest) *From Sept 2016	0.1	0.1	0.0	0.3*	0.2*	0.1*	Match Index

Morgan Stanley (Alternative Investments)	1.1	1.1	0.0	7.3	4.6	2.6	3M LIBOR + 4%

Lincolnshire Pension Fund
UK Equities – In House (Passive UK)
Quarterly Report December 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 30.09.16	Value at 31.12.16
£375,383,384	£387,348,629

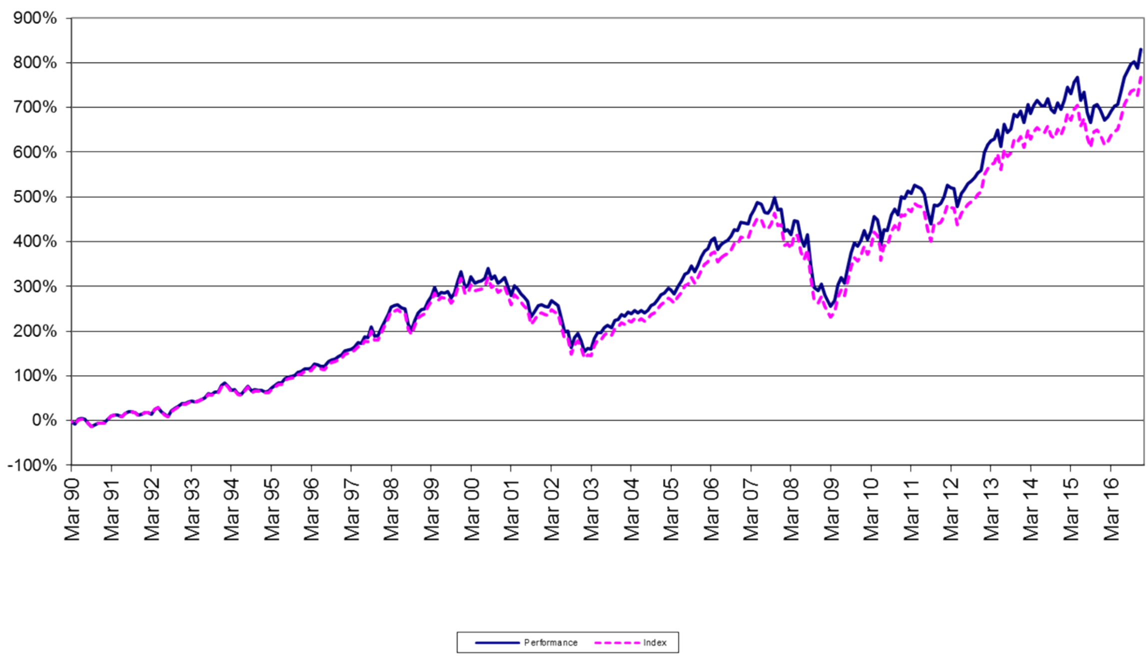
Performance

During the quarter the portfolio produced a return of 3.7% which was 0.1% 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	3.7	17.2	5.5	9.7	8.5
MSCI UK IMI	3.8	17.5	5.7	9.8	8.2
Relative Performance	(0.1)	(0.2)	(0.1)	(0.1)	0.3

* annualised, inception date 01/10/1989

UK Equities In House Portfolio Performance Since Inception



Turnover

Holdings at 30.09.16	Holdings at 31.12.16	Turnover in Qtr %	Turnover in Previous Qtr %
279	282	1.7	0.0

Purchases and Sales

During the quarter the manager made a number of trades reducing the cash holding from £15m to £3m. Significant underweight positions in Royal Dutch Shell, HSBC and Shire were brought to a neutral position and new positions were initiated with PZ Cussons and SVG Capital.

Largest Overweights

Randgold	0.13%
Tullow Oil	0.13%
Paddy Power Betfred	0.11%
Indivior	0.10%
Babcock	0.09%

Largest Underweights

Metro Bank	(0.08%)
JD Sports	(0.05%)
TP ICAP	(0.05%)
RPC Group	(0.05%)
Standard Charter	(0.05%)

* Measured against MSCI UK IMI

Top 10 Holdings

1	Royal Dutch Shell	£33,884,305
2	HSBC	£23,958,803
3	BP	£17,537,744
4	Brit Amer Tobacco	£15,949,672
5	GlaxoSmithKline	£14,243,279

6	Astrazeneca	£10,351,557
7	Vodafone	£10,035,368
8	Diageo	£9,844,762
9	Reckitt Benckiser	£8,084,625
10	Unilever	£7,813,730

Risk Control

The portfolio has a tracking error limit of 0.5%. At the end of December 2016 the tracking error was 0.23%.

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

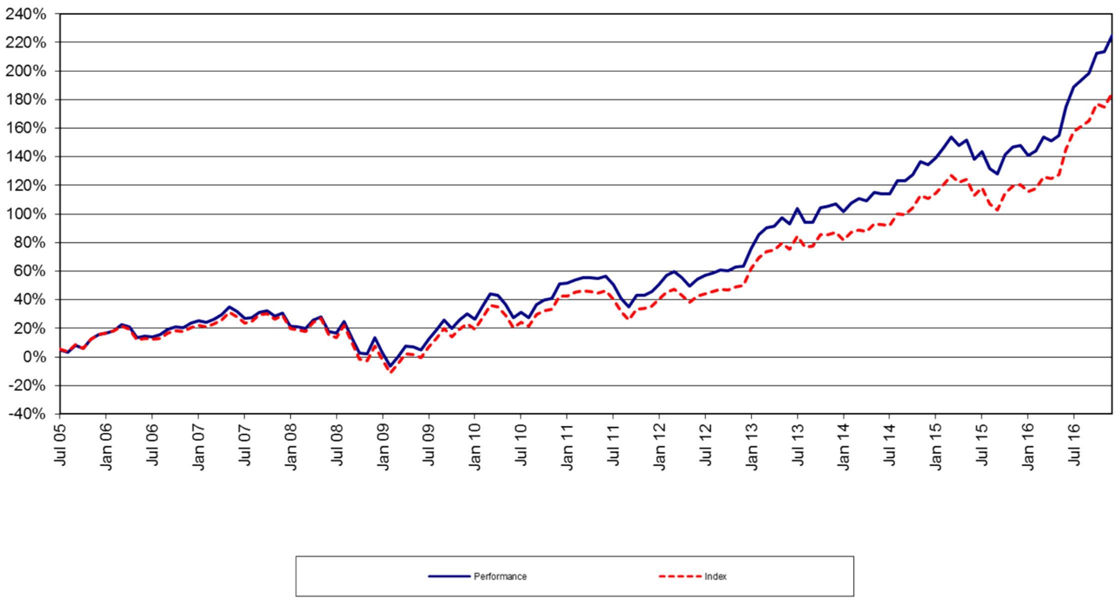
Portfolio Valuation

Value at 30.09.16	Value at 31.12.16
£477,875,995	£468,673,452

Performance

During the quarter Invesco's strategy outperformed its benchmark. Stock selection was the most dominant driver of relative performance, as stocks with attractive scores in their value concept performed strongly. Stocks which Invesco think are attractive from a Management & Quality perspective contributed positively as well. Performance over all periods continues to be above the target return of +1%. During the quarter £50m was redeemed from our investment with Invesco to keep within tolerance levels of agreed asset allocation.

Invesco Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Invesco	8.7	30.9	16.1	17.4	10.8
MSCI World ex UK	7.3	28.9	14.9	16.0	9.5

Relative Performance	1.3	1.5	1.1	1.2	1.2

* annualised, inception date 1st July 2005

Turnover

Holdings at 30.09.16	Holdings at 31.12.16	Turnover in Qtr %	Turnover in Previous Qtr %
530	529	11.4	16.1

Purchases and Sales

During the quarter, Invesco made a number of stock adjustments to the portfolio. They added Atlas Copco and Sandvik and increased their position in Inditex, Wellcare Health Plans and BASF. These were funded by selling out of Lowe's and decreasing their positions in Goldman Sachs, Johnson & Johnson, JP Morgan Chase and Facebook.

Largest Overweights

Verizon	0.68%
Citigroup	0.67%
JP Morgan Chase	0.62%
AT&T	0.62%
Intel	0.57%

Largest Underweights

Exxon Mobil	(0.75%)
Chevron	(0.71%)
Alphabet	(0.61%)
Visa	(0.47%)
Amazon	(0.40%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple	£9,761,441
2	JPMorgan Chase	£7,458,831
3	Microsoft	£6,766,428
4	AT&T	£6,691,172
5	Johnson & Johnson	£6,553,940
6	Verizon	£6,337,408
7	Citigroup	£5,651,153
8	Procter & Gamble	£5,184,398
9	Intel	£5,165,947
10	Cisco Systems	£4,274,054

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 1.13% (actual target 1%).

Lincolnshire Pension Fund
Global Equities – Schroders
Quarterly Report December 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 30.09.16	Value at 31.12.16
£105,594,640	£111,053,310

Performance

During the quarter the portfolio underperformed the benchmark. Stock selection was a detractor to performance but the key detractor was the market's bias to value – apparent within all global sectors and all regions. This significantly affected the performance of stocks across the portfolio given Schroder's relative bias towards growth characteristucs. At a stock level, there was little stock specific news flow over the quarter that gave Schroder's significant cause for concern about their portfolio holdings or positioning.

Manager Meeting

In February, the Pension Fund Manager visited the offices of Schroders and met with the investment team. Reassurance was given that underperformance in 2016 was not due to investment process but markets conditions during the year.

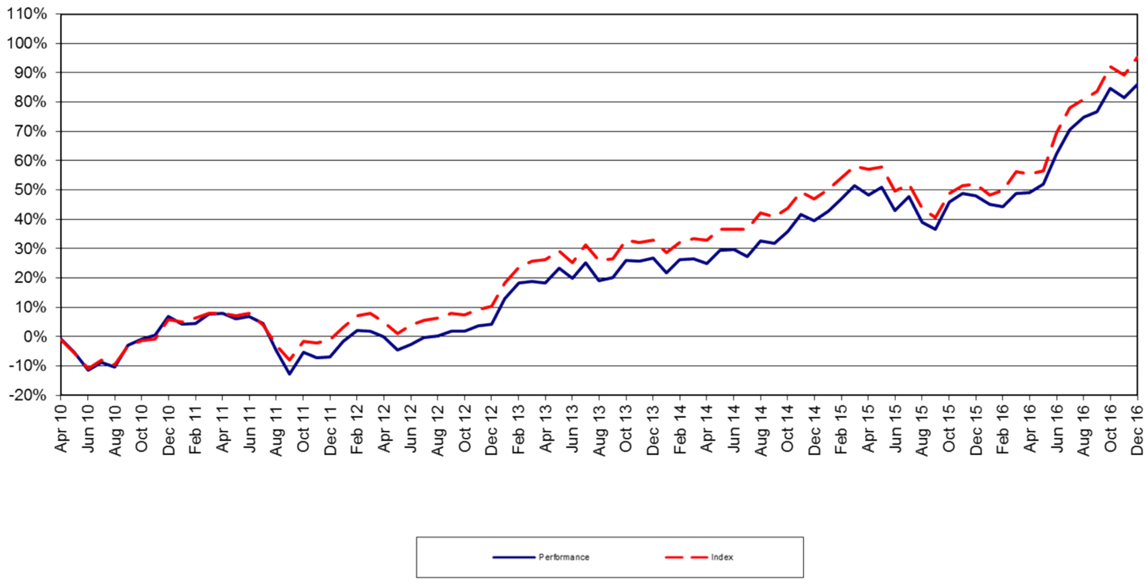
They acknowlwdged that the performance in 2016 had been disappointing and that the team's approach had not been rewarded due to:

- Style and factor returns being extreme throughout 2016 and have dominated share price performance.
- Value was the predominant factor throughout the year, largely at the expense of Growth.
- Failure of positive earnings to contribute to share price performance.

Schroders believe that we are at a point of change in the investment environment which will see the re-emergence of earnings fundamentals as the primary source of alpha generation over an extended time horizon.

They have complete confidence that the investment philosophy and processes employed by the team are capable of delivering positive alpha and reassured the Pension Fund Manager that they expect this to happen by August 2017.

Schroders Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Schroders	5.3	25.6	13.7	14.9	9.6
MSCI ACWI (Net)	6.4	28.7	13.7	14.6	10.4
Relative Performance	(1.0)	(2.4)	(0.1)	0.3	(0.7)

*annualised since Inception April 16 2010

Turnover

Holdings at 30.09.16	Holdings at 31.12.16	Turnover in Qtr %	Turnover in Previous Qtr %
81	80	5.3	7.7

Purchases and Sales

The extreme moves over the quarter due to style rotation and continued conviction in the portfolio holdings have curbed trading activity. The limited trades were reduced to the purchase of LVMH and BASF whilst selling out of Teva Pharma and Capita.

Top 5 Contributions to Return

Citigroup	0.5%
JPMorgan Chase	0.4%
US Bancorp	0.3%
T-Mobile US	0.3%
United Health	0.2%

Bottom 5 Contributions to Return

KDDI	(0.3%)
HDFC Bank	(0.2%)
Estee Lauder	(0.2%)
Medtronic	(0.2%)
Reckitt Benckiser	(0.2%)

Top 10 Holdings

1	Alphabet	£3,446,565	6	United Health	£2,500,289
2	Citigroup	£3,444,357	7	Nestle	£2,384,350
3	Comcast	£3,068,158	8	Amazon	£2,322,929
4	JPMorgan Chase	£2,850,535	9	TWN Semicont	£2,277,058
5	US Bancorp	£2,664,003	10	T-Mobile US	£2,260,001

Hymans Robertson View

There were no significant developments over the quarter.

Risk Control

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

Lincolnshire Pension Fund
Global Equities – Threadneedle
Quarterly Report December 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.

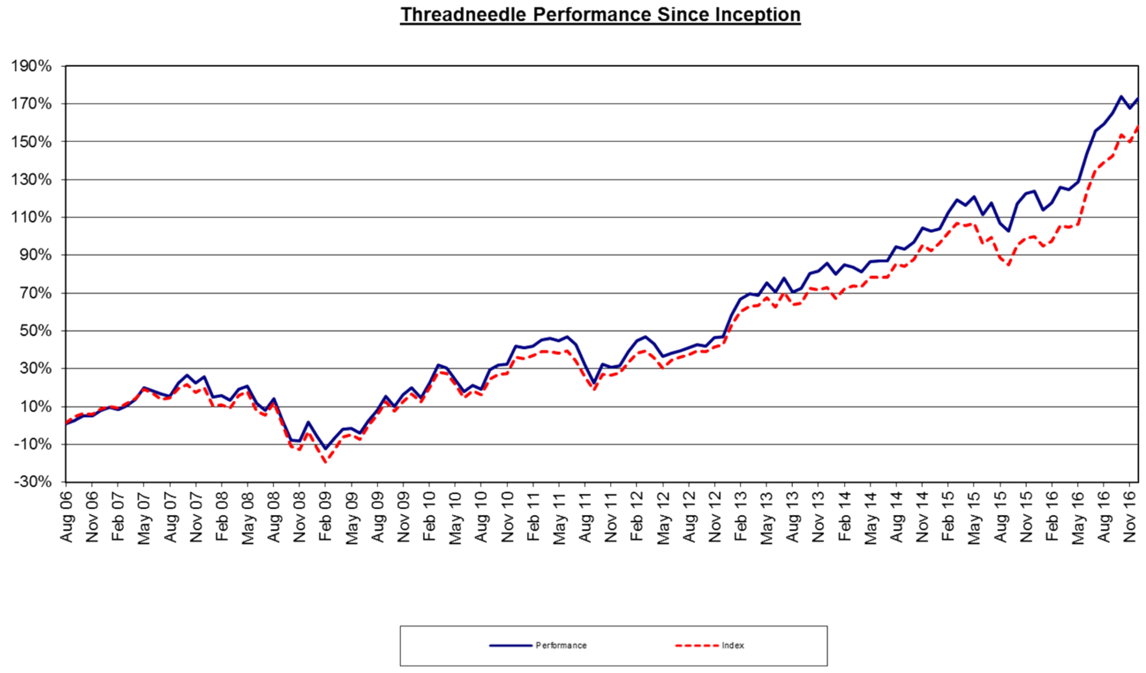
Portfolio Valuation

Value at 30.09.16	Value at 31.12.16
£110,601,734	£113,866,498

Performance

Threadneedle underperformed its benchmark in the quarter. Stock selection was the main detractor, despite financials being the best performer over the quarter, their selections in the sector weighed on relative returns, largely due to well performing stocks that Threadneedle didn't hold.

Threadneedle continue to focus on quality growth, seeking competitively advantaged businesses exposed to a secular growth story or ones that can deliver company led growth.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Threadneedle	3.0	22.0	13.8	15.7	10.1
MSCI ACWI	6.5	29.4	14.3	15.1	9.5
Relative Performance	(3.3)	(5.7)	(0.5)	0.5	0.5

* annualised, inception date 01/08/2006

Turnover

Holdings at 30.09.16	Holdings at 31.12.16	Turnover in Qtr %	Turnover in Previous Qtr %
84	88	6.4	8.1

Purchases and Sales

During the quarter Threadneedle initiated new positions in Micron Technology and Costco and exited their position in Bristol-Myers Squibb.

Top 5 Contributions to Return

JPMorgan Chase	0.66%
BB&T Corp	0.49%
Spirit Airlines	0.43%
Charles Schwab	0.42%
Micron Technology	0.32%

Bottom 5 Contributions to Return

Activision Blizzard	(0.30%)
Nintendo	(0.29%)
Anheuser-Busch	(0.25%)
Unilever	(0.24%)
Nielsen Holdings	(0.22%)

Top 10 Holdings

1	Alphabet	£3,658,888
2	JPMorgan Chase	£3,014,791
3	Amazon	£2,681,656
4	BB&T Corp	£2,449,957
5	Unilever	£2,332,547

6	Visa	£2,270,002
7	Activision	£2,256,755
8	Pfizer	£2,249,886
9	Mastercard	£2,191,310
10	Union Pacific	£2,167,698

Hymans Robertson View

Threadneedle have 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.

Risk Control

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

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

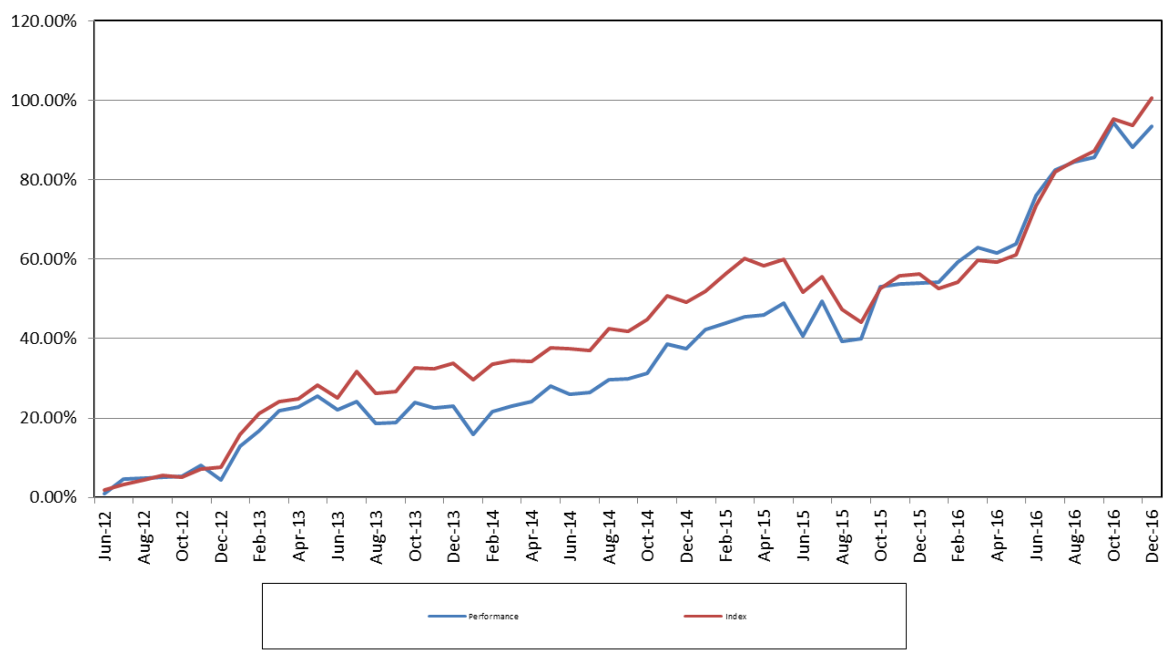
Portfolio Valuation

Value at 30.09.16	Value at 31.12.16
£158,690,970	£165,210,491

Performance

During the quarter, a decidedly risk-on period, Morgan Stanley Global Brands lagged the benchmark. This resulted in the portfolio ending the year with a positive return of 25.5% but relatively lagging the index return of 28.2%. The overweight position in Consumer Staples and the underweight in Financials hurt performance most, though not owning Healthcare was a positive.

Morgan Stanley Global Brands Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley Global Brands	4.1	25.5	16.3	N/A	15.5
MSCI World Index	7.1	28.2	14.5	N/A	16.4
Relative Performance	(2.8)	(2.1)	1.6	N/A	(0.8)

*annualised, inception date 18/06/2012

Purchases and Sales

During the quarter Morgan Stanley sold their holding in Japan Tobacco and significantly reduced their position in Reynolds American. No new positions were started during the quarter but Morgan Stanley added significantly to reckitt Benckiser.

Top 3 Contributions to Return

Microsoft	1.13%
SAP	0.62%
Visa	0.60%

Bottom 3 Contributions to Return

Reynolds American	0.45%
21st Century Fox	0.26%
Altria	0.22%

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 December 2016

Investment Process

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

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

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

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

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

Portfolio Valuation at 30th September 2016

Portfolio	**30.09.16 £**	**31.12.16 £**
Corporate Bond All Stocks Index Fund	68,193,938	66,383,698
Over 5 Years UK Index-Linked Gilt Index Fund	41,049,074	41,083,739
Overseas Bond Index Fund	28,521,202	26,477,489
Cash (residual)	10	10
Total	**137,764,224**	**133,944,936**

Performance

Over all periods the portfolio has slightly outperformed the benchmark.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	(2.8)	18.2	10.7	7.3	8.2
Composite Benchmark	(2.8)	18.1	10.5	7.2	8.1
Relative Performance	0.1	0.1	0.2	0.1	0.1

*annualised since inception 28/07/10

Hymans Robertson View

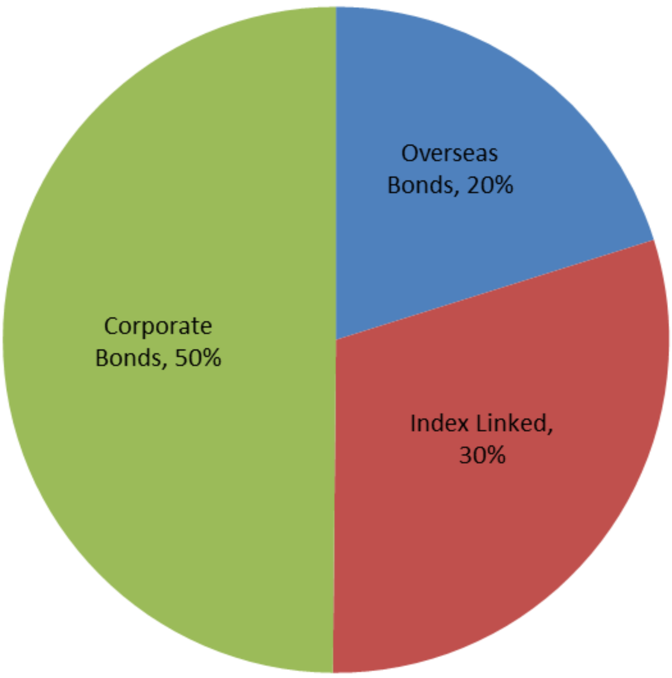
There were no significant developments within the Index Fixed Income team over the quarter; as such Hymans continue to rate Blackrock as one of their preferred passive fixed income managers.

Allocation

The target allocation between the three funds is:

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

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



Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report December 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 30.09.16	Value at 31.12.16
£212,351,228	£219,318,494

Performance

The portfolio returned 1.1% during the quarter. Most asset classes generated positive performance. Private equity drove absolute returns, followed by hedge funds and leverage finance (high yield and senior loans). Manager selection added to relative returns, while tactical decisions were muted for the quarter. During the quarter a further £20m was invested with Morgan Stanley when rebalancing the portfolio.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley	1.1	7.3	1.7	4.2	4.0
3 Month LIBOR + 4%	1.1	4.6	4.6	4.7	4.7
Relative Performance	0.0	2.6	(2.8)	(0.4)	(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;

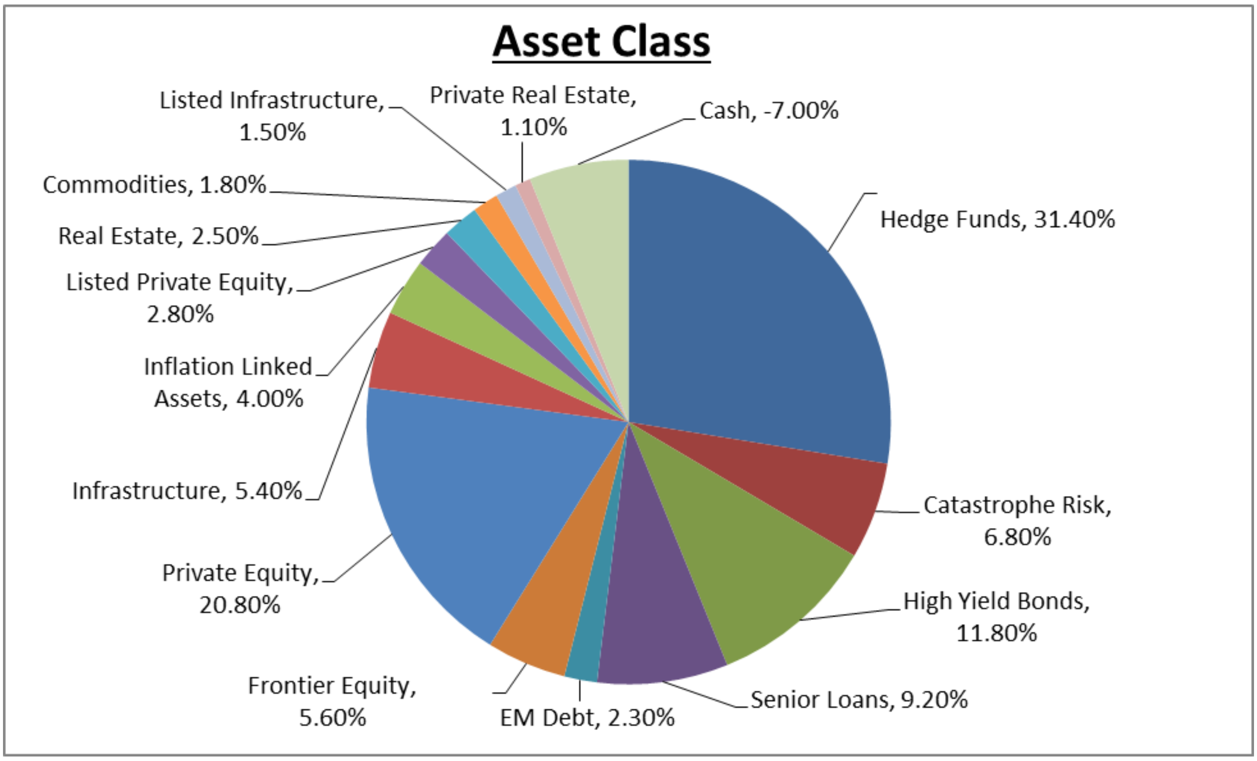
Alpha – These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.

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.

The chart below shows the investment position of the Morgan Stanley portfolio as at 31 December 2016.



Portfolio Positioning

As 2016 closed, the market narrative had completely changed. A couple of months ago, 2% represented a very bearish forecast for the 10-year U.S. Treasury. Now, markets are focusing on higher growth and higher inflation. Since the Republicans control both the executive and legislative branches, chances of infrastructure spending and tax cuts look much more likely than the previous base case – a Hillary Clinton presidency with a divided Congress. If Trump focuses on business-friendly reforms, such as a corporate tax cut, business confidence and capital expenditures could rebound, boosting productivity and growth. This, along with a better global economic environment and modest interest rate increases in 2017, should be supportive of global equities and negative for fixed income. On the other hand, Emerging Markets (EM) were negatively impacted by the protectionist aspect of Trump's rhetoric – spreads have widened and currencies, such as the Mexican peso, have sold off. Although China's economy seems to have stabilized, the rising threat of protectionism in advanced economies could cloud the outlook for global growth and EM economies relying on trade. As such, Morgan Stanley have taken a market by market and segment by segment approach, both in public and private EM markets, and will be looking for attractive entry points as valuations in many markets are more attractive relative to Developed Markets (DM). They believe we could be entering a period of not only higher growth and higher inflation, but also higher volatility. They see plenty of political risk events ahead – the aftermath of the Italian referendum, as well as elections in the Netherlands, France and Germany. 2016 has shown that people who are dissatisfied with the current order could actually be a silent majority. Thus, they think more shocks, such as from politics, could be a source of potential volatility ahead, supporting the case for diversification and alternative investments.

Hymans Robertson View

There were no significant changes over the quarter.

Risk Control

Portfolio volatility since inception is 3.92% within the guidelines specified by the mandate.

Conclusion

Over the quarter the Fund has produced a positive return of 2.98% which is behind the benchmark which returned 3.81%.

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 Nick Rouse, who can be contacted on 01522 553641 or nick.rouse@lincolnshire.gov.uk.

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**08 March 2017**
Subject:	**Lincolnshire Pension Fund - Funding Strategy Statement**

Summary:

This paper brings the Funding Strategy Statement to the Committee for approval. This statement sets out how the Pension Fund aims to become fully funded over the long term, whilst considering affordability, transparency, stability and prudence.

Recommendation(s):

That the committee approve the Funding Strategy Statement.

Background

1. The Funding Strategy Statement (FSS) (draft attached as appendix A) is a summary of the Pension Fund's approach to funding its liabilities. It is required to be reviewed at least every three years, alongside the triennial valuation.

2. As employees contributions are set by the Government, employers must pay the balance of any cost in delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded, and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities. The final agreed contribution rates for employers are shown in appendix B.

3. The purpose of the FSS, as defined by the Department for Communities and Local Government (CLG), is:

   - to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;

   - to support the regulatory framework to maintain as **nearly constant employer contribution rates as possible**; and

   - to take a **prudent longer-term view** of funding those liabilities.

4. The aim of this funding policy is:

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

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

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

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

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

5. A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

    1. What is a suitably (but not overly) prudent funding target?

    2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.

    3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

6. The FSS also includes mechanisms for dealing with employers ceasing, ill-health retirements and early retirement costs.

7. The key risks, around financial, demographic and governance issues, and the controls in place are detailed in appendix C of the FSS.

8. The FSS should to be read alongside the Triennial Valuation Report, the Investment Strategy Statement and the Governance Compliance Statement to provide a full overview of the Fund's governance structure.

9. The FSS was sent to all employers in the Fund for consultation on Thursday 9th February, providing them with an opportunity to raise any questions or comments ahead of this meeting. Employers will also be given an opportunity to ask for clarification at the employer's annual meeting, being held on Thursday 23rd March.

Conclusion

10. The Funding Strategy Statement has been reviewed following the 2016 Triennial Valuation and has been updated to take account of the process used to finalise employer 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 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	Lincolnshire Pension Fund - Draft Funding Strategy Statement
Appendix B	Employer Contribution Rates

Background Papers

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

Lincolnshire Pension Fund

DRAFT Funding Strategy Statement

February 2017

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DRAFT Funding Strategy Statement PAGE

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1 Introduction

1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers, investment adviser and approval by the Pensions Committee. It is effective from 31 March 2017.

1.2 What is the Lincolnshire Pension Fund?

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

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

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

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

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

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

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

1.6 How do I find my way around this document?

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

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund’s investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Jo Ray, Pension Fund Manager in the first instance at e-mail address jo.ray@lincolnshire.gov.uk or on telephone number 01522 553656.

2 Basic Funding issues

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

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

.

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

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

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;

- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;

- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**				**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**	**Designating Bodies**
Sub-type	**Local Authorities, Police and Crime Commissioner**	**Small Scheduled Bodies**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**	**Internal Drainage Board**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)				Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)	Ongoing, assumes long – term Fund participation (see Appendix E)
Primary rate approach	(see Appendix D – D.2)							
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	20 years	15 years	20 years	Outstanding term, subject to a maximum of 15 years	Outstanding term, subject to a maximum of 15 years	Outstanding contract term, subject to a maximum of 15 years	20 years
Secondary rate – Note (d)	Monetary amount (other than maintained schools where % of payroll)	% of payroll	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority					Preferred approach: contributions kept at	Preferred approach:

Type of employer	Scheduled Bodies				Community Admission Bodies and Designating Employers		Transferee Admission Bodies	Designating Bodies
	arrangement						Primary rate. However, reductions may be permitted by the Administering Authority to reduce the surplus over the remaining contract term	contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority
Probability of achieving target – Note (e)	66%	70%	75%	75%	75%	75%	75%	70%
Phasing of contribution changes	Covered by stabilisation arrangement	None	None	None	None	None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations						Particularly reviewed in last 3 years of contract	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations
New employer	n/a	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)	n/a
Cessation of	Cessation is assumed not to be generally possible, as				Can be ceased subject to		Participation is	Can be ceased

Type of employer	Scheduled Bodies	Community Admission Bodies and Designating Employers	Transferee Admission Bodies	Designating Bodies
participation: cessation debt payable	Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).	terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).	assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.	subject to passing of resolution. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation - see Note (j)

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the standard stabilisation arrangements that will apply for employers are as follows. Other stabilisation arrangements may, on occasion, be allowed if the actuary considers them to be prudent.

Type of employer	Local Authority Council	Police and Crime Commissioner Pool
Stabilisation Mechanism	Fixed % of pay plus increasing monetary amount	Fixed % of pay plus increasing monetary amount
Maximum contribution increase per year	+1% of pay	+1% of pay
Maximum contribution decrease per year	-1% of pay	-1% of pay

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

The Secondary contribution rate for each employer, covering the three year period until the next valuation, will normally be set as a monetary amount. However, the Administering Authority reserves the right to amend these rates between valuations.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor may pay the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund are as follows:

- Small scheduled bodies e.g. Town and Parish Councils (as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service).
- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- Academies will be regarded as separate employers in their own right and will not be pooled with other employers in the Fund, the only exception being when the Academy is part of a Multi Academy Trust (MAT).

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate. As at the 2016 valuation, separate pools were operated for:-

- Lincolnshire County Council;
- Police and Crime Commissioner for Lincolnshire;
- East Lindsey District Council;
- Lindsey Marsh Internal Drainage Board

- Small Scheduled Bodies;
- The following Multi Academy Trusts:-
    - David Ross Education Trust
    - Boston Witham Academies Trust
    - Phoenix Family of Schools
    - Priory Federation of Academies
    - Tall Oaks Academy Trust
    - West Grantham Federation.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

It is generally expected that such strain costs are paid immediately, however, in exceptional circumstances and with the agreement of the Administering Authority the payment may be spread.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general, an employer ceasing in the Fund due to the departure of the last active member will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and

- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

*"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in February 2017 for comment;

b) Comments were requested within 4 weeks, and answers provided;

c) There was an Employers Forum on 23 March 2017 at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and approved at the Pensions Committee meeting on 8 March 2017, then published before the month end.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at www.wypf.org.uk;

A copy sent by e-mail to each participating employer in the Fund;

A copy sent to the Pension Board;

A full copy included in the annual report and accounts of the Fund;

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.wypf.org.uk.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this

Risk	Summary of Control Mechanisms
	risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, monetary amounts to be continued to be paid rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate

Risk	Summary of Control Mechanisms
	contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular

Risk	Summary of Control Mechanisms
	intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;

5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

Until 31 March 2016 the Administering Authority did not account for each employer's assets separately. Instead, the Fund's actuary apportioned the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted until 31 March 2016 meant that there were inevitably some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment was capable of verification but not to audit standard. The Administering Authority recognised the limitations in the process, and while it considered that the Fund actuary's approach addressed the risks of employer cross-subsidisation to an acceptable degree, it decided to adopt a different apportionment approach going forward.

With effect from 1 April 2016, the Fund uses the Hymans Robertson Employer Asset Tracking model ("HEAT"), which apportions assets at individual employer level allowing for monthly cashflows per employer (e.g. contributions received, benefits paid out, investment returns, transfers in and out, etc). This revised approach gives a greater degree of accuracy, for employers' benefit.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is higher than that used at the 2013 valuation, which therefore gives a lower funding target, all other things being equal). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. retail prices index (RPI) p.a. thereafter.

This gives a single “blended” assumption of RPI less 0.6% p.a. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum. This is a larger reduction than at 2013 (which was 0.8% p.a.), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy by around 0.2 years on average, which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See

Appendix D for further details.

Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

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Employer code	Employer/Pool name	Contributions currently in payment 2016/17		Minimum Contributions for the Year					
				1 April 2017 to 31 March 2018		1 April 2018 to 31 March 2019		1 April 2019 to 31 March 2020	
				Primary rate	Secondary rate	Primary rate	Secondary rate	Primary rate	Secondary rate
	Major Employers								
	Lincolnshire County Council Pool including schools and Serco	19.7%	£1,161,000	16.4%	£7,557,000	16.4%	£9,158,000	16.4%	£10,835,000
Pool	East Lindsey District Council Pool comprising of								
	East Lindsey District Council	16.0%	£605,000	16.3%	£662,000	16.3%	£759,000	16.3%	£861,000
	Magna Vitae	16.0%	£161,000	16.3%	£161,000	16.3%	£165,000	16.3%	£169,000
Pool	Police and Crime Commissioner for Lincolnshire & G4S	19.9%	£634,000	16.3%	£948,000	16.3%	£1,102,000	16.3%	£1,265,000
902	West Lindsey District Council	17.1%	£595,000	16.2%	£704,000	16.2%	£782,000	16.2%	£863,000
904	City of Lincoln Council	16.9%	£1,136,000	16.0%	£1,389,000	16.0%	£1,562,000	16.0%	£1,743,000
905	Boston Borough Council	16.9%	£374,000	16.6%	£440,000	16.6%	£504,000	16.6%	£570,000
906	North Kesteven District Council	16.4%	£509,000	16.3%	£590,000	16.3%	£682,000	16.3%	£779,000
907	South Kesteven District Council	17.0%	£703,000	16.5%	£860,000	16.5%	£991,000	16.5%	£1,128,000
908	South Holland District Council	17.5%	£416,000	16.7%	£507,000	16.7%	£571,000	16.7%	£638,000
	Colleges & University								
523	BG Lincoln Ltd	18.0%	-	20.7%	£2,000	20.7%	£2,000	20.7%	£2,000
910	Bishop Grosseteste University	18.0%	£157,000	20.9%	£80,000	20.9%	£82,000	20.9%	£84,000
974	New College Stamford	20.7%	£25,000	20.6%	£62,000	20.6%	£63,000	20.6%	£65,000
975	Grantham College	19.4%	£128,000	21.0%	£83,000	21.0%	£86,000	21.0%	£88,000
977	Boston College	20.1%	£51,000	21.5%	£74,000	21.5%	£76,000	21.5%	£78,000
978	Lincoln College	21.1%	£583,000	22.3%	£435,000	22.3%	£446,000	22.3%	£457,000
	Internal Drainage Boards								
Pool	Lindsey Marsh Internal Drainage Board	22.4%	£100,000	17.5%	£25,000	17.5%	£26,000	17.5%	£26,000
911	Witham Third Internal Drainage Board	22.3%	£45,000	17.3%	6.7% plus £37,000	17.3%	6.7% plus £38,000	17.3%	6.7% plus £39,000
921	Black Sluice Internal Drainage Board	22.5%	£66,000	16.8%	£93,000	16.8%	£96,000	16.8%	£98,000
922	Witham Fourth Internal Drainage Board	23.7%	£80,000	18.0%	£87,000	18.0%	£90,000	18.0%	£92,000
923	Welland and Deeping Internal Drainage Board	21.4%	£72,000	17.7%	£118,000	17.7%	£121,000	17.7%	£125,000
924	South Holland Internal Drainage Board	28.7%	£16,000	18.3%	10.4% plus £100,000	18.3%	10.4% plus £100,000	18.3%	10.4% plus £100,000
926	Witham First Internal Drainage Board	24.3%	£8,000	19.3%	7.5% plus £5,000	19.3%	7.5% plus £5,000	19.3%	7.5% plus £5,000
927	Upper Witham Internal Drainage Board	24.7%	£26,000	18.4%	£55,000	18.4%	£56,000	18.4%	£58,000
932	North East Lindsey Internal Drainage Board	24.1%	£9,000	17.9%	£16,000	17.9%	£16,000	17.9%	£17,000
	Small Scheduled Bodies								
520	Billinghay Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
525	Bracebridge Heath Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
805	Crowland Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
806	Sudbrooke Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
807	Langworth Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
808	Cherry Willingham Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
810	Horncastle Town Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
812	Heighington Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
813	Skegness Town Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
816	Washingborough Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
819	Deeping St James Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
829	Market Deeping Town Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
839	Metheringham Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
841	Skellingthorpe Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
843	Greetwell Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
852	Woodhall Spa Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
853	Gainsborough Town Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
928	Stamford Town Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
935	Nettleham Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
936	Ingoldmells Parish Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
937	Louth Town Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
938	Mablethorpe and Sutton Town Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
941	N Hykeham Town Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
942	Sleaford Town Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
949	Bourne Town Council	26.3%	-	19.3%	2.3%	19.3%	2.3%	19.3%	2.3%
	Multi Academy Trusts								
	Education Development Trust								
502	Spalding Sir John Gleed School	20.9%	-	19.4%	£56,000	19.4%	£58,000	19.4%	£59,000
702	Gainsborough Benjamin Adlard Community School	20.9%	-	18.6%	-	18.6%	-	18.6%	-
706	Boston West Academy	20.9%	-	19.2%	-	19.2%	-	19.2%	-
887	Mount Street Academy	20.9%	-	17.6%	£10,000	17.6%	£10,000	17.6%	£11,000
893	Welland Academy, Stamford	20.9%	-	20.6%	-	20.6%	-	20.6%	-
897	The Deepings Academy	20.9%	-	19.7%	-	19.7%	-	19.7%	-
	Greenwood Academy Trust								
535	Beacon Primary Academy	20.9%	-	15.9%	-	15.9%	-	15.9%	-
724	The Skegness Junior Academy	20.9%	-	18.7%	£7,000	18.7%	£7,000	18.7%	£7,000
725	The Ingoldmells Academy	20.9%	-	18.7%	£4,000	18.7%	£4,000	18.7%	£5,000
730	Mablethorpe Primary Academy	20.9%	-	19.2%	£12,000	19.2%	£13,000	19.2%	£13,000
731	The Skegness Infant Academy	20.9%	-	18.1%	£11,000	18.1%	£11,000	18.1%	£11,000
860	Skegness Academy	20.9%	-	18.4%	£25,000	18.4%	£25,000	18.4%	£26,000
Pool	David Ross comprising of	20.9%	-	18.0%	£145,000	18.0%	£149,000	18.0%	£152,000
514	Splisby Eresby School								
528	Grantham Charles Read Academy								
540	Tattershall Barnes Wallis Academy								
727	Hogsthorpe Community Primary Academy								
728	Spilsby King Edward IV Academy								
729	Skegness Grammar Academy								
40111	Ingoldsby Academy								
40113	Thomas Middlecott Academy								
Pool	Tall Oaks Academy Trust comprising of	20.9%	-	18.5%	£9,000	18.5%	£9,000	18.5%	£9,000
736	Mercer's Wood Academy								
737	Whites Wood Academy								
40118	Castle Wood Academy (Gainsborough)								
	Academies								
500	Welton St Marys Church of England Primary Academy	21.9%	-	18.8%	£1,000	18.8%	£1,000	18.8%	£1,000
501	Boston High School	20.9%	-	18.6%	£20,000	18.6%	£20,000	18.6%	£21,000
503	Bracebridge Infant and Nursery School	20.9%	-	18.4%	-	18.4%	-	18.4%	-
504	Louth Cordeaux Academy	20.9%	-	18.4%	£25,000	18.4%	£25,000	18.4%	£26,000
505	Boston Grammar School	20.9%	-	18.4%	£6,000	18.4%	£7,000	18.4%	£7,000
506	Phoenix Family of Schools	20.9%	-	18.2%	-	18.2%	-	18.2%	-
509	Gipsey Bridge Academy	20.9%	-	19.9%	£4,000	19.9%	£4,000	19.9%	£4,000
510	Spalding Grammar School	20.6%	£38,000	19.6%	£26,000	19.6%	£26,000	19.6%	£27,000
701	Witham St Hughs Academy	20.9%	-	17.6%	£4,000	17.6%	£4,000	17.6%	£4,000
703	Washingborough Academy	20.9%	-	19.3%	-	19.3%	-	19.3%	-
704	Ruskington Chestnut Street C of E Primary School	20.9%	-	19.5%	£21,000	19.5%	£21,000	19.5%	£22,000
705	Long Bennington Church of England Academy	20.9%	-	19.7%	£6,000	19.7%	£6,000	19.7%	£6,000
707	Lincoln Manor Leas Infants School	20.4%	£5,000	19.3%	£2,000	19.3%	£2,000	19.3%	£2,000
708	Gainsborough Hillcrest Early Years Academy	20.9%	-	16.9%	0.2% plus £8,000	16.9%	0.2% plus £8,000	16.9%	0.2% plus £8,000
709	Rauceby Church of England Primary School	20.9%	-	19.6%	£5,000	19.6%	£6,000	19.6%	£6,000
710	Grantham National Church of England Junior School	21.6%	-	19.2%	£14,000	19.2%	£14,000	19.2%	£14,000
711	Harrowby Church of England Infant School	21.6%	-	18.6%	£4,000	18.6%	£5,000	18.6%	£5,000
712	Branston Junior Academy	20.9%	-	19.2%	£12,000	19.2%	£12,000	19.2%	£12,000
713	Woodhall Spa St Andrews Church of England Academy	24.2%	-	17.8%	6.4%	17.8%	0.5% plus £5,000	17.8%	0.5% plus £5,000

Employer code	Employer/Pool name	Contributions currently in payment 2016/17		Minimum Contributions for the Year					
				1 April 2017 to 31 March 2018		1 April 2018 to 31 March 2019		1 April 2019 to 31 March 2020	
				Primary rate	Secondary rate	Primary rate	Secondary rate	Primary rate	Secondary rate
714	Stamford St Gilberts Church of England Primary School	20.9%	-	18.6%	£7,000	18.6%	£8,000	18.6%	£8,000
715	Boston Witham Academies Federation	20.9%	-	17.7%	0.5% plus £54,000	17.7%	0.5% plus £55,000	17.7%	0.5% plus £57,000
716	North Hykeham Ling Moor Academy	20.9%	-	19.1%	£7,000	19.1%	£7,000	19.1%	£7,000
717	Kesteven and Grantham Academy	20.9%	-	19.1%	£35,000	19.1%	£36,000	19.1%	£37,000
718	Donington Thomas Cowley High School	20.5%	£33,000	19.0%	£27,000	19.0%	£27,000	19.0%	£28,000
719	Gainsborough Parish Church Academy	20.9%	-	18.5%	£12,000	18.5%	£12,000	18.5%	£13,000
720	Louth Kidgate Academy	20.9%	-	17.4%	£10,000	17.4%	£10,000	17.4%	£10,000
721	Scothern Ellison Boulters Church of England Academy	21.1%	£10,000	20.0%	£4,000	20.0%	£4,000	20.0%	£4,000
722	William Lovell Church of England Academy	20.9%	-	19.9%	£28,000	19.9%	£28,000	19.9%	£29,000
723	Horncastle Queen Elizabeth Grammar School	20.9%	-	18.9%	£21,000	18.9%	£22,000	18.9%	£23,000
726	Nettleham Infants School	20.3%	£10,000	19.1%	£6,000	19.1%	£7,000	19.1%	£7,000
733	Welbourn Sir William Robertson Academy	21.0%	£34,000	18.7%	£24,000	18.7%	£25,000	18.7%	£25,000
734	Little Gonerby Church of England Infants School	24.6%	-	19.6%	£5,000	19.6%	£5,000	19.6%	£5,000
735	Huttoft Primary School	20.9%	-	18.7%	-	18.7%	-	18.7%	-
738	Grantham the Phoenix School	20.9%	-	18.9%	£10,000	18.9%	£10,000	18.9%	£11,000
850	Priory Federation of Academies	19.0%	£7,000	18.2%	-	18.2%	-	18.2%	-
851	The Gainsborough Academy	19.1%	£14,000	18.8%	-	18.8%	-	18.8%	-
856	Sleaford St Georges Academy	22.5%	-	19.1%	-	19.1%	-	19.1%	-
863	West Grantham Federation	21.6%	-	18.6%	£11,000	18.6%	£11,000	18.6%	£11,000
864	Giles Academy	20.9%	-	17.4%	£5,000	17.4%	£6,000	17.4%	£6,000
865	Alford Queen Elizabeth Selective Academy	21.1%	-	19.5%	-	19.5%	-	19.5%	-
866	Caistor Grammar	20.9%	-	18.7%	£1,000	18.7%	£1,000	18.7%	£1,000
867	Branston Community Academy	20.9%	-	19.1%	1.8%	19.1%	-	19.1%	-
868	Bourne Abbey C of E Academy	20.3%	£7,000	19.0%	£3,000	19.0%	£3,000	19.0%	£3,000
869	Welton William Farr CE Comprehensive School	22.7%	-	19.2%	£47,000	19.2%	£48,000	19.2%	£49,000
870	Grantham Walton Girls	20.1%	-	19.8%	£11,000	19.8%	£11,000	19.8%	£11,000
871	Lincoln Castle Academy	21.2%	-	19.4%	£17,000	19.4%	£17,000	19.4%	£18,000
872	Market Rasen De Aston School (Academy)	20.7%	£24,000	18.8%	£3,000	18.8%	£3,000	18.8%	£3,000
873	Tower Road Academy (Primary)	27.2%	-	19.5%	£16,000	19.5%	£17,000	19.5%	£17,000
874	Fosse Way Academy	20.9%	-	19.0%	£9,000	19.0%	£9,000	19.0%	£10,000
875	North Kesteven School	20.9%	-	18.7%	£62,000	18.7%	£63,000	18.7%	£65,000
876	Sir Robert Pattinson Academy	22.0%	-	18.8%	£21,000	18.8%	£21,000	18.8%	£22,000
877	John Spendluffe Technology College	23.1%	-	18.8%	£25,000	18.8%	£25,000	18.8%	£26,000
878	Sleaford Carres Grammar School (Academy)	20.9%	-	19.3%	£28,000	19.3%	£29,000	19.3%	£30,000
879	Grantham Kings School	21.3%	-	19.9%	£12,000	19.9%	£13,000	19.9%	£13,000
880	Heighington Millfield Primary Academy	20.9%	-	18.9%	£3,000	18.9%	£3,000	18.9%	£3,000
881	Ermine Primary Academy	20.9%	-	18.5%	£8,000	18.5%	£9,000	18.5%	£9,000
882	Caistor Yarborough Academy	20.9%	-	17.9%	£9,000	17.9%	£9,000	17.9%	£9,000
883	Bourne Academy	22.8%	-	19.4%	£22,000	19.4%	£23,000	19.4%	£23,000
884	Lincoln Westgate Academy	27.0%	-	18.4%	£6,000	18.4%	£6,000	18.4%	£6,000
885	Lincoln Christs Hospital School (Academy)	20.9%	-	19.5%	£29,000	19.5%	£30,000	19.5%	£30,000
886	University Academy Holbeach	21.0%	£60,000	19.1%	£38,000	19.1%	£39,000	19.1%	£40,000
888	Sleaford William Alvey	22.4%	-	18.9%	£4,000	18.9%	£4,000	18.9%	£4,000
890	Hartsholme Academy	20.9%	-	16.1%	£5,000	16.1%	£5,000	16.1%	£5,000
891	Kesteven & Sleaford High School Selective Academy	26.2%	-	19.0%	£17,000	19.0%	£17,000	19.0%	£18,000
892	Bourne Westfield Primary Academy	20.9%	-	19.5%	£8,000	19.5%	£9,000	19.5%	£9,000
894	Stamford Malcolm Sargent Primary	20.9%	-	18.5%	-	18.5%	-	18.5%	-
895	Bourne Grammar	21.1%	£43,000	19.0%	£30,000	19.0%	£30,000	19.0%	£31,000
896	St. John's Primary Academy	20.9%	-	18.8%	£15,000	18.8%	£16,000	18.8%	£16,000
508	Manor Leas Junior	20.9%	-	18.9%	£6,000	18.9%	£6,000	18.9%	£6,000
513	Grantham Huntingtower Community Primary Academy	20.9%	-	17.9%	3%	17.9%	3%	17.9%	3%
515	St Peter and St Paul Catholic Voluntary Academy	20.9%	-	19.1%	£15,000	19.1%	£15,000	19.1%	£16,000
516	Lincoln Our Lady of Lincoln Catholic Primary School	20.9%	-	18.8%	£2,000	18.8%	£2,000	18.8%	£2,000
517	Sleaford Our Lady of Good Counsel	20.9%	-	17.9%	-	17.9%	-	17.9%	-
518	Lincoln St Hugh's Catholic Primary School	20.9%	-	19.0%	£7,000	19.0%	£8,000	19.0%	£8,000
519	Stamford St Augustines	20.9%	-	18.8%	£3,000	18.8%	£3,000	18.8%	£3,000
521	Utterby Primary School	20.9%	-	19.5%	£1,000	19.5%	£1,000	19.5%	£1,000
522	North Thoresby Primary School	20.9%	-	18.6%	-	18.6%	-	18.6%	-
524	Acorn Free School	20.9%	-	16.5%	-	16.5%	-	16.5%	-
526	Carlton Academy	20.9%	-	17.6%	-	17.6%	-	17.6%	-
527	Kirkby La Thorpe	20.9%	-	19.4%	£1,000	19.4%	£2,000	19.4%	£2,000
532	Wainfleet Magdalene C of E Academy	20.9%	-	18.5%	£16,000	18.5%	£16,000	18.5%	£16,000
536	Weston St Marys Primary School	20.9%	-	16.3%	£1,000	16.3%	£1,000	16.3%	£1,000
537	Grantham Sandon School	20.9%	-	18.5%	£30,000	18.5%	£30,000	18.5%	£31,000
538	Grantham Ambergate School	20.9%	-	18.0%	£25,000	18.0%	£26,000	18.0%	£27,000
539	Holbeach Academy	20.9%	-	17.2%	£9,000	17.2%	£10,000	17.2%	£10,000
542	Lincoln UTC	20.9%	-	17.6%	-	17.6%	-	17.6%	-
543	Lincoln St Giles Academy	20.9%	-	18.2%	£28,000	18.2%	£28,000	18.2%	£29,000
545	Grantham Isaac Newton Primary School	20.9%	-	19.3%	£12,000	19.3%	£13,000	19.3%	£13,000
40109	Horncastle Bannovallum	20.9%	-	18.4%	£36,000	18.4%	£37,000	18.4%	£38,000
40112	Keelby Primary Academy	20.9%	-	19.7%	£11,000	19.7%	£11,000	19.7%	£11,000
40114	Lincoln Anglican Academy Trust	20.9%	-	16.4%	-	16.4%	-	16.4%	-
40115	Somercotes Academy	20.9%	-	18.5%	£27,000	18.5%	£27,000	18.5%	£28,000
40116	King Edward VI Grammar School (Louth)	20.9%	-	19.0%	£42,000	19.0%	£43,000	19.0%	£44,000
40117	St Lawrence School (Horncastle)	20.9%	-	17.2%	£29,000	17.2%	£30,000	17.2%	£30,000
40119	St Bernards School (Louth)	20.9%	-	19.0%	£56,000	19.0%	£58,000	19.0%	£59,000
40120	Aegir Specialist Academy	20.9%	-	19.0%	£34,000	19.0%	£34,000	19.0%	£35,000
40121	Warren Wood Specialist Academy	20.9%	-	19.5%	£32,000	19.5%	£33,000	19.5%	£34,000
40122	The John Fielding Special School, Boston	20.9%	-	17.9%	£27,000	17.9%	£27,000	17.9%	£28,000
40123	The Garth School, Spalding	20.9%	-	18.2%	£23,000	18.2%	£23,000	18.2%	£24,000
40124	The Priory School, Spalding	20.9%	-	18.4%	£18,000	18.4%	£19,000	18.4%	£19,000
	Admission Bodies								
815	New Linx Housing Trust	21.9%	£427,000	26.0%	£626,000	26.0%	£642,000	26.0%	£659,000
817	ACIS Group Ltd	23.6%	£100,000	25.8%	£209,000	25.8%	£214,000	25.8%	£220,000
818	Boston Mayflower	22.1%	£135,000	26.2%	£110,000	26.2%	£113,000	26.2%	£115,000
826	Active Nation	23.9%	£2,000	26.9%	£6,000	26.9%	£6,000	26.9%	£6,000
832	Lincolnshire Sports	20.3%	£9,000	21.9%	£3,000	21.9%	£3,000	21.9%	£3,000
833	Adults Supporting Adults	19.6%	-	29.1%	-	29.1%	-	29.1%	-
834	Lincs Home Independence Agency	21.3%	£8,000	23.8%	£8,000	23.8%	£9,000	23.8%	£9,000
858	Keir	25.3%	£24,000	26.3%	-	26.3%	-	26.3%	-
859	Lincoln Business Improvement Group	21.0%	-	23.4%	-1.1%	23.4%	-1.1%	23.4%	-1.1%
861	Compass Point	18.8%	£80,000	21.8%	-	21.8%	-	21.8%	-
862	Lincoln Arts Trust	21.1%	-	25.6%	-	25.6%	-	25.6%	-
889	Edwards and Blake Ltd	21.4%	-	25.9%	£5,000	25.9%	£5,000	25.9%	£5,000
20027	Making Space	20.4%	-	22.0%	-	22.0%	-	22.0%	-
20030	Vinci Construction UK Limited	30.2%	-	28.8%	-	28.8%	-	28.8%	-

Further comments

Ill health liability insurance

Note that, if an employer has ill health liability insurance in place with a suitable insurer and provides satisfactory evidence to the Administering Authority, then their Minimum Total Contribution Rate may be reduced by their insurance premium, for the period the insurance is in place.

Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**08 March 2017**
Subject:	**Lincolnshire Pension Fund - Investment Strategy Statement**

Summary:

This paper brings the Investment Strategy Statement to the Committee for approval.

Recommendation(s):

That the committee approve the Investment Strategy Statement.

Background

1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 required an Investment Strategy Statement (ISS) (draft attached as appendix A) to be produced by all Local Government Pension Schemes by the 1st April 2017. The ISS is to replace the Statement of Investment Principles and is required to be reviewed at least every three years.

2. Section 7 of the regulations states that:

   (1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.

   (2) The authority's investment strategy must include —
   (a) a requirement to invest fund money in a wide variety of investments;
   (b) the authority's assessment of the suitability of particular investments and types of investments;
   (c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;
   (d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

(e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

(3) The authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

*(4) The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(**d**).*

(5) The authority must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.

(6) The authority must publish a statement of its investment strategy formulated under paragraph (1) and the first such statement must be published no later than 1st April 2017.

(7) The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

(8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

3. In the preparation of the ISS, officers used a template prepared by the Fund's Consultant, Hymans Robertson, and worked with other Funds who are part of the Border to Coast Partnership. This has ensured consistency between Funds in their ISS regarding the approach to pooling.

4. The ISS has been produced to ensure that all required areas of the guidance have been included.

5. The ISS was sent to all employers in the Fund and members of the Pension Board for consultation on Wednesday 22nd February, providing them with an opportunity to raise any questions or comments ahead of this meeting. Employers will also be given an opportunity to ask for clarification at the employer's annual meeting, being held on Thursday 23rd March.

Conclusion
The Investment Strategy Statement has been prepared following the guidance outlined above for approval by the Pensions Committee.

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	Investment Strategy Statement

Background Papers

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

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INVESTMENT STRATEGY STATEMENT

INTRODUCTION

The Lincolnshire Pension Fund ("the Fund"), which is administered by Lincolnshire County Council ("the Administering Authority"), is required to maintain an Investment Strategy Statement ("ISS") in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The Administering Authority has delegated all its functions as administering authority to the Pensions Committee ("the Committee"). The ISS has been agreed by the Committee having taken advice from the Investment Consultant and Pension Fund Manager.

The ISS, which was approved by the Committee on 8th March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Fund is also required to maintain a Funding Strategy Statements ("FSS") in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended). The FSS for the Fund has been revised to take into account the results of the actuarial valuation, effective 1 April 2017. The FSS, which was approved by the Pensions Committee on 8th March 2017, complies with these Regulations.

INVESTMENT STRATEGY

The primary objective of the Fund is to provide pension benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Committee aims to fund the benefits in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed and final salary (pre 1 April 2014) and/or the accumulation of individual years built up through the career average pension scheme (post 1 April 2014) and will take account of future inflation increases. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment of money in a wide variety of investments

It is the Pensions Committee's policy to invest the assets of the Lincolnshire Pension Fund to spread the risk by ensuring a reasonable balance between different categories of investments. The Pensions Committee takes a long term approach to investment and invests in asset classes and individual investments that are expected to generate an attractive risk-adjusted return for the Pension Fund.

The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives, either directly or through pooled investments. The Fund may also make use of derivatives, either directly or in pooled investments, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund's strategic asset allocation is set out below. The table also includes the ranges within which the asset allocation may vary without reference to the Pensions Committee, and the maximum percentage of total Fund value that can be invested in these asset classes. The asset allocation is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments, whilst taking account of market risk and the nature of the Fund's liabilities.

Asset class	Strategic allocation	Range	Maximum
Equities	60%	+/- 6%	66%
UK equities	20%	+/- 2%	22%
Global equities	40%	+/- 5.5%	45.5%
Alternatives	15%	+/- 1.5%	16.5%
Property	9%	+/- 1.5%	10.5%
Infrastructure	2.5%	+/- 1.5%	4%
Fixed Income	13.5%	+/- 1.5%	15%
Cash	0%	+/- 0.5%	0.5%

The Regulations do not permit more than 5% of the Fund's value to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e). The investment policy of the Fund does not permit any employer-related investment, other than is necessary to meet the regulatory requirements with regards to pooling.

The Pensions Committee believes that the Fund's portfolio is adequately diversified, and has taken professional advice to this effect from their investment consultant and independent advisor.

The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Pensions Committee will be informed and the Fund's officers will endeavour to bring the asset allocation back within the range within an appropriate period of time.

The Pensions Committee reviews the suitability of the asset allocation of the Fund on a quarterly basis, following advice from the officers, investment consultant and independent advisor.

It is intended that the Fund's investment strategy will be reviewed at least every three years, following the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position.

The Pensions Committee has set the following benchmark against which performance of the Fund will be measured:

Asset class	Benchmark
Equities	
UK Equities	FTSE All Share
Global Equities (ex UK)	MSCI World ex UK Index
Global Equities	MSCI All Countries World Index
Bonds and Cash	
UK Gilts Over 5 Years	FTSE UK Gilts Index-Linked Over 5 Years Index
Corporate Bonds	iBoxx £ Non-Gilts Index
All Stocks UK Gilt Index Fund	FTSE UK Gilts Index-Linked All Stocks Index
Corporate Bonds up to 5 Years	iBoxx Sterling Non-Gilts 1-5 Year Index
Cash	LIBID 7 Day
Property	
Property Venture	7% Per Annum
Property Unit Trusts	UK IPD Monthly Index
Infrastructure	6% Per Annum
Alternatives	LIBOR 3 Months + 4%

The suitability of particular investments and types of investments

The actuarial valuation, at 31 March 2016, was prepared on the basis of an expected real return on assets of 1.8% over the long term, a nominal return of 4.0% assuming inflation (CPI) to be 2.2%. The Pensions Committee has set the investment objective of producing a long term return of 0.75% p.a above the strategic benchmark.

In order to monitor the investment objective, the Pensions Committee requires the provision of detailed performance measurement of the Fund's investments. This is provided by the Fund's custodian, JPMorgan, on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of each of its investment managers.

The approach to risk

The Committee is aware that the Fund has a need to take risk to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below:

Risk	Description	Mitigants
Market	Value of an investment decreases as a result of changing market conditions.	Strategic asset allocation, with suitable diversification and appropriate ranges, determined on a triennial basis. The Committee has put in place rebalancing arrangements to ensure the Funds actual allocation does not deviate substantially from its target.
Performance	The Fund's investment managers fail to deliver returns in line with the underlying asset classes.	Analysis of market performance and investment managers' performance relative to their index benchmark on a quarterly basis. Investment Mangers present to the Committee on an annual basis.
Valuation	Valuations disclosed in the financial statements, particularly for unquoted investments, are not reflective of the value that could be achieved on disposal.	The valuation of investments is derived using a conservative valuation methodology and, where applicable, market observable data.
Liquidity	The Fund is not able to meet its financial obligations as they fall due or can do so only at an excessive cost.	The Fund maintains sufficient liquid funds at all times to ensure that it can meet its financial obligations.
Interest rate	A change in interest rates will result in a change in the valuation of the Fund's assets and liabilities.	The Fund regularly monitors its exposure to interest rates, and may consider hedging where appropriate.
Foreign exchange	An adverse movement in foreign exchange rates will impact on the value of the Fund's investments.	The Fund regularly monitors its foreign exchange exposure.
Demographic	Changes, such as increased longevity or ill-health retirement, will increase the value of the Fund's liabilities.	Demographic assumptions are conservative, regularly monitored, and reviewed on a triennial basis.

Regulatory	Changes to regulations and guidance may increase the cost of administering the Fund or increase the value of the Fund's liabilities.	The Fund ensures that it is aware of any actual or potential changes to regulations and guidance and will participate in consultations where appropriate.
Governance	The administering authority is unaware of changes to the Fund's membership which increases the value of its liabilities.	The Fund regularly monitors membership information and communicates with employers.

Approach to pooling investments

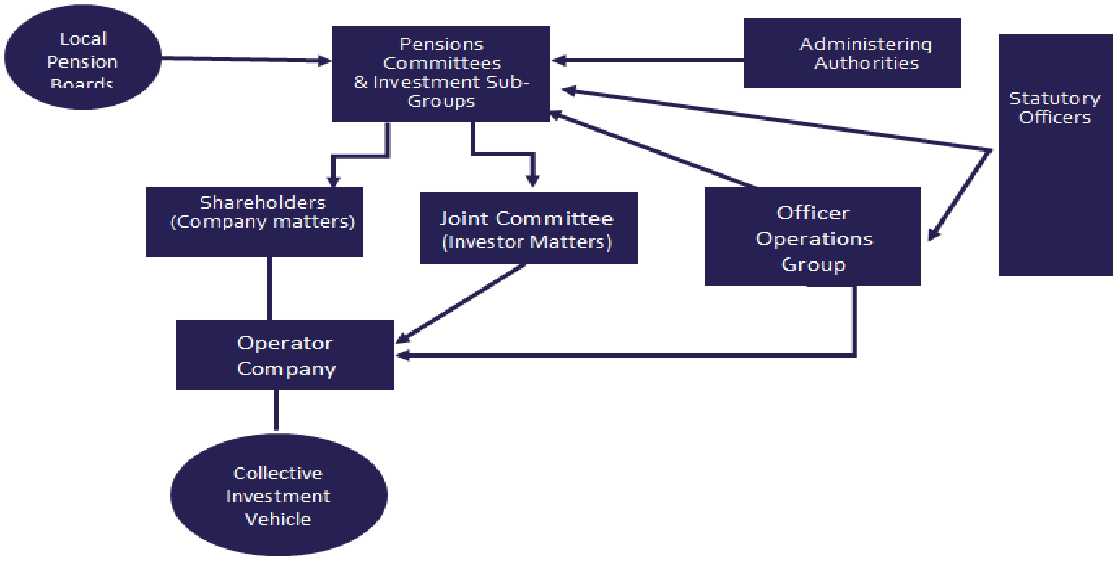
In order to satisfy the requirements of the "Local Government Pension Scheme: Investment Reform and Guidance" issued by the Department for Communities and Local Government ("DCLG") in November 2015, the Pension Fund has elected to become a shareholder in Border to Coast Pensions Partnership (BCPP) Limited. BCPP Limited will be an FCA-regulated Operator and Alternative Investment Fund Manager ("AIFM").

BCPP is a partnership of the administering authorities of the following LGPS Funds:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- South Yorkshire Passenger Transport Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The partner Funds submitted their proposal to Government on 15th July 2016 and have received written confirmation from the Minister to confirm that the proposal meets the criteria laid down in the guidance issued in November 2015.

The proposed governance structure of BCPP is as follows:



The Fund will hold BCPP to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of BCPP Limited.
- A representative on the Joint Committee who will monitor and oversee the investment operations of BCPP Limited.
- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.

The Pension Fund will retain the decision making powers regarding asset allocation and will delegate the investment management function to BCPP Limited.

It is anticipated that a significant proportion of the Fund's investments will be made through BCPP Limited. Where it is not practical or cost effective for assets to be transferred into the pool, they will continue to be managed at the Fund level. This is expected to predominantly include unquoted investments such as limited partnerships. Whilst these assets are unlikely to be transferred, it is expected that once these investments mature the proceeds will be reinvested into BCPP. At the current time it is estimated that c. 66% of the Fund's assets will be invested in BCPP subject to it having suitable management arrangements in place.

The Fund will perform an annual review of assets that are determined to be held outside to ensure that it continues to demonstrate value for money. Following this review it will submit a report on the progress of asset transfers to the Scheme Advisory Board, in line with the guidance.

Approach to environmental, social and corporate governance (ESG) factors

The Fund considers itself to be a responsible investor and take ESG matters very seriously and monitors investment managers' approach to ESG.

All of the Fund's investment managers consider that ESG factors can have a material impact on an investments financial return. As a result, ESG factors are fully incorporated into their respective investment processes.

The Fund's external Investment Managers also consider the impact of climate change risks and opportunities in the investment process to engage with companies in which they invest to ensure that they are minimising the risks and maximising the opportunities presented by climate change and climate policy. External investment managers are required to report quarterly on their engagement activity.

The Fund does not hold any investments that it deems to be social investments.

The Fund will take non-financial considerations into account when making investments, but not where it is considered to have a detrimental financial impact.

The Fund has not excluded any investments on purely non-financial considerations and will continue to invest in accordance with the Regulations in this regard.

It is considered that the Pensions Committee represents the views of the Fund membership and that the views of the Local Pension Board will be taken into account as part of their review of this document.

The exercise of rights attaching to investments (including voting rights)

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

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

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

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

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

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

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

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

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

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

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

Principle 3 - Institutional investors should monitor their investee companies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Compliance and monitoring

The investment managers are required to adhere to the principles set out in this Investment Strategy Statement. The Pensions Committee will require an annual written statement from the investment managers that they have adhered to the principles set out in this statement.

The Investment Strategy Statement of the Lincolnshire Pension Fund will be reviewed by the Pensions Committee at least every 3 years and more regularly if considered appropriate.

Approved by Lincolnshire Pension Committee ……………………………………

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**08 March 2017**
Subject:	**Asset Pooling Update**

Summary:

This paper updates the Pensions Committee on the latest activity with the asset pooling requirements.

Recommendation(s):

That the Committee note the report and give consideration to the communications on scheme member representation on the BCPP Joint Committee.

Background

1. As previously reported, Border to Coast Pensions Partnership (BCPP) received approval from the Government for their asset pooling proposal in December 2016. This has enabled the project to continue to work towards the Government's deadline of April 2018.

2. Members received a presentation at the January Committee detailing the governance structure of BCPP, and how the Committee would be able to hold the pool to account for the management of its investments.

3. The paragraphs below update the Committee on progress on pooling since the January Committee.

Member Steering Group

4. A meeting of the Member Steering Group (MSG) was held on 31st January in York. Papers from the meeting were circulated to all Committee and Board members on 8th February for information.

5. The January meeting agenda items were:

- Update on Phase 3 project delivery, including high level risk register
- Governance workstream update

- Progress of Individual Authority Approvals including legal documentation; future governance structures and implementation timetable
- Update and Advice from Squire Patton Boggs Legal Advisor Appointed to the Administering Authorities on progress and next steps

- Operating model workstream - Update on advisor selection processes and Asset Template Progress
- People workstream
  - Update on work towards securing location, pensions guarantee
  - Update on Executive Search and Remuneration
- Feedback from Officers from the BCPP on National Working Groups

6. The next meeting of the MSG is arranged for 24th March 2017.

Senior Officers Group (SOG)

7. Since the last update report, there have not been any meetings of the Senior Officers Group (SOG), which is made up of the Funds S151 and Legal/Monitoring officers. However they have been involved in reviewing and agreeing the papers to go to the Full Council meetings of each Fund, and also in the Executive remuneration discussions.

8. Two S151 Officers from the partner Funds now work alongside the workstream Member sub-groups and attend the MSG meetings.

9. The next SOG meeting is arranged for 3rd April in Northallerton.

Officer Operations Group (OOG) and Project team

10. The Officer Operations Group (OOG) has continued to meet regularly, however the majority of the work has now passed to the project team that are managing the various workstreams.

11. The project team now have a dedicated office in Northallerton, at the North Yorkshire Council offices.

Full Council's Approvals

12. The two Legal Advisors appointed to work on behalf of the Funds and BCPP have completed the drafting of 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. David Coleman, Head of Legal Services, was heavily involved in agreeing the final documents, to ensure that they were fit for purpose for Lincolnshire County Council.

13. A briefing note was sent to all County Councillors on 15th February, in advance of the papers for Full Council being sent out for Lincolnshire's

meeting on 24th February. This provided background to the paper tabled, and offered Councillors the opportunity to ask questions or receive a more detailed briefing ahead of the Council meeting. The briefing note is attached at appendix A. The full Council report and appendices (90 pages) can be found on the Council's website.

14. The Council was asked to approve the recommendations in the paper at its meeting, as set out below:

That the Council as administering authority of the Lincolnshire Local Government Pension Fund:

1) approve the adoption of Border to Coast Pensions Partnership (BCPP) Pooling Arrangement as the Councils chosen approach to meet the requirement to pool assets in the LGPS;

2) approve inclusion within the Lincolnshire LGPS Investment Strategy Statement of the BCPP Pooling Arrangement as the Council's approach to pooling investments in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the Guidance on Preparing and Maintaining an Investment Strategy Statement;

3) approve the subscription by the Council as administering authority for 1 class A voting share in Border to Coast Pensions Partnership Limited;

4) appoint the Executive Director for Finance and Public Protection to exercise the Council’s rights as a shareholder in Border to Coast Pensions Partnership Limited on behalf of the Council as the administering authority of the Lincolnshire Local Government Pension Fund;

5) approve the subscription by the Council as administering authority for such number of class B non-voting shares in the Border to Coast Pensions Partnership Limited as shall be necessary to ensure that the Lincolnshire LGPS contributes by way of equity one twelfth of the minimum regulatory capital requirement of the company as determined in accordance with the requirements of the company's regulators;

6) approve the entering into of a Shareholder Agreement between the Council and the Administering Authorities of the other Pool Funds and the company generally in the form attached at Appendix E and described within the Report;

7) approve the entering into of an Inter-Authority Agreement between the Council and the Administering Authorities of the Partner Funds generally in the form attached at Appendix C and described within the Report;

8) approves the establishment as a formal Joint Committee under section 102 of the Local Government Act 1972 of the Border to Coast Pensions Partnership Joint Committee in accordance with and to carry out the functions set out in the Inter-Authority Agreement;

9) appoint the Chairman (or Vice Chairman in their absence) of the Pension Committee to represent the Council on behalf of Lincolnshire Local Government Pension Scheme on the Border to Coast Pensions Partnership Joint Committee;

10) approve the changes to the Constitution set out in Appendix D this Report to enable Lincolnshire to be a partner on the Border to Coast Pensions Partnership Joint Committee and undertake all Fund activities in regards to being an investor in Border to Coast Pensions Partnership Limited in its capacity as an Asset Management Company;

11) authorise the Executive Director for Finance and Public Protection in consultation with the Chairman of the Pensions Committee to finalise the approval and execution, where required, of all legal documents necessary to give effect to the above decisions including the Articles of Association of Border to Coast Pensions Partnership Limited, the Shareholder Agreement and the Inter-Authority Agreement

15. The expectation is that all Funds in BCPP will have full approval by the end of March 2017, to enable the Joint Committee to have its first meeting on 25th April.

Workstreams

16. In order to meet the Government's imposed deadline of April 2018, a detailed project plan has been created and is updated as the project progresses. Within this plan, three workstreams have been identified and dedicated resource has been approved across some of the partner funds. Updates on each of the workstreams are shown below.

Operator Model

17. Since the last update report, the Tax and Financial Service Advisor tender have been completed and Deloittes appointed.

18. The tender for the Operator and Regulatory Model Advisor was issued on 16th February, with a closing date of 10th March. The submissions will be evaluated by the project team on 15th and 16th March, and a recommendation for appointment taken to the MSG on 24th March.

19. In order to progress the operator workstream as quickly as possible once the advisor has been appointed, a meeting has been diarised with Deloittes, Eversheds and the appointed operator advisor in early April.

People

20. Since the last update report, the Executive Search and Remuneration Advisor tender has been completed and Odgers Berndtson appointed. The advisor will assist with the recruitment and appointments of the three executive posts that will be on the company's Board. This is the Chief Executive Officer (CEO), Chief Investment Officer (CIO) and Chief Operating Officer (COO), and the three non-executive posts of Chair and two Non-Executive Directors (NED's). In addition, due to the specialist nature of the role, the Advisor will also assist in the recruitment and appointment of the Compliance Officer. These posts are expected to be appointed by early summer 2017.

21. Another key area for this workstream is setting up the company office. An advisor will be appointed to provide assistance in finding an appropriate location and negotiating a suitable lease and terms.

Governance and Monitoring

22. As detailed at paragraph 12 above, the documents required to get all Fund's approvals to join BCPP has been completed. The expectation is that approval for the final details within the various documents (e.g. shareholder agreement approval levels) will be delegated by each Council to Officers to agree, and they will be signed off at the first meeting of the Joint Committee.

23. Work will continue with the legal advisors and the Funds to ensure that all partners are satisfied with the documents, from both a client and a shareholder viewpoint.

Asset Structuring

24. No further work has been done on the asset structuring since the last update in January. However, all pools are working collaboratively with the National Frameworks group to create a framework for transition managers, which all Funds and pools will be able to use.

Cross Pool Collaboration Group (CPCG)

25. The Cross Pool Collaboration Group (CPCG) continues to meet monthly and share information and progress. The group invited the FCA to the January meeting to discuss the issues and concerns with the implementation of MiFID II in its current format (which was explained at the January Committee meeting). This was very productive and it is expected that the FCA will amend their requirements to assist Local Authority Pension Funds opting up to professional investor status.

BCPP Budget

26. The project spend to 22nd January was shown in the MSG papers on p14. The budget is reported at each MSG and is monitored by the OOG at each meeting.

Scheme Member Representation

27. The Chair of the South Yorkshire Pension Fund has contacted all of the Chairs of the partner Funds to raise their concerns about the lack of scheme member representation on the oversight body for BCPP, the Joint Committee. This followed the discussion at the December MSG meeting, where one of the recommendations put to the MSG was "Members to decide whether up to two non-voting scheme member positions should be created on the Joint Committee". The minutes below show the decision that the twelve Chairs made:

7.0 Joint Committee Representation

7.1 The report sought direction on the proposed membership of the Joint Committee other than for partner Funds elected Member representation e.g. scheme member/union representation, employer representation and independent advisor positions.

7.2 After lengthy discussions, especially around scheme member representation and an independent advisor position, the following recommendations were agreed:

1. Any additional attendees of the Joint Committee beyond the 12 voting Funds will have observer status with the ability to participate in discussions but not able to vote.
2. There will not be separate scheme employer representation on the Joint Committee.
3. The Joint Committee will not have advisors as permanent additional members.
4. There would be no Joint Committee members beyond the 12, that other individuals (e.g. advisers) may be invited to attend meetings from time to time, and that this approach would be revisited if/when the Scheme Advisory Board issues guidance.

28. The consensus view of the MSG was that the most appropriate place for scheme member representation was at the local Committee level, where the strategic decisions are made, and at the Board level, for the oversight of those decisions.

29. The Chairs of the Pensions Committee and the Pension Board received a letter in December from Unison requesting that scheme member representation, via Union representatives, be considered in the governance structure for BCPP, in addition to questions on cost transparency and valuation methodology. A joint response from both Chairs was agreed and is attached at appendix B.

30. At the time of writing this report, the Scheme Advisory Board has not issued any guidance, other than it is a decision for each individual pool to make.

31. The Chair of the Lincolnshire Pension Board has received similar communications from the Chair of the Tyne and Wear Pension Board, and this will be discussed at the next Pension Board meeting on 15th March.

Conclusion

32. 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.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Pensions Pooling Briefing Note
Appendix B	Response to Unison Letter

Background Papers

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

Briefing Note on Local Government Pension Scheme (LGPS) Asset Pooling

Background

1. Lincolnshire County Council is the administering authority of the Lincolnshire Pension Fund, which is one of the 89 Local Government Pension Funds across England and Wales. Lincolnshire Pension Fund provides a pension service for 74,000 scheme members across 235 separate employers within Lincolnshire. The Fund is financed by contributions from employees and employers and holds assets valued at £2 billion (current value). These assets are invested to fund the current and future liabilities of pension payments.

2. The Government has mandated, within the LGPS (Management and Investment of Funds) Regulations 2016, enacted in November 2016, that the 89 separate LGPS Funds should combine their assets into a small number of investment pools. The basis of the pooling must be in line with guidance issued by the Secretary of State and meeting the four criteria set out below:

   a. Benefits of scale - a minimum asset size per pool of £25bn.
   b. Strong governance and decision making
   c. Reduced costs and value for money
   d. Improved capacity to invest in infrastructure

3. A detailed submission to Government was required by 15th July 2016 from each proposed investment pool, agreed by all Funds joining it. This would then be scrutinised by Government before being given approval that the submission met the criteria above. The Government requires that the investment pools should be operational and available to manage assets by April 2018.

4. The above regulatory changes do not affect the sovereignty of the Lincolnshire Pension Fund and the pooling of LGPS assets will have no impact on the employee contribution rates or pension entitlement of members of the fund (pensioners ,current employees, and previous employees who are yet to draw their pension).

Lincolnshire Pension Fund's Solution

5. Lincolnshire Pension Fund is proposing to join the Border to Coast Pensions Partnership (BCCP) alongside 12 other Pension Funds, with assets totalling £35.9 billion, supporting 906,000 scheme members and 2,166 employers (as at 31st March 2015). The decision as to which pool to join was agreed at the Pensions Committee meeting held on 7th January 2015, having considered the alternative pooling options. BCPP has been created by like-minded funds, established around a few key principals:

   - One Fund one vote – regardless of size all Funds will be treated equally
   - Equitable sharing of costs

- To drive efficiencies and work effectively, partner funds must have a complimentary investment ethos, risk appetite and strategy

6. The partner funds within BCPP are shown in the table below:

BCPP Partners:	**Fund Value at 31/03/2015 (£bn)**
Bedfordshire Pension Fund	1.7
Cumbria Pension Fund	2.0
Durham Pension Fund	2.3
East Riding Pension Fund	3.7
Lincolnshire Pension Fund	1.8
North Yorkshire Pension Fund	2.4
Northumberland Pension Fund	1.1
South Yorkshire Pension Fund (including South Yorkshire Passenger Transport Fund)	6.5
Surrey Pension Fund	3.2
Teesside Pension Fund	3.2
Tyne and Wear Pension Fund	6.4
Warwickshire Pension Fund	1.7
BCPP TOTAL	**35.9**

7. BCPP will be a fully regulated asset management company, jointly owned by the 12 partner funds, with each Fund having an equal share in that company. It will have a large internal team of investment managers, in addition to appointing external managers. Its role will be to implement the investment strategies of the partner funds, through a range of investment sub-funds offering internally and externally managed solutions. The BCPP submission received approval from Government in December 2016.

8. In addition to being represented as a shareholder in BCPP, Lincolnshire will have a member on the Joint Committee, as a customer of BCPP.

9. The role of the LCC Pensions Committee will change very little, with the investment strategy and asset allocation (which accounts for around 90% of the Fund's investment return) remaining with that Committee, and BCPP only implementing that strategy in the most cost effective manner.

10. All costs of creating the company and the ongoing investment management costs will be paid for by the Pensions Fund, as a cost of investment, similar to how the Fund now pays its existing investment managers.

11. In the medium to long term the arrangement will generate significant annual savings - £1.7m pa under the worst case rising to £3.7pa best case. Pay back periods are 2 years best case or 4 years worst case.

Summary

As a partner fund in BCPP, pooling will:

- Ensure that Lincolnshire Pension Fund is not in breach of the Investment Regulations 2016. Pooling is not a discretion – it is now mandatory.
- Provide cost efficiencies (estimated to be £3.7m p.a. by 2028), by reducing investment management charges to the Pension Fund.
- Provide resilience to the management of the Pension Fund.
- Offer wider collaboration across other areas in managing the Pension Fund, by closer working with partner funds.

Pooling will not:

- Lose the sovereignty of Lincolnshire Pension Fund.
- Materially impact the decision making of the Pensions Committee.
- Impact the benefits (current and future) of the scheme members of the Lincolnshire Pension Fund.

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Lincolnshire
COUNTY COUNCIL
Working for a better future

6 January 2017

Andrew Antcliff
Vice Chair
Lincolnshire County – UNISON
34 Orchard Street
Lincoln
LN1 1XX

Dear Mr Antcliff

UNISON LGPS PRIORITIES IN 2017

Thank you for your letter dated 14th December and we apologise for the delay in responding.

We agree and support Unison's campaign for greater cost transparency regarding the management of investments. We believe that there has been a vast improvement in this area but as requested, we will raise the issue in the various forums we attend. Once the Borders to Coast Pensions Partnership (BCPP) is up and running, this should provide even more transparency on costs.

We also agree about the need for strong governance. However, we believe that scheme members are best represented on the Lincolnshire Pension Fund Pensions Committee and Pensions Board. It is the Pensions Committee that will determine the investment strategy and asset allocation. The BCPP will effectively be an investment company in another guise and subject to scrutiny and challenge by the Pensions Committee and the Pensions Board.

We are sympathetic with your comments about a fair and accurate valuation of liabilities when calculating the funding level. As you will recall, at the valuation training session in October the Actuary was challenged on the methodology used and the prudence of his assumptions; this was followed by an email dialogue. The methodology for the valuation of liabilities will be an ongoing debate.

Yours sincerely

Councillor Mark Allan and Roger Buttery

Copies: Mr Ian Crowther, Mr Dave Vickers, Mr C Meech, Mrs H Stokes

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