



County Offices
Newland
Lincoln
LN1 1YL

27 September 2017

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 5 October 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

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

Tony McArdle
Chief Executive

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

Councillors E W Strengiel (Chairman), P E Coupland (Vice-Chairman), R D Butroid, B Adams, Mrs M J Overton MBE, Mrs S Rawlins, A J Spencer and Dr M E Thompson

Co-Opted Members

Mr A N Antcliff, Employee Representative
Mr J Grant, Non-District Council Employers Representative
Cllr Jeff Summers, District Councils Representative

PENSIONS COMMITTEE AGENDA
THURSDAY, 5 OCTOBER 2017

Item	Title	Pages
1	Apologies for Absence	
2	Declarations of Members' Interests	
3	Minutes of previous meetings of the Pensions Committee held on 21 September 2017	5 - 8
4	Independent Investment Advisor's Report <i>(A report by Peter Jones, the Committee's Independent Investment Advisor, which provides details on the current state of the global investment markets)</i>	9 - 12
5	Pensions Administration Report <i>(A report by Yunus Gajra, (Business Development Manager, WYPF), in connection with current administration issues)</i>	13 - 34
6	Pensions Administration Strategy <i>(A report by Yunus Gajra, (Business Development Manager, WYPF) in connection with the content of the Pensions Administration Strategy)</i>	35 - 56
7	Pension Fund Update Report <i>(A report by Jo Ray, (Pension Fund Manager), in connection with Fund matters over the quarter ending 30 June 2017 and any current issues)</i>	57 - 78
8	Investment Management Report <i>(A report by Jo Ray, (Pension Fund Manager), in connection with the management of the Lincolnshire Pension Fund assets over the period from 1 April to 30 June 2017)</i>	79 - 98
9	Performance Measurement Annual Report <i>(A report by Jo Ray, (Pension Fund Manager), in connection with the Pension Fund's longer term investment performance, for the period ending 31st March 2017)</i>	99 - 104
10	Border to Coast Pensions Partnership (BCPP) Responsible Investment Policy and Corporate Governance Voting Guidelines <i>(A report by Jo Ray, (Pension Fund Manager), which enables the Committee to consider the Border to Coast Pension Partnership's (BCPP) Responsible Investment Policy and Corporate Governance Voting Guidelines)</i>	105 - 126
11	Pension Fund External Audit Completion Report <i>(A report by Jo Ray, (Pension Fund Manager), in connection with the Audit Completion Report, submitted by the external auditors for the Council, KPMG)</i>	127 - 136

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

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

Contact details set out above.

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www.lincolnshire.gov.uk/committeerecords



PENSIONS COMMITTEE 21 SEPTEMBER 2017

PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)

Councillors P E Coupland (Vice-Chairman), B Adams, R D Butroid, Mrs M J Overton MBE, Mrs S Rawlins, A J Spencer and Dr M E Thompson

Co-Opted Members: Mr J Grant (Non-District Council Employers Representative) and Jeff Summers (District Councils Representative)

In attendance: Pension Board members Ian Crowther, David Vickers and M A Whittington attended the meeting as observers.

Officers in attendance:-

David Forbes (County Finance Officer), Jo Ray (Pension Fund Manager) and Catherine Wilman (Democratic Services Officer)

19 APOLOGIES FOR ABSENCE

Apologies were received from Mr A Antcliff.

20 DECLARATIONS OF MEMBERS' INTERESTS

Councillor P E Coupland declared a personal interest as a South Holland District Councillor.

Mr J Grant declared a personal interest as a member of the Witham Fourth District Internal Drainage Board.

Councillor Mrs M J Overton MBE declared a personal interest as a North Kesteven District Councillor, the Vice Chair of the Local Government Association and as a deferred member of the Pension Fund.

Councillor A Spencer declared that he was a contributing member of the Fund as a Boston Borough Councillor.

Councillor E W Strengiel declared a personal interest as a City of Lincoln Councillor.

21 MINUTES OF THE MEETING HELD ON 13 JULY 2017

The minutes of the meeting held on 13 July 2017 were approved as a correct record and signed by the Chairman.

22 IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS
DIRECTIVE (MIFID II)

Consideration was given to a report which outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (MIFID II) and in particular the risk to the administering authority of becoming a retail client on 3 January 2018.

The report recommended that the Committee agree elections for professional client status to be made on behalf of the authority, in order to retain existing functions once MIFID II became effective.

The Markets in Financial Instrument Directive was part of the European Commission's Financial Services Action Plan and legislated the regulation of investment services within the European Economic Area.

In order to opt-up to professional client status, the Authority was required to complete quantitative and qualitative tests to demonstrate its ability to act as a professional client. The Pension Fund Manager took the Committee through the information required by the tests and provided details of the evidence which backed up each answer.

A letter of authority was also required to be sent to each of the Fund's investment managers, where in-house compliance teams would evaluate whether opt-up for their operations could be accepted.

Following questions from the Committee it was confirmed that:

- Once LGPS pooling had taken effect, any future evidence required for MIFID would be submitted to the pool;
- BCPP would not be required to undergo this process for itself as it would be an FCA regulated company.

RESOLVED

1. That the potential impact on investment strategy of becoming a retail client with effect from 3 January 2018 be noted;
2. That the immediate commencement of applications for elected professional client status with all relevant institutions, to ensure that the Committee can continue to implement an effective investment strategy, be agreed;
3. It be acknowledged and agreed that in electing for professional client status, the protections available to retail clients (as detailed in Appendix A) be forgone;
4. That delegated retrospective authority to the Pension Fund Manager be agreed and approved for the purposes of completing applications and determining the basis of the application as either full or single service.

23 PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS

The Committee received a report which presented the Pension Fund's Draft Annual Report and Accounts for the year ended 31 March 2017 for approval.

The Committee raised no significant issues with the report and accounts.

RESOLVED

That the draft Pension Fund Annual Report and Accounts be approved.

The meeting closed at 10.40 am

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

Report to:	Pensions Committee
Date:	5 October 2017
Subject:	Independent Investment Advisor's Report

Summary:

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

Recommendation(s):

That the committee note the report.

Background

Storm clouds gathering over stock markets?

Since we last met, the mood of investors in markets, both equities and fixed interest (e.g. government bonds), has become more pessimistic. More of them appear to believe that the storm clouds are gathering. And yet, a number of the global equity markets, principally the US equity market, are again reaching all-time highs, having risen since mid-summer. The UK has not quite managed to achieve that, perhaps because of rising uncertainty over the Brexit negotiations.

Why the increase in pessimism? Some commentators point to valuation measures, especially of equities. In purely statistical terms, equities are dear as measured by the familiar dividend yields and price earnings ratios. And most companies have achieved rising profit margins - which could be vulnerable to increases in wages and competition. There are those too who look at historical precedents for the length of bull markets: most have been rising since the market troughs in 2009. So the bull markets can certainly said to be "mature".

The global economy

And yet, a lot is going right for the global economy, which is currently growing at about 3.5% per annum. For the first time since the financial crisis ten years ago, there is a synchronisation of growth around the world. The USA, China, Germany and the UK have all been growing for several years. Recently they have been joined by other European nations. The "stand out" economies are those of Ireland and Spain. But other countries previously thought of as sclerotic are showing signs

of robust growth. France is notable but lesser economies such as Greece, Italy and Portugal have recently come to the party.

Changing attitudes of global Central Bankers

This synchronisation is enabling central bankers (e.g. the US Federal Reserve, the Bank of England, the European Central Bank) to reconsider their easy money policy. You will remember that this had two prongs: very low short term interest rates and Quantitative Easing ("QE" for short) consisting of purchases by the central banks of huge amounts of their own government and other bonds - in order to drive down long term interest rates and thus ultimately to stimulate economic growth and lower unemployment in their respective economies. For example, the amount of such bonds on the balance sheet of the US Federal reserve amounts to a staggering US\$4.5 trillion (4.5 million million). During 2017, the central banks have progressively, starting with the US Federal Reserve, concluded that their unprecedented measures were coming to fruition. The most recent convert is the European Central Bank. Thus, there is the prospect of some rise in short term interest rates (the USA has already increased three times to over 1%) and the withdrawal of QE, reducing the amount of bonds held. A hugely important topic for markets is exactly how this withdrawal of QE is managed. Handled badly, it could certainly panic markets, both government bond and the corporate bond markets but also global equities.

Central bankers have nurtured the global economy through an extremely difficult period. The last thing that they want to do is to act hastily or rashly. In particular, the withdrawal of QE will be handled, in my view, with the utmost delicacy. The influence of central bank actions over markets has been the single most important factor since the global crisis. Will it change? Yes, but only very slowly. Their influence will, in my view, be a dominant theme in market analysis for the next several years.

Investors expecting long term interest rates to skyrocket (and hence bond prices to fall sharply) are, I am sure, going to be disappointed. Inflation around the world is too well behaved – sluggish even - for that (I include the UK, once the effect of sterling's depreciation after the Brexit vote works through the system). And the ageing of the populations of the developed western world means there is large unsatisfied demand for fixed interest securities. Will such yields drift up? I suspect only modestly and gradually.

Equity prospects

Statistically, equity markets are close to being fully valued. I am doubtful that matters. What central banks will do is much more important. Will equities rise far from here? The mood amongst a growing segment of investors suggests not. But will equity markets fall far? Whilst they are vulnerable, they still appear to offer higher returns and better value than bonds. Any sharp fall will, I suspect, see "cheap buyers", burdened by uncomfortably high cash balances. For the Lincolnshire County Council pension scheme, global equities still seem to me to offer better value than other types of investment.

Peter Jones
22nd September 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.

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

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

Report to:	Pensions Committee
Date:	5 October 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 June 2017 to 31 August 2017.

LPF - KPI's for the Period 1.6.17 to 31.8.17					
WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT
AVC In-house (General)	95	10	94	85	98.95
Age 55 Increase LG	1	20	1	85	100
Article 4 Payment Death LG	52	10	50	85	96.15
Article 4 Payment Own Right LG	24	10	20	85	83.33
Change of Address LG	286	5	270	85	94.41
Change of Bank Details LG	174	5	161	85	92.53
DG Nomination Form Received LG	1072	20	1065	85	99.35
DWP request for Information LG	16	10	16	85	100
Death Grant to Set Up LG	33	5	31	85	93.94
Death In Retirement LG	119	5	102	85	85.71
Death In Service LG	8	5	7	85	87.5
Death on Deferred LG	20	5	16	85	80
Deferred Benefits Into Payment Actual	206	5	169	90	82.04
Deferred Benefits Into Payment Quote	226	35	217	85	96.02
Deferred Benefits Set Up on Leaving	238	20	179	85	75.21
Divorce Quote LG	44	20	43	85	97.73
Divorce Settlement Pension Sharing order Implemented	2	80	2	100	100
General Payroll Changes LG	123	5	123	85	100
Initial Letter Death in Service LG	8	5	8	85	100
Initial letter Death in Retirement LG	119	5	113	85	94.96
Initial letter Death on Deferred LG	20	5	16	85	80
Life Certificate Received LG	326	10	306	85	93.87
Monthly Posting	1201	10	702	95	58.45
NI Modification LG	7	20	7	85	100
Pension Estimate	229	10	205	75	89.52
Refund Payment	95	10	94	95	98.95
Refund Quote	163	35	142	85	87.12
Retirement Actual	156	3	146	90	93.58
Retirement Quote	182	10	169	85	92.86

LPF - KPI's for the Period 1.6.17 to 31.8.17					
Set Up New Spouse Pension LG	54	5	48	85	88.89
Transfer In Actual	18	35	17	85	94.44
Transfer In Quote	26	35	26	85	100
Transfer Out Payment	19	35	17	85	89.47
Transfer Out Quote	122	20	110	85	90.16

Reasons for underperforming 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.
Change to Bank Details	120 cases done outside time limit of 5 days, however they were all actioned before payroll was processed so payments were paid to the correct bank account.
Death on Deferred LG	4 cases outside KPI. 3 belong to one member, this was a complicated case where the member had multiple employments. 1 case was a lost contact case and the beneficiary took time to find.
Initial letter Death on Deferred LG	As above
Monthly Posting	Files that cannot be validated because of errors, queries, mismatches etc.

2.0 Scheme Information

2.1 Membership numbers as at 18 September 2017 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	24,196	26,177	4,639	19,720	1,961
Councillors	2	39	0	42	-
Totals nos	24,198	26,216	4,639	19,762	1,961
Change	-685	-594	+1,376	+259	-64

2.2 Age Profile of the Scheme

	Age Groups												
Status	U20	20-25	26-30	31-35	36-40	41-45	46-50	51-55	56-60	61-65	66-70	70+	TOTAL
Active	388	1612	1603	2103	2497	3302	4245	3891	2888	1394	230	43	24196
Beneficiary Pensioner	88	37	2	1	4	18	38	81	134	228	311	1503	2445
Deferred	2	402	1460	2038	2145	3173	5244	5832	4646	1153	32	7	26134
Deferred Ex Spouse	0	0	0	0	3	1	10	14	10	1	0	0	39
Pensioner	0	0	1	1	6	18	43	113	1114	4391	5067	6502	17256
Pensioner Deferred	0	0	0	0	0	0	1	0	2	1	0	0	4
Pensioner Ex Spouse	0	0	0	0	0	0	0	0	1	10	4	4	19
Preserved Refund	39	160	106	118	159	219	291	308	238	163	113	47	1961
Undecided													4639
Councillors													83
Total													76,776

2.3 Employer Activity

Academies and Prime Account Schools

Between 1 June 2017 to 31 August 2017 one Academy but no Prime Account Schools became Scheme employers in the Fund.

WYPF are currently working on 3 schools that are in the process of converting to academies or Prime Account Schools.

Town and Parish Councils

Between 1 June 2017 to 31 August 2017 no Town and Parish Council became Scheme employers.

Admission Bodies

Between 1 June 2017 to 31 August 2017 there were no new Admission Bodies in the Fund.

WYPF are currently working on the admissions for 7 Admission Bodies (see table below).

Employers ceasing Participation

Between 1 June 2017 to 31 August 2017 one employer 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 May 2017 to 250.

Admission Bodies in progress

EMPLOYER	ISSUE	CURRENT POSITION	ACTION	NEXT ACTION REQUIRED
Future Cleaning Services	Request for admission received.	Need employee data.	Employee data received and application received.	Actuarial assessment completed. Admission agreement issued for signature. Admission still with academy trust. Last chased up 15/9/17.
Outspoken Training	Admission due from 1/9/2017.	Application received.	Data with Hymans.	LCC have draft admission agreement. They are still liaising with Outspoken on this.
Taylor Shaw (Branston Academy)	Request for admission received - covers both West Grantham and Branston Academy.	Need employee data and application form.	Employer confirmed willing to act as interim employer. Update on employee data requested.	Seeking agreement from academy trust to proceed with this.
Compass Group	Request for admission received.	CGS wish to backdate entry. We are asking academies to confirm if they are willing to act as scheme employer for the interim period.	CGS asked to provide agreement of the Academies involved. Nicholas Corney (Compass Group) has forwarded a proposed interim solution.	Seeking agreement from academy trust to proceed with this.

Aspens (Somercotes)	Request for admission for staff transferring from Somercotes Academy.	Assessment requested from Hymans.	Provisional assessment received from Hymans and forwarded to employer.	Admission in place from 1/5/17. Final member data with Hymans to confirm final employer contribution rate.
Aspens (Monks Dyke Tennyson)	Request for admission for staff transferring from Monks Dyke Academy.	Application and member data received.	Provisional assessment requested from Hymans and draft admission agreement requested.	Await admission agreement / assessment.
Caterlink	Request for admission for staff transferring Aspen. Academy acting as interim employer.	Draft admission agreement requested.	Provisional assessment received from Hymans and forwarded to employer.	Draft admission agreement issued to West Grantham Academies. Caterlink requested to sign agreement.

3.0 Praise and Complaints

3.1 Over the quarter April to June we received **2** online customer responses.

Over the quarter January to March **71** Lincolnshire member's sample survey letters were sent out and **12 (16.9%)** returned:

Overall Customer Satisfaction Score;

April to June 2016	July to September 2016	October to December 2016	January to March 2017	April to June 2017
80.71%	79.55%	77.22%	87.07%	78.63%

Appendix 1 shows full responses.

3.2 Employers Survey

WYPF undertake an annual survey amongst the Employers to gauge the level of satisfaction by the service provided by WYPF and also to identify any areas for improvement.

Appendix 2 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 February 2017 to 31 May 2017 seven Stage 1 appeals were received and there were a total of two Stage 2 appeals, as detailed below:

1 June 17 to 31 August 17	Number of appeals	Outcomes	Details
STAGE 1	2		
AGAINST EMPLOYER	1	Turned down	Appeal against refusal to release early payment of pension.
AGAINST LPF	1	Turned down	Actual value of benefits paid was less than shown on annual statements - qualifying service incorrectly shown.
STAGE 2	1		
AGAINST EMPLOYER	0		
AGAINST LPF	1	Turned down	Maladministration - was originally offered incorrect values of pension rights. Satisfied that matters had been addressed correctly

- 4.2 The Pensions Ombudsman can consider appeals and allegations of maladministration, once the two stages of the IDRP have been exhausted. From 1 June 17 to 31 August 17 there was one appeal regarding the refusal to offer transfer out benefits. The Ombudsman was satisfied that WYPF had made every effort to ensure members were aware of requirement to request a transfer out at least 12 months prior to normal retirement date.

5.0 Administration Update

5.1 Scheme Return

Public service schemes have a legal obligation to keep their registrable information up to date, and as part of this must supply the Pensions regulator with certain information via an annual scheme return. WYPF will be completing the return Pensions Regulator Scheme on behalf of LPFA when it is issued in September.

5.2 Annual Benefit Statements

Annual Benefit Statements as at 31 August 2017			
DESCRIPTION	WYPF	LPF	TOTAL
Active at 31/03/2017	89,304	21,196	110,500
In the system (how many)	89,304	21,196	110,500
In the system (percentage)	100	100	100
In the queue	2	0	2
Produced and printed (how many)	88,651	20,789	109,440
Produced and printed (percentage)	99.20	98.00	99.00

6.0 Current Issues

6.1 SABEW consultation on academies objectives

The scheme advisory board for the LGPS in England and Wales (SABEW) commenced a consultation on the development of options for academies. The consultation closes on 29 September 2017.

The proposed draft objectives that the SABEW were seeking views upon are as follows:

- Protect the benefits of scheme members through continued access to the LGPS
- Ring fence local taxpayers and other scheme employers from the liabilities of the academy trust sector
- Improve the efficiency and effectiveness of administrative practices
- Increase the accuracy and reliability of data

However, in achieving the objectives, the SABEW do not believe the changes should:

- Significantly alter cashflow at the fund level
- Significantly alter assets at the pool level

6.2 SABEW consultation on pooling forum

The SABEW have also commenced a consultation on the development of a member led national Cross Pool Information Forum (CPF) for the LGPS in England and Wales.

The SABEW propose that the CPF is established to receive, share and disseminate information on the pooling of LGPS assets as well as provide a platform to exchange best practice and items of cross pool interest. However, it should not have decision making powers, nor should its discussions be technical in nature. It is proposed that the CPF would consist

of up to three members from each pool, nominated by the member administering authorities of each pool.

Views from LGPS pensions committee chairs are sought on the proposals and the consultation closes on 29 September 2017.

6.3 State Pension Age Review

The Government have published their state pension age (SPA) review as required by the Pensions Act 2014. In the review, the Government confirm they plan to follow the recommendation of the Cridland report that the SPA increase from 67 to 68 be brought forward to take place in stages between 2037 and 2039. Previous Government policy was that the SPA increase to 68 between 2044 and 2046. Once the legislation providing for the change goes through Parliament, the increase will change the state pension age of those born between 6 April 1970 and 5 April 1978, and therefore the LGPS normal pension age of members born between those dates.

6.4 Update on the Pensions Ombudsman Service (TPOS)

Following discussions with Government ministers, it has been agreed that TPOS will at some point in the future take over the informal dispute resolution service currently provided by the Pensions Advisory Service (TPAS).

To assist with their plans for the merger of the formal and informal resolution processes, TPOS have recently commenced a project to look into the services provided by both organisations and are seeking views from pension scheme administrators to feed into this. Specifically, TPOS are asking for views on what works well about both services (in terms of both quality and delivery), what could be improved, and what administrators believe are the risks and opportunities of merging the services.

6.5 Supreme Court case – Walker v Innospec

In July, the Supreme Court handed down a judgment which has potential implications for pension schemes who offer differing survivors' pension benefits depending on whether their relationship with the originating member was a civil partnership, same sex marriage or opposite sex marriage.

The Equality Act 2010 contains an exception which made it legal for pension schemes to discriminate in the survivor benefits it offered, saying that pension schemes did not have to provide civil partners with pension benefits relating to membership accrued prior to the introduction of civil partners in December 2005. The Supreme Court found that this exception was incompatible with EU law.

The case relates to a member (Mr Walker) whose pension scheme, making use of the exception in the Equality Act 2010, would have only provided his

civil partner with a survivor's pension based on his membership from 5 December 2005 upon his death. By contrast if Mr Walker had been married to a woman, a survivor's benefit payable based on his entire membership would have been payable on his death.

Following the judgement, we understand the Government lawyers are considering the possible impacts the ruling will have on the survivor pension rights offered by public service pension schemes.

6.6 Brewster Cases

In the Brewster judgment the Supreme Court found that the requirement of the LGPS in Northern Ireland for members to have completed a nomination form for a cohabiting partner to be entitled to payment of survivor's pension constituted unlawful discrimination and was a breach of the European Convention on Human Rights (ECHR).

The LGPS in England and Wales previously included a similar requirement, meaning that:

- where a member had active membership in the 2008 Scheme,
- that member died on or after 1 April 2008 and prior to 1 April 2014,
- at the time of their death, the member was in a relationship where their partner would have met the definition of a 'nominated cohabiting partner' under regulation 25 of the LGPS (Benefits, Membership and Contributions) Regulations 2007), but no nomination had been made, no survivor's pension would have been payable to that partner.

Whilst making clear that it is for LGPS funds in England and Wales to determine their approach in respect of claims arising from the Brewster case, the letter states that it would, in DCLG's view, be 'reasonable' for funds to rely on the judgment as well as section 3 of the Human Rights Act 1998 to not require that a survivor partner must have been nominated to have been eligible for an LGPS survivor's pensions in the circumstances set out above.

Section 3 of the Human Rights Act 1998 states that primary and subordinate legislation must be read and given effect in a way which is compatible with ECHR rights. DCLG's interpretation is that section 3 reasonably gives administering authorities the vires to read the aforementioned regulation 25 of the Benefits Regulations 2007 in a way compatible with ECHR rights and therefore disapply the nomination requirement. This is because the judgment of the Supreme Court earlier this year would appear to mean that the current wording of the Benefit Regulations 2007 is not compatible with ECHR rights.

A draft guidance letter issued to LGPS funds outlines further points that they should consider in dealing with claims arising from the Brewster judgment.

Separately DCLG have confirmed that they have received legal advice that there is no need for them to amend the Benefits Regulations 2007 to reflect the Brewster judgment and they therefore have no plans to do so.

6.7 Update on exit payments

A fresh consultation on draft regulations governing the exit payment cap and exit payment recovery is due to take place in autumn. This would potentially mean an implementation for both reforms in the first half of 2018, subject to sufficient parliamentary time being found.

There is no further update on the third part of the Government's programme of public sector exit payment reforms, further reform, on which a DCLG consultation is still awaited.

6.8 Government publish response to scams consultation

The Government have published their response to the pension scams consultation that took place in late 2016 and early 2017

The response confirms that the Government plan to proceed with all three of the measures they consulted upon to tackle pensions scams and notes that respondents to the consultation were, in the vast majority of cases, also supportive of the proposed measures.

The table below lists each of the measures the Government hope to introduce and how the Government intends to implement these.

Measure	Implementation
Introduce a ban on cold calling in relation to pensions – <i>the Government have confirmed this ban will also now extend to cold calling via electronic communications such as email and text message, as well as traditional cold calling via phone</i>	The Government intend to work on the final and complex details of the ban on cold calling and then bring forward legislation when Parliamentary time allows.
Limiting the statutory right to transfer so that individuals only have a statutory right to transfer to the following schemes: <ul style="list-style-type: none"> To personal pension schemes operated by firms authorised by the FCA To authorised master trust schemes Where a genuine employment link to the receiving occupational scheme can be evidenced 	<p>The Government intends to work closely with industry, consumer groups and other stakeholders on how best to implement the employment link and add QROPS to the statutory transfer criteria (where this is a legitimate transfer).</p> <p>However, as the authorisation process the Government is introducing for master trusts is not being rolled out until late 2018/ early 2019, any changes to the statutory right to transfer will not come into force until after the authorisation process has been rolled out.</p>

<p>Allowing only active companies to register a pension scheme, except in legitimate circumstances where HMRC will have the discretion to register such schemes. HMRC will also have the power to de-register existing registered pension schemes where the sponsoring employer is a dormant company.</p>	<p>The Government intend to introduce legislation in a Finance Bill later in 2017 to</p>
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6.9 TPR publishes information on roles and responsibilities within PSPS's

The Pensions Regulator has published information on the roles and responsibilities of certain people and bodies in respect of the governance and administration of public service pension schemes (PSPS's).

In late August, the LGPC Secretariat met with the Pensions Regulator and received confirmation that they are working to provide additional materials to support public service pension schemes in the coming months, particularly in the fields of breach reporting and record keeping.

The table attached at Appendix 3 provides more details about the role of scheme managers, pension boards and others involved in governing public service schemes. Those involved with local government pension schemes may also have investment responsibilities.

7.0 Finance

7.1 Cost per member

Shared service cost per member 2016/17 £13.85 (£15.05 for 2017/18 initial budget)

The shared service pension admin cost per member of £13.85 has been used to recharge LPF. Our cost target for shared service pension admin is to maintain a cost target of £17. The projected cost for 2017/18 Pension Admin shared services has been estimated at £15.05. Our projected cost per member is therefore below our target cost of £17.

8. News

8.1 Awards

WYPF were winners of the Scheme Governance Award hosted by the LAPF Investment Awards on 19th September at the British Medical Association headquarters in London. We were also shortlisted under the following categories:

LGPS Fund of the Year (over £2.5 billion)
Scheme Administration Award
Collaboration Award

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	Customer Survey Results
Appendix 2	Feedback Summary
Appendix 3	Governing Public Service Schemes

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 April to 30 June 2017)

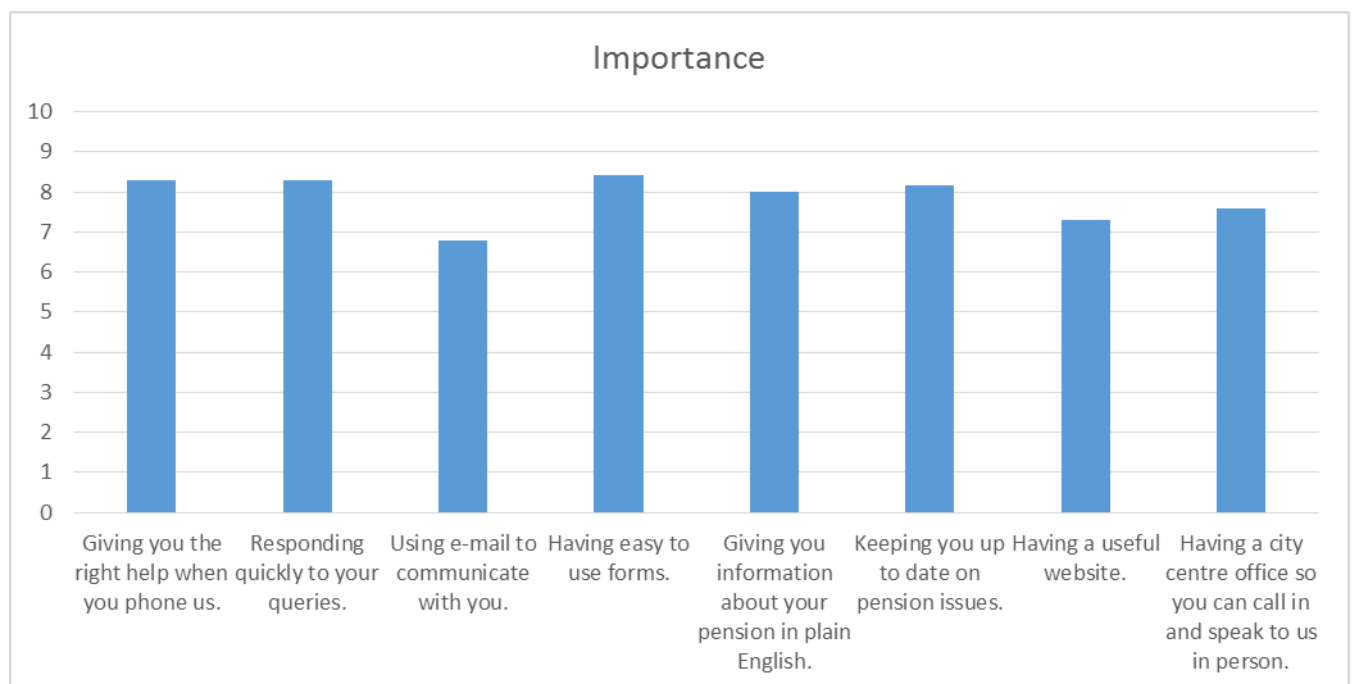
Over the quarter April to June we received **2** online customer responses.

Over the quarter April to June **71** Lincolnshire member's sample survey letters were sent out and **12 (16.9%)** returned:

Overall Customer Satisfaction Score;

April to June 2016	July to September 2016	October to December 2016	January to March 2017	April to June 2017
80.71%	79.55%	77.22%	87.07%	78.63%

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



Sample of positive comments:

Member Number	Comments
8058983	Service was very efficient & staff were available to answer important queries.
8115359	I used the service for pension advice to take early retirement and was happy with advice.
Online	I have had excellent, efficient service, totally faultless. Thank you

Complaints/Suggestions:

Member Number	Comments	Corrective/ Preventive Actions
8115651	Takes such a long time to get information when phoning nearly 7 months to answer 2 simple questions and get someone to return my call.	<p>Response sent by Sandra:</p> <p>Thank you for taking time to complete and return our customer survey.</p> <p>Your comments have been noted and will be reviewed by our senior management team during the next review of customer service.</p>
8115696	I don't know why you sent me this as I don't have a pension with you. Please explain?	<p>Response sent by Sandra:</p> <p>Thank you for taking time to complete and return our customer survey.</p> <p>Your employer told us you have joined the local government pension scheme, if this is no longer the case please ask your employer to update our records.</p>

Employer Feedback (LPF)
Quarter 2 April – June 2017

Ill health (additional session at payroll provider) – 3 May 2017

Feedback score: 95.66 %

Comment	Action taken
I prefer to go through the exercises as a group	Noted.
Easier activities and shorter	Activities to be reviewed by new owner of course.

A summary of the compliments

- The workshop was very helpful.
- The exercises were very helpful to confirm we had understood.
- Very good trainer (KP).

Complete Guide – 14 June 2017

Feedback score: 90.24%

Comment	Action taken
A lot of content to take in	Content being reviewed for September.

A summary of the compliments

- Found the whole workshop very useful. The exercises really help to check your understanding.

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Governing Public Sector Pension Schemes

Name	Role	Who they are in practice	Responsibilities (examples)
Responsible authority	Set scheme policy.	Minister or Secretary of State, Scottish or Welsh Ministers or a government department.	<ul style="list-style-type: none"> Determine scheme policy, eg benefit structure. Set out scheme policy in regulations, including the role of the scheme manager, pension board and scheme advisory board.
Scheme manager	<p>Overall responsibility for the scheme.</p> <p>Scheme managers sometimes delegate specific activities or functions to other parties, such as administrators. However, they remain accountable for complying with the law and the overall management and administration of their scheme.</p>	<p>Local government pension schemes: an administering authority (typically a council) or the Northern Ireland Local Government Officers' Superannuation Committee.</p> <p>Police pension schemes: police pension authorities (usually the Chief Constable / Metropolitan Police Commissioner), the Northern Ireland Policing Board or Scottish Ministers.</p> <p>Firefighters' pension schemes: fire and rescue authorities, the Northern Ireland Fire and Rescue Service Board or Scottish Ministers.</p> <p>Armed forces, civil</p>	<ul style="list-style-type: none"> Ensure compliance with scheme regulations and other legislation. Manage risks and ensure there are adequate internal controls. Ensure that pension boards members don't have conflicts of interest. Put in place effective dispute resolution procedures. Keep records and ensure the quality of member data. Communicate information to members including benefit statements. Publish information on pension boards. Report late payment of contributions. Meet our reporting requirements, eg completing scheme returns. Report breaches to us where required.

		service, judicial, health services (NHS) and teachers pension schemes: Minister or Secretary of State, Northern Ireland Department or Scottish Ministers.	
Pension board	Assist the scheme manager.	<p>A collection of suitably knowledgeable people with equal numbers of employer and member representatives.</p> <p>Some have other types of members, such as independent experts or independent chairs or vice-chairs.</p>	<ul style="list-style-type: none"> • Help the scheme manager to comply with scheme regulations, other legislation and any requirements we have. • Have the required knowledge and understanding of scheme rules, documents recording scheme administration policies and pensions law. • Report breaches to us where required. • Responsibilities can vary. Some pension boards have a strong focus on assurance, others advise on member communications and others carry out specific functions on behalf of the scheme manager, eg appointing or managing the scheme administrator.
Scheme advisory board	<p>Advise the responsible authority.</p> <p>In some schemes, advise the scheme manager and pension board.</p>	<p>Often equal numbers of employer and member representatives.</p> <p>Some have other types of members, such as independent experts.</p>	<ul style="list-style-type: none"> • Advise the responsible authority on the desirability of changes to the scheme, such as adjustments to the scheme if costs breach the employer cost cap. • In some schemes, advise scheme managers and pension boards on governance and administration, eg by providing guidance. • Report breaches to us where required.

Administrators	Carry out day-to-day functions of running the scheme for the scheme manager.	May be in-house or third party.	<ul style="list-style-type: none"> • Keep records. • Collect contributions. • Pay benefits to members. • Report breaches to us where required.
Employers	Employ members of the pension scheme.	<p>Central or local government, armed forces, NHS, police forces and other parts of the public sector.</p> <p>Private sector employers where staff are transferred from the public sector, eg on outsourcing contracts or eligible for access under individual scheme provisions.</p>	<ul style="list-style-type: none"> • Meet employer duties related to automatic enrolment. • Pay contributions in line with requirements in scheme regulations. • Keep and provide data to scheme manager or administrator. • Report breaches to us where required.
Pension committees or investment committees (only local government pension schemes)	Administer, invest and manage pension funds on behalf of the scheme managers of local government pension schemes.	Generally, councillors with experience or interest in investment.	<ul style="list-style-type: none"> • Set the investment strategy and publish an investment strategy statement. • Prepare and publish the funding strategy statement. • Appoint investment managers.

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

Report to:	Pensions Committee
Date:	5 October 2017
Subject:	Pensions Administration Strategy

Summary:

This is a report by the Fund's pension administrator, West Yorkshire Pension Fund on the Pensions Administration Strategy (PAS).

Yunus Gajra, the Business Development Manager from WYPF, will update the committee on the content of the PAS.

Recommendation(s):

That the Committee note the report.

Background

1.0 Pensions Administration Strategy

1.1 As part of the LGPS Regulations 2013 regulations, WYPF prepare a written statement of the authority's policies in relation to such matters as it considers appropriate in relation to procedures for liaison and communication with scheme employers and the levels of performance which the employers and WYPF are expected to achieve.

1.2 The Administration Strategy contains the following:

- Regulatory framework and purpose
- Review of the strategy
- Liaison and communication
- Employer duties and responsibilities
- Payments and charges
- Administering authority duties and responsibilities
- Unsatisfactory performance
- Appendices
 - Authorised contacts form
 - Schedule of charges
 - Charging levels

Conclusion

- 2.0 WYPF produce an Administration Strategy which is distributed to all Lincolnshire Pension Fund employers, setting out their requirements and responsibilities.

Consultation

- a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Pensions Administration Strategy

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@wypg.org.uk.



Pension Administration Strategy

Contents

1. Regulatory framework and purpose
2. Review of the strategy
3. Liaison and communication
4. Employer duties and responsibilities
5. Payments and charges
6. Administering authority duties and responsibilities
7. Unsatisfactory performance
8. Appendices
 - a) Authorised contacts form
 - b) Schedule of charges
 - c) Charging levels

1. Regulatory framework and purpose

1.1 The regulations

This strategy is made under Regulation 59 of The Local Government Pension Scheme Regulations (LGPS) 2013.

In line with these regulations West Yorkshire Pension Fund (WYPF) employers have been consulted on the strategy, and a copy has been sent to the Secretary of State.

1.2 Purpose

This strategy outlines the processes and procedures that allow WYPF and employers to work together in a cost effective way to administer the LGPS whilst maintaining an excellent level of service to members. It recognises that working co-operatively and collaboratively will be key to achieving these aims.

2. Review of the strategy

This strategy will be reviewed as soon as reasonably possible following any changes to the regulations, processes or procedures that affect the strategy, or on a tri-annual basis if this occurs sooner.

Changes to this strategy will be made following consultation with employers, and a copy of the updated strategy will be sent to the secretary of state.

WYPF will constantly seek to improve communications between itself and the employers.

Employers are welcome to discuss any aspect of this strategy with WYPF at any time and suggest improvement to the strategy.

3. Liaison and communication

3.1 Authorised contacts for employers

Each employer will nominate a contact to administer the three main areas of the LGPS and in addition can nominate a main third-party payroll contact who will be either:

- a **Strategic contact** for valuation, scheme consultation, discretionary statements and IDRP
- An **Administration contact** for day-to-day WYPF administration, form completion and responding to queries
- A **Finance contact** for completion and submission of monthly postings and co-ordination of exception reports, or
- A **Nominated Payroll contact** who will be the responsible third-party contact who can maintain a **Payroll authorised user list**.

If they wish, employers may also nominate additional contacts via an **Employer authorised user** list.

All contacts will receive an individual login name and password that allows them to access the Civica Employer Portal for online administration and the combined remittance and monthly return.

When registering, each contact should complete a **Main contact registration form** and **Authorised user list** and sign WYPF's user agreement for the secure administration facility.

The three main contacts are responsible for maintaining contacts by notifying WYPF when one leaves and registering new contacts where necessary.

3.2 Liaison and communication with employers

WYPF will provide the following contact information for employers and their members.

- A named **Pension Fund Representative** for regulatory or administration queries, training, advice and guidance
- A named **Finance business partner** to assist with the monthly returns process
- A **contact centre** for member queries

In addition to this WYPF takes a multi-channel approach to communication with its employers.

Format of communication	Frequency	Method of distribution
Pension Fund Representatives	8.30am to 4.30pm Monday to Friday	Face-to-face Telephone E-mail
Website	Constant	Web
Fact card	1 per year	Mail/face-to-face
Fact sheets	Constant	Web
Employer guide	Constant	Web/electronic document
<i>Ad hoc</i> training	As and when required	Face-to-face
Update sessions	2 per year	Meeting
Annual meeting	1 per year	Meeting
Manuals/toolkits	Constant	Web/electronic document
<i>Pension Matters</i> blog monthly round-up	12 per year and as and when required	Wordpress blog
Social media	Constant	Web

<i>Ad hoc</i> meetings	As and when required	Face-to-face
Workshops	10 per year	Face-to-face

4. Employer duties and responsibilities

When carrying out their functions employers must have regard to the current version of this strategy.

4.1 Events for notification

Event	Preferred method of notification	Other methods available	Target	Acceptable performance
Monthly Postings (submitted via secure portal)	Approved spreadsheet	None	19th day of the month following the month in which contributions was deducted.	100% compliance of returns received in target
New starters	Monthly return		Notified via the monthly return, WYPF will process the data within 2 weeks following monthly return submission.	90% compliance or better
Change of hours, name, address, payroll number, or job title	Monthly return (exception report)	Web form	<p>Notified via monthly returns, WYPF will process the data within 2 weeks following monthly return submission.</p> <p>For exception report output from the monthly return, change data response must be provided to WYPF within 2 weeks of receipt of the exception report.</p> <p>If the employer is not</p>	90% compliance or better

			using the monthly return, then information is due within 6 weeks of change event.	
50/50 & Main scheme elections	Monthly Return		Notified by the employer via monthly return, WYPF will process the data within 2 weeks following monthly data submission.	90% compliance or better
Service breaks/absence	Web form		Within 6 weeks of the date of the absence commencing	90% compliance or better
Under 3 month opt-outs	Monthly return		Notified by the employer via monthly return, WYPF will process the data within 2 weeks following monthly data submission.	90% compliance or better
Leavers	Monthly return Web form Monthly returns (exception reports)		Notified by the employer via monthly return, WYPF will process the data within 2 weeks following monthly data submission, else within 6 weeks of leaving. For exception reports leaver forms must be provided to WYPF within 2 months of receipt of the exception report.	90% compliance or better
Retirement notifications	Web form		10 days before the member is due to retire unless the	90% compliance

			reason for retirement is ill health or redundancy.	
Death in service notifications	Web form		Within 3 days of the date of notification.	100% compliance

4.2 Responsibilities

Employers are responsible for ensuring that member and employer contributions are deducted at the correct rate, including any additional contributions.

WYPF is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. That responsibility rests with the employer.

Any over-payment as a result of inaccurate information being supplied by the employer shall be recovered from that employer.

In the event of WYPF being fined by The Pensions Regulator, this fine will be passed on to the relevant employer where that employer's actions or inaction caused the fine.

4.3 Discretionary powers

The employer is responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for compiling, reviewing and publishing its policy in respect of the key discretions as required by the regulations to its employees.

4.4 Member contribution bands

Employers are responsible for assessing and reassessing the contribution band that is allocated to a member. The employer must also inform the member of the band that they have been allocated on joining the scheme and when they have been reallocated to a different band.

4.5 Internal Dispute Resolution Procedure (IDRP)

Employers must nominate an adjudicator to deal with appeals at stage one of the IDRP where the dispute is against a decision the employer has made or is responsible for making. Employers are responsible for providing details of the IDRP and the adjudicator in writing to members when informing them of decisions they have made.

5. Payments and charges

5.1 Payments by employing authorities

Employing authorities will make all payments required under the LGPS regulations, and any related legislation, promptly to WYPF and/or its Additional Voluntary Contribution (AVC) providers (Prudential/Scottish Widows) as appropriate.

5.2 Paying contributions

Member and employer contributions can be paid over at any time and should be accompanied by a monthly postings submission. The latest date contributions can be paid is the 19th day of the month following the month in which the deductions were made. Where the 19th falls on a weekend or Bank Holiday, the due date becomes the last working day prior to the 19th.

5.3 AVC deductions

Employers will pay AVCs to the relevant provider within one week of them being deducted.

5.4 Late payment

The employer is reported to The Pensions Regulator when contributions are received late in accordance with the Regulator's code of practice.

5.5 Payment method

Contributions (but not AVCs) should be paid by BACS payment direct to WYPF's bank account.

5.6 Early retirement and augmentation costs

Employers have the option to pay the full early retirement cost or pay by instalments over 5 years or less at the discretion of the Pension Fund the employer is a participating employer of, depending on their ability to pay. Interest is charged if the option to pay by instalment is taken; the annual interest used is the Bank of England Base Rate +1%.

All augmentation cost must be paid in full in one payment.

5.7 Interest on late payment

In accordance with the LGPS regulations interest will be charged on any amount overdue from an employing authority by more than one month.

5.8 Employer contributions

Employer contribution rates are not fixed and employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

5.9 Actuarial valuation

An actuarial valuation of the fund is undertaken every three years by the fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer and for each employer assesses the appropriate contribution rate, and deficit payment if appropriate, for the subsequent three years.

5.10 Administration charges

The cost of running WYPF is charged directly to the fund and the actuary takes these costs into account when assessing employer contribution rates.

6. Administering authority duties and responsibilities

When carrying out its functions WYPF will have regard to the current version of the strategy.

6.1 Scheme administration

WYPF will ensure that workshops and annual meetings are held on a regular basis and actively seek to promote the Local Government Pension Scheme via the following events.

- Employer annual meeting
- Member annual Meeting
- Pre-retirement courses organised by employers or through strategic relationships with third parties, for example Affinity Connect and Unison
- New starter induction courses
- 'Complete guide to administration'
- 'Your responsibilities'
- 'Monthly contributions'
- 'Ill-health retirement'

6.2 Responsibilities

WYPF will ensure the following functions are carried out.

- Provide a helpdesk facility for enquiries, available during normal office hours, with a single access point for information about the LGPS
- Create a member record for all new starters admitted to the LGPS
- Collect and reconcile employer and employee contributions
- Maintain and update member records for any changes received by WYPF
- At each actuarial valuation, forward the required data in respect of each member and provide statistical information over the valuation period to the fund's actuary so that he or she can determine the assets and liabilities for each employer
- Communicate the results of the actuarial valuation to each employer
- Provide every active, deferred and pension credit member with a benefit statement each year
- Provide an estimate of retirement benefits on request whether by the employer or member

- Calculate and pay retirement benefits, deferred benefits and death in service benefits in accordance with LGPS rules, member options and statutory limits
- Comply with HMRC legislation

6.3 Decisions

WYPF will ensure that members are notified of any decisions made in relation to their benefits under the scheme regulations within 10 working days of the decision being made and will ensure the member is informed of their right of appeal.

6.4 Discretionary powers

WYPF will ensure the appropriate policies are formulated, reviewed and publicised in accordance with the scheme regulations.

6.5 Internal Dispute Resolution Procedure (IDRP)

WYPF will deal with employer appeals at stage two of the IDRP.

WYPF will nominate an adjudicator to deal with appeals at stage one and stage two of the IDRP where the appeal is against a decision WYPF has made or is responsible for making.

6.6 Fund performance levels

The minimum performance targets are shown below:

Service	Days	Minimum target
1. New member records created	10	85%
2. Update personal records	10	85%
3. Posting monthly contributions to member records	10	90%
4. Calculate and action incoming transfer values	2 months	100%
5. Deferred benefits – payment of lump sums	3	85%
6. Provide details of deferred benefit entitlement	10	85%
7. Refund of contributions – notification of entitlement	5	85%
8. Refund of contributions – payment	5	85%
9. Action agreed transfers out on receipt of acceptance	10	85%
10. Provide estimate of retirement benefits	10	85%
11. Retirement benefits – payment of lump sum	3	85%
12. Retirement benefits – recalculation of pension/lump sum	10	85%
13. Calculation and payment of death benefits on receipt of all necessary information	5	85%

14.	Make death grant payment to the member's nomination (provided all relevant information is received)	1 month	100%
15.	Percentage of telephone calls answered within 20 seconds		90%
16.	Annual benefit statements issued to deferred members by		31 May
17.	Annual benefit statements issued to active members by		31 August
18.	Make payment of pensions on the due date		100%
19.	Issue P60s to pensioners within statutory deadlines		100%
20.	Provide information on request in respect of pension share on divorce within legislative timescales		100%
21.	Implement pension share orders within legislative timescales		100%
22.	Undertake annual reviews to establish continuing entitlements to pensions for children over the age of 17		100%
23.	Implement changes in pensioner circumstances for the next available pensioner payroll		100%

7. Unsatisfactory performance

7.1 Measuring performance

Both employer and WYPF targets will be measured on a quarterly basis using the Civica document management system. Employers will be notified of their performance level each quarter.

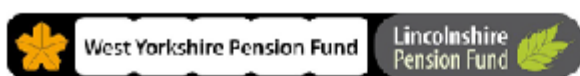
WYPF performance levels will be published on a quarterly basis in the employer newsletter.

Overall employer and WYPF performance will be published by WYPF in the Annual Report.

7.2 Unsatisfactory performance

When an employer materially fails to operate in accordance with the standards described in this strategy and it leads to extra costs being incurred by the administering authority, the administering authority may issue a written notice to the employer requiring that these extra costs be met by the employer. A schedule of charges is detailed in Appendix B.

APPENDIX A – MAIN CONTACT REGISTRATION AND AUTHORISED USER LIST



main contact registration oct 2016

Main contact registration form

Employer name and location code
Employer address

Important: please read the guidance note on Managing your WYPF contacts before you complete this form.

Strategic contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

Administration contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

Finance contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

Contact at third-party payroll provider (if applicable and not listed above)

Name	Company name and address
Job title	
Phone	Specimen signature
Email	

Date signatures valid from	Signed (by current authorised signatory)
----------------------------	--

Please give the full name, phone number and email address of the additional people you authorise to submit information for you. We will give them a secure administration account.

[illegible]

Please give the full name, phone number and email address of the additional people you authorise to submit information for you. We will give them a secure administration account.

[illegible]



WYPF secure administration User agreement

1. Overview and purpose

- 1.1. West Yorkshire Pension Fund (WYPF) uses the *Civica Employer Portal* and the *combined monthly return and remittance* advice to provide the *WYPF secure administration* facility. This allows employers to view and amend data and submit monthly contribution returns securely and remotely, via an Internet browser.
- 1.2. This document outlines the policy adopted by WYPF for the acceptable use of the *WYPF secure administration* facility. Employer users are subject to appropriate permissions, granted by WYPF to access these secure administration facilities.
- 1.3. This policy applies to all authorised users of *WYPF secure administration* and should be read in conjunction with the terms & conditions and any policy and procedures within your Employer's ICT Security Policy.

2. Acceptable use

- 2.1 Logging in to *WYPF secure administration* - when accessing *WYPF secure administration* via the Internet further authentication is required.
 - 2.1.1 A unique login name and password are issued to each user
 - 2.1.2 Each user must initially log in to the *Civica Employer Portal* using their unique login and password. The user will then be prompted to change their initial password. Passwords must comply with the guidelines in the terms & conditions.
- 2.2 Personal identifiable data printed or saved locally on the computer used to access *WYPF secure administration* must be treated confidentially, securely and in accordance with the Data Protection Act 1998. Measures must be taken to ensure that this data is not accessed by, or disclosed to, unauthorised persons, as stipulated by the Employer's own ICT Security Policy.
- 2.3 Users must completely log out of *WYPF secure administration* when they have finished.

3. Prohibited use

- 3.1 Users must not disclose their Login names, Passwords or Security Questions or visibly record them on or near the computer providing access to *WYPF secure administration*.
- 3.2 The use of another person's Login name or password is not permitted.
- 3.3 Any use of the facility except as directed by your employer.

APPENDIX B – SCHEDULE OF CHARGES

Performance areas	Reason for charge	Basis of charge
1. Any overpayment made to a member due to inaccurate information provided by an employer will be recovered from employer, if the total overpaid is more than £50.	If the overpaid amount is the result of the employer's error, and the amount is over £50, then as such it will be recharged to the employer, plus costs of resolving and recovering the overpayment. If the overpayment is recovered from the member, then the amount recovered will be passed back to the employer, less any cost of overpayment recovery actions.	Actual amount overpaid + admin charge (admin charge will be based on managerial input at level III), minimum half day charge of £110 + vat + cost of recovery actions (court and legal fees). Any part or all of this charge may be waived at head of service discretion.
2. Contributions to be paid anytime but latest date by 19th month. (weekends and bank holidays on the last working day before 19th)	Due by 19th month – late receipt of funds, plus cost of additional time spent chasing payment.	Number of days late interest charged at Bank of England Base Rate plus 1%
3. Monthly return due anytime but latest by 19th month, errors on return, i.e. employer/employee rate deducted incorrectly, or exception reporting errors to be resolved within 2 months.	Due by 19th month, any additional work caused by late receipt of information incorrect information, incorrect contributions.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Senior Pensions Officer level II) at £136 + vat a day. This may be waived at head of service discretion.
4. Change in member detail	If submitted via monthly data, WYPF will process data within 2 weeks following monthly data submission. For exception reports output from monthly returns, change data response must be	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Pensions Officer level I) at £96 + vat a day. This may be waived at head of service discretion.

	provided to WYPF within 2 weeks of receipt of the exception report.	
5. Early leavers information	If submitted via monthly data, WYPF will process data within 2 weeks following monthly data submission, else within 6 weeks of date of leaving. For exception reports leaver forms provided to WYPF within two months of receipt of the exception report	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Pension Officer level I) at £96 + vat a day. This may be waived at head of service discretion.
6. Retirement notifications	Due 10 working days before last day of employment unless the reason for retirement is ill health or redundancy - additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Senior Pension Officer level II) at £136 + vat a day. This may be waived at head of service discretion.
7. Death in membership	Due within 3 working days of the notification – additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Pension Manager level III) at £220 + vat a day. This may be waived at head of service discretion.
8. AVCs deducted from pay to be paid anytime but latest date by 19th month. (weekends and bank holidays on the last working day before 19th)	Additional investigative work caused through lack of compliance by employer.	Failure to comply by employer, causing additional work for WYPF will result in admin charge (at Pensions Officer level I) at £96 + vat a day. This may be waived at head of service discretion.

9. Re-issue of invoices	Charge based on number of request.	Additional work caused by reproducing invoices will result in admin charge (at Pensions Officer level I) at £96 + vat a day. This may be waived at head of service discretion.
10. Authorised officers list not updated – Pension liaison officers, monthly contributions responsible officers	Costs of additional work resulting from employer's failure to notify WYPF of change in authorised officers list.	Failure to comply by employer, causing additional work for WYPF will result in admin charge (at Pensions Officer level I) at £96 + vat a day. This may be waived at head of service discretion.
11. Security breach on system re data protection	Recharge employers any fines imposed on us in this event	Actual amount fine imposed + admin charge (admin charge will be based on managerial input at level III) at £220 + vat a day. This charge may be waived at head of service discretion.
12. Member requests estimate	The first estimate provided in each financial year is free, then subsequent estimates are chargeable.	1 st request in each financial year is free. Additional request is charged at a notional charge of £50 + vat is made. This charge is for each members record folder reference.
13. Pension sharing order	For pension sharing order work, each party will be charged according to the instruction in the Court Order.	The charge is £250 + vat for this work.
14. Miscellaneous items: a. Benefit recalculation b. Member file searches and record prints c. Supplementary information requests	Where information is requested by members that is in addition to routine information.	A notional charge of £50 + vat will be levied. This charge is for each member's record folder reference.

15. Employer workshop late cancellations	To cover the administration cost of providing free training workshops	Cancellation within 2 weeks – £50 charge levied. A log of cancellations and attendances to be maintained.
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APPENDIX C – CHARGING LEVELS

Charges will be made on half a day basis, less than quarter a day no charge will be made and more than half a day a full day charge will be made.

Charge Levels	I	II	III
Daily charge	£ 96	£ 136	£ 220
Half day charge	£ 48	£ 68	£ 110

Level I – Work at Pensions Officer Level

Level II – Work at Senior Pensions Officer Level

Level III – Work at Pension Manager Level

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

Report to:	Pensions Committee
Date:	5 October 2017
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 30th June 2017 and any current issues.

Recommendation(s):

That the Committee

- 1) Approves the request to extend the Custodian's contract to 31st March 2021, to allow for the transition of assets to BCPP; and
- 2) Notes the report.

Background

Fund Summary

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £21.8m (1%) to £2,121.7m on 30th June 2017. Fund performance and individual manager returns are covered in the separate Investment Management report, item 8 on the agenda.
- 1.2 Appendix A shows the Fund's distribution as at 30th June. All asset classes were within the agreed tolerances. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 2.3%

UK Equities underweight by 1.0%
Global Equities overweight by 3.2%

Underweight Alternatives by 1.0%

Overweight Property by 0.3%

Underweight Infrastructure by 1.0%

Underweight Bonds by 1.2%

Overweight Cash by 0.5%

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

- 1.3 The purchases and sales made by the Fund's portfolio managers over the period (including those transactions resulting from corporate activity such as take-overs) are summarised in Appendix B.
- 1.4 Appendix C shows the market returns over the three and twelve months to 30th June 2016.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 30th June, accounting for 10.1% of the Fund, the same as last quarter. Direct 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	29.2	1.4
2	UNILEVER	28.7	1.4
3	RECKITT BENCKISER	27.3	1.3
4	BRITISH AMERICAN TOBACCO	26.3	1.2
5	HSBC	24.8	1.2
6	MICROSOFT	19.7	0.9
7	APPLE	15.5	0.7
8	BP	14.8	0.7
9	GLAXOSMITHKLINE	13.7	0.7
10	JPMORGAN	13.1	0.6
	TOTAL	213.1	10.1

- 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 420 company events and cast votes in respect of 6,361 resolutions. Of these resolutions, the Fund voted 'For' 4,114, 'Against' 1,669, abstained on 440 and withheld votes on 138.
- 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:

- On executive pay, voting alerts were issued to LAPFF members on binding pay policies at Carillion, Smith & Nephew, GlaxoSmithKline, BP, Shell, Babcock and WPP.
- LAPFF issued a number of voting alerts recommending members back shareholder resolutions on climate change disclosure at US energy firms PPL, Chevron and Exxon Mobil. The resolutions are in line with LAPFF's policy position to press companies to use scenarios to provide forward-looking analysis, and that companies should be positioning themselves for a low carbon future by disclosing strategic business transition plans.
- The Forum announced that it is partnering with the 50/50 Climate Project. The new partnership will enhance the Forum's actions to promote climate competent boards and enhance collective investor action advocating better climate strategies and decision making at board level.
- As part of the ongoing concern that the Financial Reporting Council (FRC) has been setting accounting standards that are not aligned with the law, in particular the requirement to reflect the solvency of a company, LAPFF submitted a response to the consultation on the Green

Paper on Corporate Governance. That response makes the recommendation that the problems with the FRC run so deep that the FRC is disbanded and that a proper competent authority is set up to replace it.

- LAPFF executive member, Ian Greenwood met with BT Chairman, Sir Michael Rake, for the second time in a year to discuss a range of issues, including Sir Michael's views on Brexit and the British economy, BT's recent accounting scandal and cybersecurity.
- Ian Greenwood met with the Chairmen of Aberdeen Asset Management, Simon Troughton, and Standard Life, Sir Gerry Grimstone, on the same day to discuss the imminent merger of the two companies. The meetings both focused on the extent to which each company had considered the human capital and cultural integration of the two Scottish firms.

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 £8.2m. The invested cash has outperformed the benchmark from 1st April 2016 by 0.36%, annualised, as shown in the table below, and earned interest of £14.5k.

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

Pension Fund Balance – Q1 to 30th June 2017				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised %	Cumulative Weighted Benchmark Annualised %	Performance %
8,246.3	14.5	0.54	0.18	0.36

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.

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.

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.

Remaining Amber - Annual Training Plan of Committee shared with PB and all PB members invited to attend. Self-assessments were carried out in March, however no personal training plans have been put in place, as the

assessments have been used to identify training areas required across the Board.

4.3 The areas changed since the last Pensions Committee meeting are:

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

From Amber to Green on compliance – 97.9% of Statements as at the deadline of 31st August 2017 were issued. This is considered as meeting the requirements of the Regulator. The remaining 2.1% will be sent out in due course.

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?

From Amber to Green on compliance – 99.96% of deferred benefit statements were produced. When taking into account the actives too, this covers 99% of active and deferred members. This is considered as meeting the requirements of the Regulator.

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 Two additional risks have been added over the quarter. Risk 27, concerning the Fund acting as a responsible investor and risk 28, concerning opting up to professional investor status, under the MIFIDII requirements.

Risk 27	Consequences	Controls	Risk Score	
			L	I
Failure to meet requirements as a responsible investor - across all ESG risks	Reputational risk, loss of Fund value	Stewardship code compliance Managers reporting requirements LAPFF membership Voting	1	2

Risk 28	Consequences	Controls	Risk Score	
			L	I
Failure to be opted up to professional investor status following the	Fire sale of assets, inability to implement investment strategy	Use of LGA/SAB templates and letters, trained Committee, professional officers,	2	4

implementatio n of MIFIDII		use of investment advisors and consultants		
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- 5.3 There are now three red risks. Risk 28 is shown above. Risk 24, which was added in June '16 as a result of the Brexit vote, and given the continuing uncertainty as to how this will play out, it is felt that the red status is still appropriate. Risk 22, which has been increased to red from blue, following discussion at the Pension Board meeting in July '17. The deputy post is still vacant, however a recruitment exercise has been undertaken. The outcome of this will be known in early October.

Risk 24	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

Risk 22	Consequences	Controls	Risk Score	
			L	I
LCC team - workloads and resources - additional work of asset pooling along with team losses, means resources will be very stretched for the coming months	Statutory requirements not met Reputational risk Increase in key man risk	Monthly meetings with County Finance Officer Concerns reported to Pensions Committee and Pension Board Ability to recruit	3	3

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

6 Asset Pooling Update

- 6.1 A detailed update was presented to the Committee at the training session on 21st September, and circulated to all Committee members, therefore there is no additional update to be provided on progress of BCPP.
- 6.2 On 22nd August, a letter was sent to all LGPS Pensions Committee and pool Chairmen, signed by Marcus Jones MP, Caroline Nokes MP and the Chief Secretary to the Treasury (Elizabeth Truss). It is attached at Appendix F for your information.
- 6.3 The theme of the letter was a reminder that all funds must fully participate in a pool, and that pools must have an authorised FCA operator. Where ministers were not satisfied that funds had a clear path and timetable for delivery, DCLG would consult on further action, including using the intervention powers that were included in the 2016 Investment Regulations.
- 6.4 Ministers have requested that pools complete a progress report as at 30th September (similar to the one provided in April this year) and it must be sent to them in October. The BCPP project team will draft a response, and it will be taken to the Joint Committee meeting on 20th October.
- 6.5 The Lincolnshire Fund is fully committed to pooling, and is working with BCPP to ensure that it is able to transition its assets at the most appropriate time.

7 Committee Training

- 7.1 The two day session held in York in September was very well received. It is expected that this will become an annual event in a similar format, with an update on BCPP and presentations from managers as training for Committee and Board members.
- 7.2 Any new Committee members who were unable to attend are recommended to undertake the LGA Fundamentals training, which was shared with the Committee in an email dated 3rd August. As approved in the annual training plan at the July Committee, all Committee members are expected to have attended a basic training course, in addition to induction training.
- 7.3 Should any Committee members wish to attend the Fundamentals training, they are asked to contact Jon Haw (jonathan.haw@lincolnshire.gov.uk) at their earliest opportunity, to ensure that a place can be secured.

8 Custodian Extension Request

- 8.1 The Lincolnshire Pension Fund entered into a seven year contract (five plus two) with JPMorgan, as its custodian, on 1st April 2011. This was reviewed in 2015 and the two year extension granted. The contract is now due to expire on 31st March 2018, having taken the extension. Officers are requesting an additional maximum three year extension to this contract,

taking it to 31st March 2021, for the reasons detailed below. Should the Committee approve this request, a paper will be prepared for the Executive Director of Finance and Resources to consider the contract extension, under his delegated authority to arrange for all necessary transactions associated with the management of the assets of the Pension Fund.

- 8.2 The custodian's role is a vital one for the Pension Fund, as it safeguards the Fund's assets, settles trades and receives and monitors investment income. The Fund is currently £2.2bn, of which segregated assets (those which the custodian holds) stand at around £765m. The balance is in pooled funds, where the custodian's role is merely to manage cash inflows and outflows and to use in the overall accounting and performance measurement of the Fund. The majority of the income earned by the custodian is for the safeguarding of these segregated assets.
- 8.3 The Government's requirement to pool assets from April 2018 will completely change the way that the Fund (and all other LGPS Funds) uses a custodian over the medium term. The custodian element of the role will disappear as the assets transfer, and the role for JPMorgan (or any other provider) will be for accounting and performance measurement only, the current ancillary services. However, there will be a transitional period where the custodian's normal role will still be required. This will mean a diminishing asset base for the custodian to manage, over the next two to four years.
- 8.4 Given the reducing income base for the custodian, it is expected that it will be very difficult to find someone to offer a competitive bid for custody services, should we have to retender, however the existing relationship with JPMorgan means that they would extend the contract on the same price basis that we have now.
- 8.5 The expectation is that within the 3 years of a contract extension, officers will have greater knowledge of the requirements in the new world of pooling, and be able to tender specifically for the services required going forwards.
- 8.6 A costing analysis has been done to look at the likely fees to be paid to the custodian, assuming a two or three year transition period from June '18, and they are below the EU procurement limit. Therefore, having sought advice from Legal Services, there should be no issue with extending the contract.
- 8.7 The Committee are recommended to approve the request to extend the Custodian's contract by three years, to March '21, to allow for the transition of assets to BCPP.

Conclusion

- 9 This reporting period saw the value of the Fund rise, increasing by £21.8m to £2,121.7m. 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.
- 10 The Fund's contract with the custodian, JPMorgan, is due to expire in March 2018. The Committee are recommended to approve the request to extend the contract by three years, to March '21, to allow for the transition of assets to BCPP.

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
Appendix F	Joint Government Letter on Asset Pooling

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

APPENDIX A

DISTRIBUTION OF INVESTMENTS

INVESTMENT	30 Jun 2017			31 Mar 2017			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
UK Index Tracker	170,252	0.0%	0.0%	180,858	0%	0%		
Legal & General	403,973,879	30.6%	19.0%	398,285,857	30.4%	19.0%	20.0%	+/- 2%
TOTAL UK EQUITIES	404,144,131		19.0%	398,466,715		19.0%	20.0%	
GLOBAL EQUITIES								
Invesco	489,896,500	37.1%	23.1%	492,283,815	37.6%	23.4%	22.5%	+/- 2.5%
Threadneedle	125,484,056	9.5%	5.9%	121,818,723	9.3%	5.8%	5.0%	+/- 1%
Schroder	120,218,612	9.1%	5.7%	117,950,863	9.0%	5.6%	5.0%	+/- 1%
Morgan Stanley	181,969,012	13.8%	8.6%	179,016,235	13.7%	8.5%	7.5%	+/- 1%
TOTAL GLOBAL EQUITIES	917,568,180		43.2%	911,069,637		43.4%	40.0%	
TOTAL EQUITIES	1,321,712,312	100%	62.3%	1,309,536,351	100%	62.4%	60.0%	+/- 6%
ALTERNATIVES	298,028,352		14.0%	291,853,422		13.9%	15.0%	+/- 1.5%
PROPERTY	198,097,437		9.3%	194,605,361		9.3%	9.0%	+/- 1.5%
INFRASTRUCTURE	31,376,182		1.5%	31,380,593		1.5%	2.5%	+/- 1.5%
FIXED INTEREST								
Blackrock Interim	135,344,105	51.8%	6.4%	136,240,369	52.0%	6.5%	6.75%	+/- 1%
Blackrock	126,074,518	48.2%	5.9%	125,927,908	48.0%	6.0%	6.75%	+/- 1%
TOTAL FIXED INTEREST	261,418,623	100%	12.3%	262,168,278	100%	12.5%	13.5%	+/- 1.5%
TOTAL UNALLOCATED CASH	11,092,443		0.5%	10,394,546		0.5%	0.0%	+ 0.5%
TOTAL FUND	2,121,725,348		100%	2,099,938,551		100%	100%	

APPENDIX B

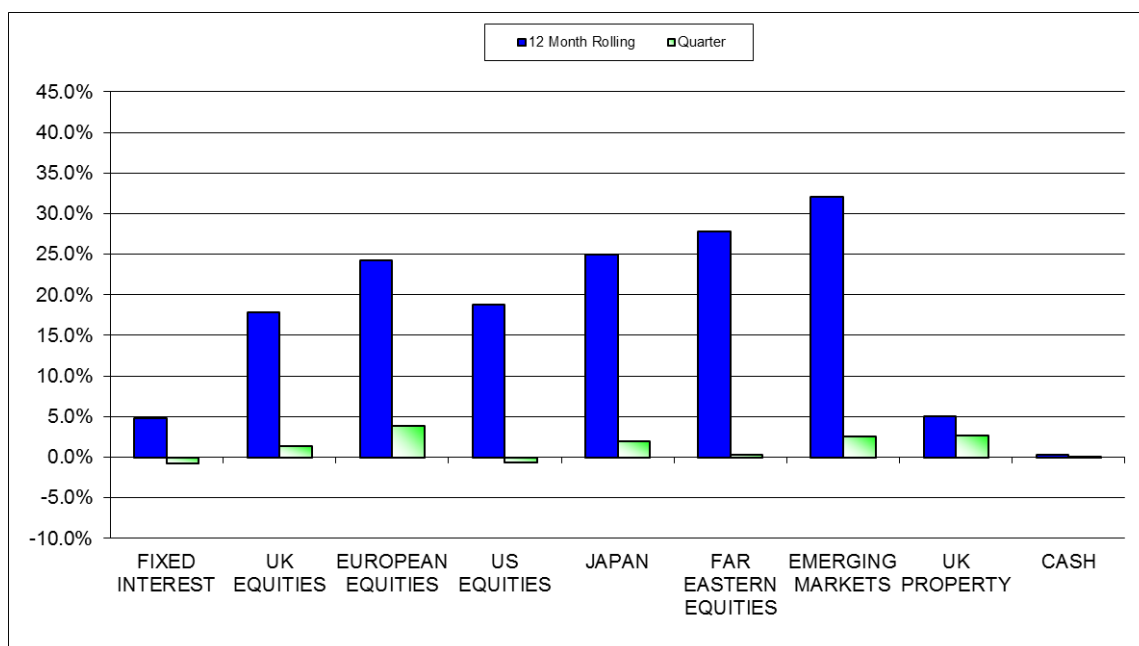
PURCHASES AND SALES OF INVESTMENTS
Quarter Ended 30th June 2017

	Purchases	Sales	Net Investment
Investment	£000's	(£000's)	£000's
UK Equities			
Legal & General	0	0	0
Global Equities			
Invesco	56,389	49,353	7,036
Threadneedle	10,595	9,598	997
Schroders	11,966	13,146	(1,180)
Morgan Stanley Global Brands	0	0	0
Total Equities	78,950	72,097	6,853
Alternatives			
Morgan Stanley	0	0	0
Total Alternatives	0	0	0
Property	546	3,726	(3,180)
Infrastructure	0	0	0
Fixed Interest			
BlackRock	0	0	0
Blackrock Interim	0	0	0
Total FI	0	0	0
TOTAL FUND	79,496	75,823	3,673

NB: Blackrock, Morgan Stanley and Legal & General 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 30th JUNE 2017



INDEX RETURNS	12 Months to Jun 17	Apr-Jun 17
	%	%
FIXED INTEREST	4.8%	-0.7%
UK EQUITIES	17.8%	1.4%
EUROPEAN EQUITIES	24.2%	3.9%
US EQUITIES	18.8%	-0.6%
JAPANESE EQUITIES	24.9%	1.9%
FAR EASTERN EQUITIES	27.8%	0.3%
EMERGING MARKETS	32.0%	2.6%
UK PROPERTY	5.0%	2.6%
CASH	0.3%	0.1%

APPENDIX D

Votes Summarised by Votes Cast				
Votes Cast at Management Group Level				
Report Period: 01 April 2017 to 30 June 2017				
Voting Guideline Code	For	Abstain	Against	Total
Adjourn Meeting	4	0	0	4
Advisory Board aggregate remuneration approval	2	0	0	2
All Employee Share Schemes	13	0	2	15
Alternate Auditor	2	0	0	2
Amend Class of Capital	2	0	0	2
Annual Incentive Plan Metrics	20	0	0	20
Anti-Takeover Provisions	0	3	0	3
Any Other Business	0	0	5	5
Appoint Audit Committee Member	7	0	4	11
Appoint Chairman	11	0	2	13
Appoint Independent Proxy	16	0	0	16
Appoint Nom Committee Member	13	0	8	21
Appoint Nomination Committee	4	0	0	4
Appoint Rem Committee Member	60	0	8	68
Approval of Executive's Remuneration Package	4	0	0	4
Approve / Ratify Prior Charitable Donations	0	0	1	1
Approve Agreement	8	0	0	8
Approve Majority Vote Standard for Directors	1	0	0	1
Approve Minutes	3	0	0	3
Auditor - Appointment	272	1	76	349
Auditor - Discharge	6	0	3	9
Auditor - Remuneration	15	0	32	47
Auth Board to Issue Shares	37	0	32	69
Auth Board to Issue Shares w/o Pre-emption	29	0	42	71
Authorise Board to set Board Size	1	0	0	1
Authorise Option Grants/Dilution	6	0	0	6
Authorise Political Donations & Expenditure	8	0	0	8
Authorised Capital	0	0	0	0
Authorised Capital [DE/CH/AT]	9	0	0	9
Board Alternate	2	0	0	2
Board of Directors aggregate remuneration approval	14	0	0	14
Board of Stat Audit - Candidate List (Italy)	0	0	2	2
Board of Stat Audit - PR List System (Italy)	0	0	2	2
Board Re-election Frequency	2	0	0	2
Board Rem - Allow Board to Set	2	0	0	2
Board Rem - Approve Amounts Actually Paid	1	0	0	1
Board Rem - Approve Bonuses	10	0	0	10
Board Rem - Special/Retirement Bonuses	1	0	0	1

Board Size for Year	14	0	1	15
'Bons Bretons' Warrants	1	0	0	1
Cancel Class of Capital	3	0	0	3
Cancel Treasury Shares	34	0	6	40
Capital Raising	1	0	0	1
Change Board Structure	2	0	0	2
Change of Name	1	0	0	1
Conditional Capital [DE/CH/AT]	5	0	0	5
De-classify the Board	4	0	0	4
Delegate Powers	38	0	0	38
Director - Discharge from Liability	137	0	0	137
Director Election - All Directors [Single]	2701	2	1088	3791
Director Election - Candidate List (Italy)	0	0	3	3
Director Election - CEO	0	0	3	3
Director Election - Chairman	69	0	243	312
Director Election - Chairs Audit Committee	253	0	27	280
Director Election - Chairs Nomination Com	226	0	54	280
Director Election - Chairs Remuneration Com	236	2	52	290
Director Election - Chairs Risk Com	42	0	4	46
Director Election - Executives	247	0	548	795
Director Election - Lead Ind. Director/DepCH	114	0	25	139
Director Election - Non-executive/Sup Board	2424	2	533	2959
Director Election - PR List System (Italy)	0	0	3	3
Director Election - Sits on Audit Committee	768	0	169	937
Director Election - Sits on Nomination Com	811	2	155	968
Director Election - Sits on Risk Com	181	0	22	203
Director Election - Slate	11	0	0	11
Director Election - Sts on Remuneration Com	783	0	124	907
Directors' Pensions	2	0	0	2
Distribute/Appropriate Profits/Reserves	133	0	6	139
Dividends - Ordinary	133	0	10	143
Dividends - Scrip	7	0	0	7
EGM Notice Periods	7	0	0	7
Elect Censeur (Board Observer)	6	0	0	6
Elect Fiscal Council Member (Brazil)	3	0	0	3
Elect Member Audit & Supervisory Board (JP)	43	0	0	43
Executive aggregate remuneration approval	29	0	0	29
Financial Statements	96	1	53	150
Financial Statements - Environmental Issues	92	1	51	144
Greenshoe Option	14	0	0	14
Individual Share Award	3	0	0	3
Individual Share Option Grant	0	0	2	2
Individual Total Remuneration - Past Year Approval	52	0	0	52
Insert New Holding Company	0	0	0	0

Issue Bonds (Other)	3	0	0	3
Issue Bonds with warrants	2	0	0	2
Issue Convertible Bonds	5	0	2	7
Long-term Deferral Systems	3	0	0	3
Long-term Incentive Plans	0	0	87	87
LTI: Performance Share Plan	3	0	0	3
LTIP Performance Measures	8	0	0	8
Meeting Formalities	11	0	0	11
Merger Related Compensation [US]	2	0	0	2
NED Remuneration - Fee Rate/Ceiling	25	0	2	27
NED Remuneration - Fees actually paid	4	0	0	4
NED Remuneration - Fees proposed for year	31	0	0	31
NED Remuneration - Policy	3	0	0	3
NED Share Plan	8	0	1	9
New Class of Capital	1	0	0	1
Non-voting agenda item	4	0	0	4
Other Changes to Governance Arrangements	79	0	3	82
Other Meeting Procedures	2	0	0	2
Other Payments to Directors/Corp Auditors	3	0	0	3
Procedure on Nom Com Appointment	2	0	0	2
Proportional Takeover Provisions	1	0	0	1
Ratify Co-option to Board	7	0	1	8
Reduce Nominal Value	1	0	0	1
Reduce or Reclassify Capital or Reserves	1	0	0	1
Reduce Share Premium Account	1	0	0	1
Reissue (Use) Treasury Shares	12	0	3	15
Related Party Transaction - Approve Report on	22	0	0	22
Related Party Transaction - Mandate	3	0	0	3
Related Party Transaction - Specific Transaction	0	0	0	0
Remove Supermajority Provisions	6	0	0	6
Remuneration Policy	11	0	47	58
Remuneration Report	11	0	285	296
Research Pending	0	0	0	0
Resolution Issues	1	0	0	1
Return of Capital	0	0	0	0
Right to Nominate Directors - 'Proxy Access'	2	0	0	2
Say-on-pay Frequency	203	442	6	651
Scheme of Arrangement	0	0	0	0
SH: Adopt Diversity & Equality Policies	0	0	0	0
SH: Adopt sustainable sourcing policies	1	0	0	1
SH: Adopt/amend Human Rights Policy	0	0	0	0
SH: Approve Cumulative Voting for Directors	1	0	1	2
SH: Approve Majority Vote Standard for Directors	2	0	0	2
SH: Charitable Donations - Improve Disclosure	4	0	0	4

SH: Director Election - All Directors [Single]	0	0	0	0
SH: Director Shareholding Requirement / Policy	1	0	0	1
SH: Disclosure	4	0	0	4
SH: Diversity & Equality Policies	12	0	0	12
SH: Employee Shareholder Reps (France)	5	0	0	5
SH: Enhanced Confidential Voting	1	0	0	1
SH: Establish Other Board Committee	5	0	0	5
SH: Improve CSR Disclosure	0	0	0	0
SH: Independent Chairman	28	0	0	28
SH: Introduce Meeting Convene Right	4	0	0	4
SH: Introduce/Amend Priority Shares	1	0	0	1
SH: Limit Pensionable Earnings	0	0	0	0
SH: Lobbying - Improve Disclosure	32	0	0	32
SH: Methane Emissions	6	0	0	6
SH: Other	1	0	1	2
SH: Other Board-related Proposals	5	0	0	5
SH: Other Executive Pay Proposal	0	0	0	0
SH: Other Natural Resource Management Issue	0	0	2	2
SH: Oversight, Risk & Internal Controls	1	0	0	1
SH: Performance Conditions - Add ESG Metrics	7	0	0	7
SH: Political Spending - Improve Disclosure	0	0	15	15
SH: Remove Director - Non-executive	0	0	0	0
SH: Remove Majority Vote Standard for Directors	1	0	0	1
SH: Remove Multiple Voting Rights	10	0	0	10
SH: Remove Supermajority Provisions	5	0	0	5
SH: Report on Climate Change Risks	0	0	0	0
SH: Report on Employee Health & Safety	0	0	0	0
SH: Report on Human Rights Issues	0	0	0	0
SH: Report on Labour Standards	0	0	0	0
SH: Request Advisory Vote on Remuneration	1	0	0	1
SH: Request Capital Distribution	0	0	0	0
SH: Request CSR/Sustainability Report	4	0	0	4
SH: Request Improved Board Diversity	1	0	0	1
SH: Request Say on Dividend	1	0	0	1
SH: Request Say on Severance	1	0	0	1
SH: Require Clawbacks	9	0	0	9
SH: Restrict Accelerated Vesting of LTIP Awards	8	0	0	8
SH: Right to Nominate Directors - 'Proxy Access'	14	0	0	14
SH: Separate Chairman & CEO	3	0	0	3
SH: Setting GHG reduction goals	0	0	0	0
SH: Shareholder Action by Written Consent	8	0	0	8
SH: Special Meetings Lower Threshold	15	0	0	15
SH: Sustainable Water Supply	0	0	0	0
SH: Taxation Strategies	1	0	0	1

SH: Tobacco	0	0	0	0
SH: Total Remuneration - Restrain	0	0	0	0
SH: Voting Procedures	14	0	0	14
SH: Weapons	0	0	0	0
Share Buy-back Authority (inc Tender Offer)	32	0	53	85
Share Consolidation	4	0	0	4
Share Issue - Consideration for Offer	5	0	3	8
Share Issue - Contributions in Kind	14	0	0	14
Share Issue - Employees - Discr Opt/Shares	5	0	0	5
Share Issue - Employees - Free Shares	9	0	0	9
Share Issue - Employees - Savings Plans	21	0	0	21
Share Issue - Other	21	0	0	21
Share Issue - Overall Ceiling	5	0	0	5
Share Issue w/o Pre-emption set Issue Price	7	0	0	7
Share Issue w/o Pre-emption w Priority Per	1	0	10	11
Share Split	2	0	0	2
Significant Transactions	0	0	1	1
Sits on Corporate Responsibility Committee	0	0	1	1
Special Meetings - Introduce Right	2	0	0	2
'Spill' Resolution (Australia)	0	0	1	1
Substitute Member Audit & Sup Board (JP)	9	0	0	9
Termination Provisions (Contract clauses)	11	0	0	11
Treasury Shares - Set Re-issue Price Range	3	0	1	4
Unclassified	0	0	0	0
	11,160	456	3,927	15,543

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	G	G
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	G
H2	G	G
H3	G	G
H4	G	G
H5		
H6		
H7	G	A
H8	G	G
H9	G	G
H10	G	G
H11	G	G
H12	G	G
H13	G	G
Internal Dispute Resolution		
I1	G	G
I2	G	G
I3	G	G
I4	G	G
I5	G	G
I6	G	G
I7	G	G

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

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**Department for
Communities and
Local Government**

Chairs of LGPS pension funds
Chairs of LGPS investment pools

Marcus Jones MP
Minister for Local Government

**Department for Communities and Local
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22 AUG 2017

**LOCAL GOVERNMENT PENSION SCHEME (LGPS) INVESTMENT POOLING: SPRING
2017 PROGRESS REVIEW**

Thank you for your reports on progress to 31 March and updates to our officials on developments since then. We have been pleased to see that most pools in development have been moving at pace towards becoming operational, including launching procurements for pool operators and, where new operators are being established, making key senior appointments and preparing applications for Financial Conduct Authority (FCA) authorisation. We have also been pleased to note progress in some pools towards your ambitions on infrastructure investment, with some significant new funding committed this year. We are well aware of the substantial demands on your staff and resources required to deliver the progress already made and the challenges still to be overcome in order to deliver, and we are grateful to all those involved.

However in some areas we have not yet received the assurance we require. We have made clear that all funds must fully participate in a pool and all pools must have an FCA authorised operator. In order to achieve the maximum savings, funds must invest through the pools, with minimal exceptions where there is a value for money case, and they must delegate manager selection to the operator. Our officials will of course continue to engage with funds and pools where there are outstanding issues over the summer. But if we are not satisfied that there is a clear path and timetable for delivery, the Department for Communities and Local Government will consult on further action, including use of the powers available.

We will expect a further report on progress to 30 September from all pools in October. At that time we will want to see further details of savings achieved and planned, as well as plans for reporting, including on fees and net performance by asset class, and for increasing your infrastructure investment in line with your ambition.

We remain committed to this vital long term change programme in order to deliver improved net investment performance and capacity to invest in infrastructure, and to protect the sustainability of the LGPS for the benefit of its members. We look forward to working with

you to bring the first stage of the reform to a successful conclusion with the establishment of pools across the LGPS.



CHIEF SECRETARY TO THE TREASURY



MARCUS JONES MP



CAROLINE NOKES MP

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

Report to:	Pensions Committee
Date:	5 October 2017
Subject:	Investment Management Report

Summary:

This report covers the management of the Lincolnshire Pension Fund assets over the period from 1st April to 30th June 2017.

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

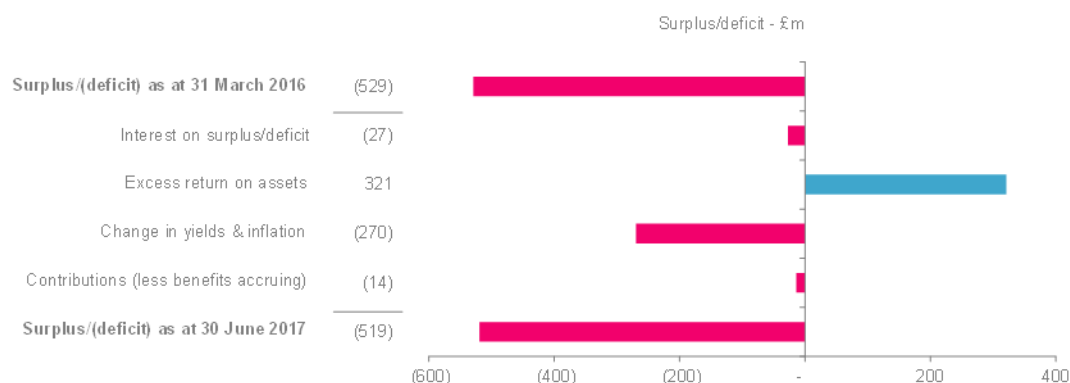
1. Funding Level Update

- 1.1 The funding update is provided to illustrate the estimated development of the funding position of the Lincolnshire Pension Fund from the latest formal valuation, 31st March 2016, to the current quarter end, 30th June 2017. The accuracy of this type of funding update is expected to decline over time, as the period since the last valuation increases. This is because the funding update does not allow for changes in individual members' data since the last valuation. It is, however, a useful tool to assist the Committee to identify whether the time is right to reduce the overall risk in the asset allocation of the Fund, as it approaches a 100% funding level.
- 1.2 The graph below shows the funding level at the latest formal valuation, at 76.9%, and its movement to 30th June 2017, where the funding level has increased to 80.7%.

Change in funding level since last valuation



- 1.3 Over that same time period the deficit, in real money, has decreased from £529m to £519m. The chart below shows the main impactors on the deficit, with the excess return in assets offsetting the negative changes in yields and inflation.



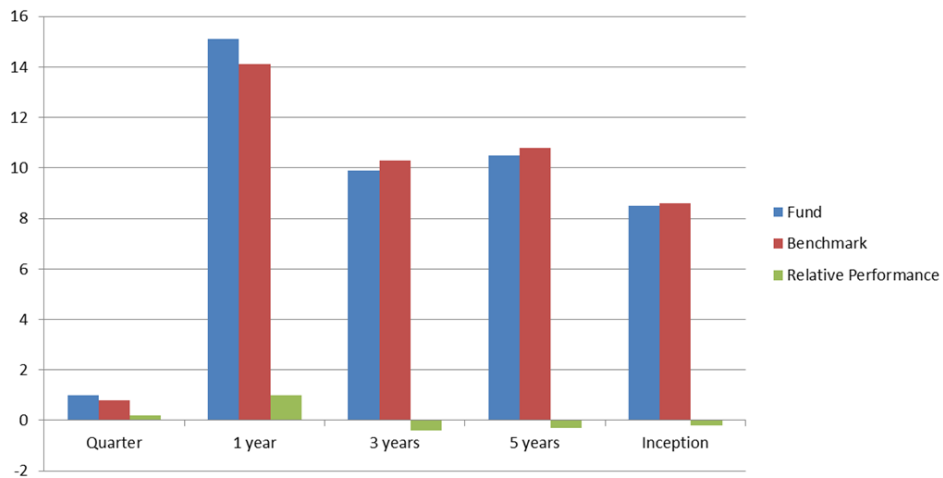
- 1.4 On a shorter term time horizon, looking at the last quarter, the funding level increased from 78.9% to 80.7% between 31st March 2017 and 30th June 2017, and the deficit reduced from £574m to £519m.

2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £21.8m during the quarter from £2,099.9m to £2,121.7, as the table below shows.

Asset Class	Q2 2017 £m	Q1 2017 £m	Asset Alloc ation %	Strategic Asset Allocation %	Difference %
UK Equities	404.1	398.5	19.0	20.0	(1.0)
Global Equities	917.6	911.1	43.2	40.0	3.2
Alternatives	298.0	291.9	14.0	15.0	(1.0)
Property	198.1	194.6	9.3	9.0	0.3
Infrastructure	31.4	31.4	1.5	2.5	(1.0)
Fixed Interest	261.4	262.2	12.3	13.5	(1.2)
Cash	11.1	10.4	0.5	0.0	0.5
Total	2,121.7	2,099.9	100.0	100.0	

2.2 The graph and table 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.



	Fund	Benchmark	Relative Performance
Quarter	1.0	0.8	0.2
1 year	15.1	14.1	1.0
3 years	9.9	10.3	(0.4)
5 years	10.5	10.8	(0.3)
Inception	8.5	8.6	(0.2)

* Since Inception figures are from March 1987

2.3 Over the quarter, the Fund produced a positive return of 1.04% (as measured by JPMorgan), outperforming the benchmark by 0.27%, which returned 0.77%. The Fund was ahead of the benchmark over the quarter and one

year period, but behind its benchmark over three and five years, and since inception.

3. Hymans Robertson Manager Ratings

- 3.1 Hymans Robertson, as the Fund's Investment Consultant, regularly meet managers to discuss current issues, management changes and performance. Each 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	
Columbia Threadneedle Global Equity				X	
Schroders Global Equity				X	
Morgan Stanley Global Brands					X
Morgan Stanley Alternative Investments					X
Blackrock Fixed Interest					X
Standard Life European Property				X	
Innisfree Continuation Fund 2					X
Innisfree Secondary Fund					X
Innisfree Secondary Fund 2					X
Franklin Templeton European Real Estate				X	
Franklin Templeton Asian Real Estate				X	
RREEF Ventures Fund 3			X		
Igloo Regeneration Partnership				X	
Aviva Pooled Property Fund				X	
Royal London PAIF				X	
Standard Life Pooled Property Fund				X	
Blackrock Property				X	

4. Individual Manager Update

- 4.1 The manager returns and index returns for equity, fixed interest and alternative managers are shown in the table below. A detailed report on each manager outlining the investment process, performance, purchases and sales and Hymans Robertson's manager view can be found after the table at 4.2.
- 4.2 Manager Returns – As shown below it was a good quarter for the Fund with all managers producing a positive absolute return. Only two managers underperformed their benchmark over that period, Invesco and Blackrock. Over the 12 month period, all managers have produced a positive absolute

return, with only Columbia Threadneedle and Morgan Stanley Global Brands having underperformed their benchmark.

	3 months ended 30/06/17			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	Target p.a. %
Legal & General (UK Equities)* <small>*From February 17</small>	1.4	1.4	0.0	N/A	N/A	N/A	Match Index
Invesco (Global Equities (ex UK))	(0.5)	0.1	(0.6)	23.3	22.0	1.1	+1.0
Columbia Threadneedle (Global Equities)	3.0	0.6	2.4	23.6	22.9	0.6	+2.0
Schroder's (Global Equities)	1.9	0.4	1.5	23.9	22.2	1.4	+3.0
Morgan Stanley Global Brands	1.6	0.1	1.5	21.0	21.7	(0.5)	n/a
Blackrock (Fixed Interest)	(0.7)	(0.7)	0.1	4.9	4.8	0.2	Match Index
Blackrock Interim (Fixed Interest) <small>*From Sept 2016</small>	0.2	0.2	0.0	N/A	N/A	N/A	Match Index
Morgan Stanley (Alternative Investments)	1.3	1.1	0.2	7.8	4.5	3.2	3M LIBOR + 4%

Currency Mandates

- 4.3 At the January Committee meeting, as part of the Investment Strategy Review, it was decided that the currency overlay mandates would be terminated, and that this would be done through a phased wind-down, with Officers having delegated authority to manage the process. Having discussed the most appropriate approach with the managers involved and the Investment Consultant, it was agreed that HSBC would terminate their positions in June 2017 and Record would reduce their program at one third every three months, starting in March 2017, to have been fully closed by February 2018.
- 4.4 Officers have been monitoring the performance of Record, and in August it was decided that the withdrawal of the programme should be brought forward. The cashflow from the programme had been predominantly negative since February, as rates had traded in a narrow corridor where Record's systematic hedging process doesn't work. In order for them to be successful they need repeatable patterns of behaviour, where currency is trading in a particular direction.

- 4.5 Given exchange rate expectations, and particularly due to the uncertainty of Brexit and the ECB's tapering off of quantitative easing (QE), it was envisaged more outflows would be required over the coming months. Discussion was had with Record, and Officers requested the value to crystallise exposures immediately. The value at that point was a negative cashflow of approximately £1.3m. Given what had been paid out over the past months, and the potential for similar considerable amounts over the coming months, it was felt that the certainty of the £1.3m loss was a better outcome than the potentially larger losses that may occur over the coming months.

Infrastructure

- 4.6 Also approved as part of the same report at the January Committee, was an increase in the strategic allocation to infrastructure, and authority delegated to Officers to identify new investments to commit to. Following research and due diligence undertaken by Officers and the Investment Consultant, it was agreed to commit £15m to Infracapital Greenfield Partners I.
- 4.7 Infracapital Greenfield Partners I (IGP I) is targeting £1 billion in capital commitments to create a diversified portfolio of European greenfield economic infrastructure investments, in order to provide investors with capital appreciation and yield. It will focus on later stage development, construction and / or expansion of long-term infrastructure through projects and corporates. Projects in later stage development are in the post planning and post feasibility stages, undertaking activities such as final design, contracting and supply chain arrangement, capital fund raising, due diligence and structuring activities necessary to reach financial close. Such projects have business economics substantially defined and clear visibility over secure cash flows. The manager believes that the targeted stage of later development / construction provides the potential to deliver premium risk-adjusted returns and an opportunity to mitigate key risks.
- 4.8 IGP I will target eight to fifteen investments, based on an equity investment in the range of £25 million to £200 million, including buy and build investments or roll out strategies. The fund has a 25 year term and is targeting a mid-teens gross IRR over the entire life of the Fund. There are two phases to the fund's life – an initial period where significant capital appreciation is expected, and an operating period during which high teens yield is expected to be delivered. Investors will have the opportunity to exit after the initial period, or (with more than 66.6% investor support) continue to the operating period.
- 4.9 Progress on this investment will be included in the annual property and infrastructure report that is brought to the Committee each July.

Lincolnshire Pension Fund
Global Equities – Invesco (Global Ex UK Enhanced)
Quarterly Report June 2017

Investment Process

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

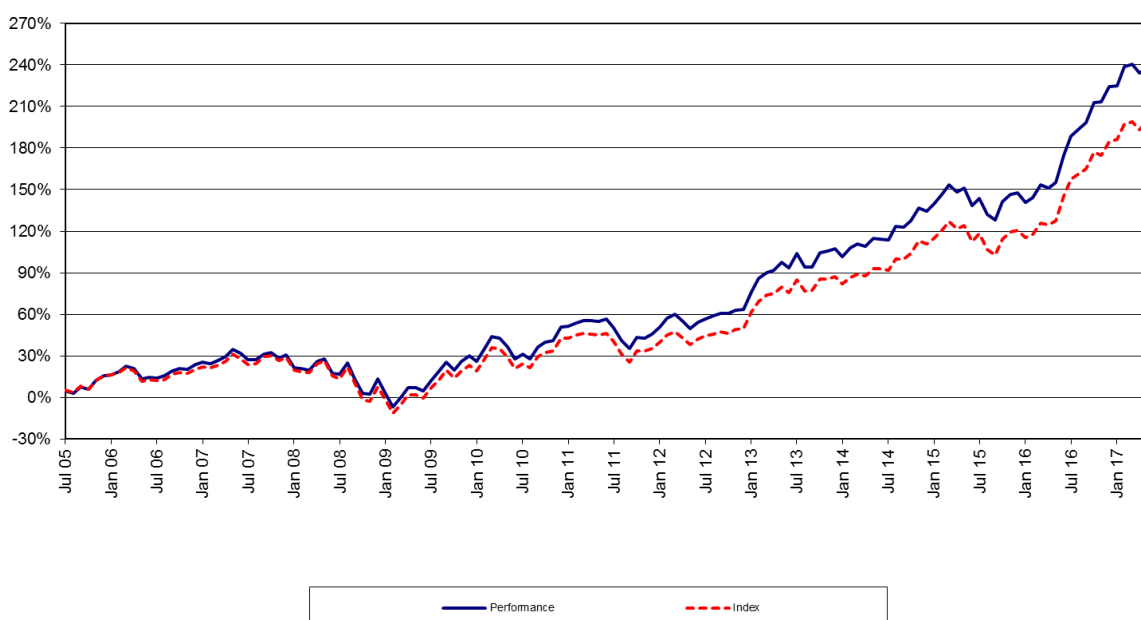
Portfolio Valuation

Value at 31.03.17	Value at 30.06.17
£492,283,815	£489,896,500

Performance

During the quarter Invesco's strategy underperformed its benchmark. All of the underperformance came in May, and was partially offset by outperformance in April and June. Stock selection caused the drag on performance, whilst style factors, sectors, countries and currencies were near neutral as expected. Within stock selection, the stocks with high value scores were the main detractors. Performance over the longer term continues to be above the target return of +1%.

Invesco Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Invesco	(0.5)	23.3	16.5	17.0	10.7
MSCI World ex UK	0.1	22.0	15.8	16.0	9.6
Relative Performance	(0.6)	1.1	0.6	0.9	1.0

* annualised, inception date 1st July 2005

Turnover

Holdings at 31.03.17	Holdings at 30.06.17	Turnover in Qtr %	Turnover in Previous Qtr %
506	471	9.3	8.7

Purchases and Sales

During the quarter, Invesco made a number of stock adjustments to the portfolio. Top purchases over the quarter included adding Deere, Chevron and New Zealand Banking Group into the portfolio, and increasing their positions in Canadian National Railways, Humana and American Tower. Top sales over the quarter were in selling out of their positions in ANZ Banking Group and Yahoo, and decreasing their positions in Verizon Communications and Qualcomm.

Largest Overweights

Citigroup	0.90%
Walmart	0.85%
Boeing	0.71%
JP Morgan Chase	0.65%
Canadian National Rail	0.58%

Largest Underweights

Visa	(0.51%)
Amazon	(0.49%)
Exxon Mobil	(0.39%)
Alphabet	(0.38%)
Medtronic	(0.35%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple	£13,026,828
2	JP Morgan Chase	£7,772,964
3	Microsoft	£7,386,132
4	Citigroup	£6,971,543
5	Johnson & Johnson	£5,841,523

6	Wal-Mart	£5,753,763
7	AT&T	£5,253,037
8	Procter & Gamble	£5,106,147
9	Boeing	£5,067,614
10	Bank of America	£4,839,337

Hymans Robertson View

In April, Invesco announced the acquisition of Source, a specialist ETF provider. The plan is to combine Source into Invesco's existing PowerShares ETF business. The deal is due to complete in Q3 2017, subject to regulatory approval. There are no concerns that this will impact the mandate.

Risk Control

The predicted tracking error of the portfolio slightly decreased to 1.02%, compared to a target of 1%, with 93% of the active risk associated with Stock Selection Factors.

Lincolnshire Pension Fund Global Equities – Schroders Quarterly Report June 2017

Investment Process

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

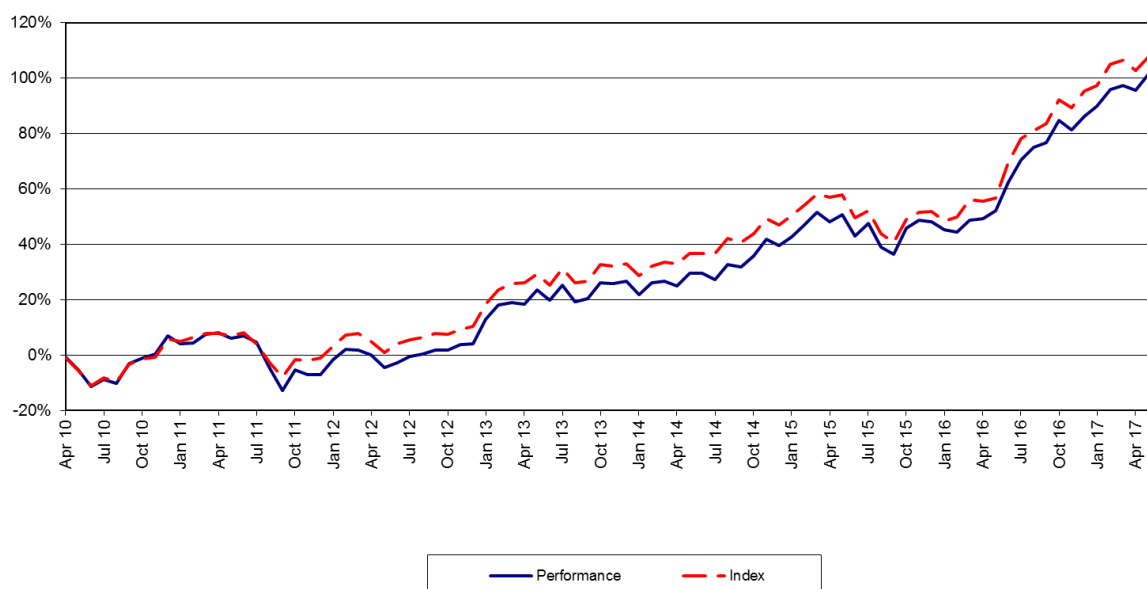
Portfolio Valuation

Value at 31.03.17	Value at 30.06.17
£117,950,863	£120,218,612

Performance

The portfolio outperformed over the quarter, with stock selection the primary factor driving the outperformance. Financials and IT positions shared the plaudits for the robust relative return. Energy and telecom names detracted marginally, though the portfolio's underweight in energy offset much of the sector headwind. Performance was strong in portfolio's North America, Asia ex Japan and emerging markets names, and only a modest headwind from Europe prevented all regions from contributing positively.

Schroders Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Schroders	1.9	23.9	15.8	15.6	10.1
MSCI ACWI (Net)	0.4	22.2	14.9	14.8	10.6
Relative Performance	1.5	1.4	0.8	0.7	(0.4)

*annualised, Inception date April 2010

Turnover

Holdings at 31.03.17	Holdings at 30.06.17	Turnover in Qtr %	Turnover in Previous Qtr %
78	77	9.1	7.2

Purchases and Sales

Several positions were closed during the quarter, as either the investment thesis played out or the stock deviated from Schroders expectations for the business. Proceeds were rotated into higher conviction ideas. The portfolio's position in Statoil was sold over the quarter, and a position was built in SKF, a component manufacturer. In addition, the manager also bought Mitsubishi UFJ Financial, a well-diversified bank by geography and business line, with a capable management team focused on "reimaging" the business.

Top 5 Contributions to Return

Citigroup	0.2%
Alibaba Group	0.2%
Nestle	0.2%
Taiwan Semiconductor	0.2%
HDFC Bank	0.2%

Bottom 5 Contributions to Return

Cimarex Energy	(0.3%)
Schlumberger	(0.2%)
T-Mobile	(0.2%)
Synchrony Financial	(0.1%)
Walgreens Boots Alliance	(0.1%)

Top 10 Holdings

1	Citigroup	£4,055,432
2	Alphabet	£3,838,691
3	Comcast	£3,459,500
4	JP Morgan Chase	£2,983,853
5	Taiwan Semiconductor	£2,917,782

6	Amazon	£2,754,732
7	United Health	£2,753,388
8	Nestle	£2,748,244
9	Dow Chemical	£2,679,465
10	Reckitt Benckiser	£2,666,347

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 – Columbia Threadneedle

Quarterly Report June 2017

Investment Process

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

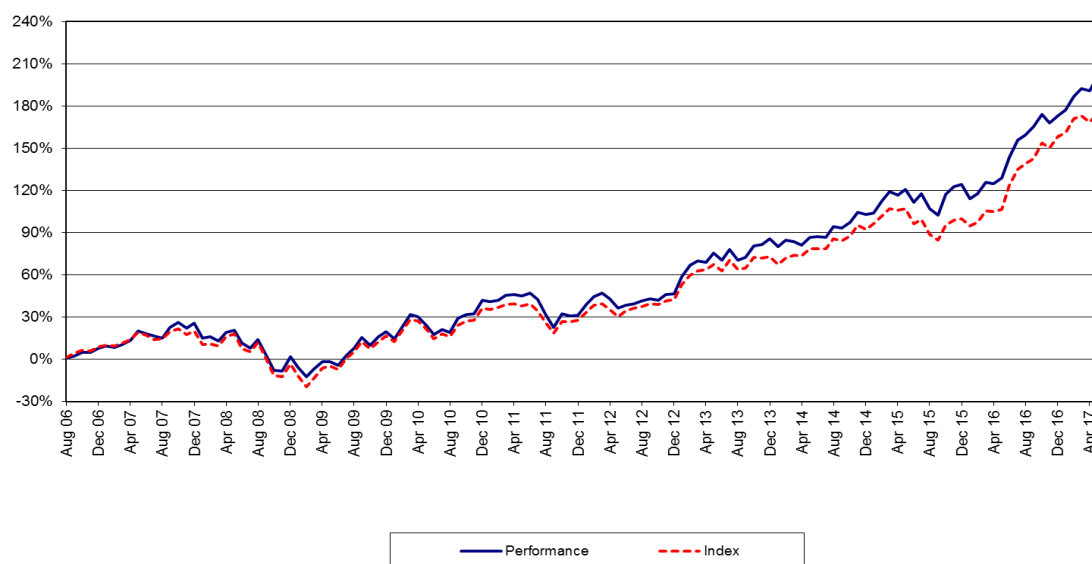
Portfolio Valuation

Value at 31.03.17	Value at 30.06.17
£121,818,723	£125,484,056

Performance

Columbia Threadneedle outperformed its benchmark strongly over the quarter. Stock selection drove returns: in sector terms, technology, financials and the consumer sectors led the way, while at the regional level, the manager's picks in emerging markets, East Asia, Japan and the US all proved particularly positive. Technology stocks were the key contributors over the quarter, continuing their strong run from the first three months of the year. Ecommerce giant Alibaba Group surged after forecasting revenue growth in excess of 45% for 2018, while Tencent rallied after Deutsche Bank predicted a 46% rise in the company's quarterly revenues. Nintendo also benefited from buoyant demand for its Switch console, while Activision Blizzard traded higher on robust sales.

Columbia Threadneedle Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Columbia Threadneedle	3.0	23.6	17.2	16.9	10.6
MSCI ACWI	0.6	22.9	15.5	15.4	9.7
Relative Performance	2.4	0.6	1.5	1.3	0.8

* annualised, inception date 01/08/2006

Turnover

Holdings at 31.03.17	Holdings at 30.06.17	Turnover in Qtr %	Turnover in Previous Qtr %
85	86	7.0	12.5

Purchases and Sales

During the quarter Threadneedle initiated new positions in Halliburton, Pepsico, Nvidia, Diamondback Energy and Illumina. Positions in Align Technology, Royal Dutch Shell and Bank of Ireland were fully sold.

Top 5 Contributions to Return

Tencent Holdings	0.38%
Nintendo	0.37%
Alibaba	0.30%
PT Bank Rakyat Ind	0.23%
Activision	0.21%

Bottom 5 Contributions to Return

United Rentals	(0.18%)
EOG Resources	(0.16%)
Diamondback Energy	(0.15%)
TJX Companies	(0.12%)
Suncor Energy	(0.10%)

Top 10 Holdings

1	Alphabet	£4,266,212
2	Amazon	£2,949,902
3	Facebook	£2,898,799
4	Schwab (Charles)	£2,788,440
5	Unilever	£2,537,334

6	Tencent Holdings	£2,524,868
7	PT Bank Rakyat Ind	£2,506,725
8	Mastercard	£2,451,253
9	Anheuser-Busch	£2,386,585
10	Visa	£2,371,628

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 – Morgan Stanley Global Brands

Quarterly Report June 2017

Investment Process

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

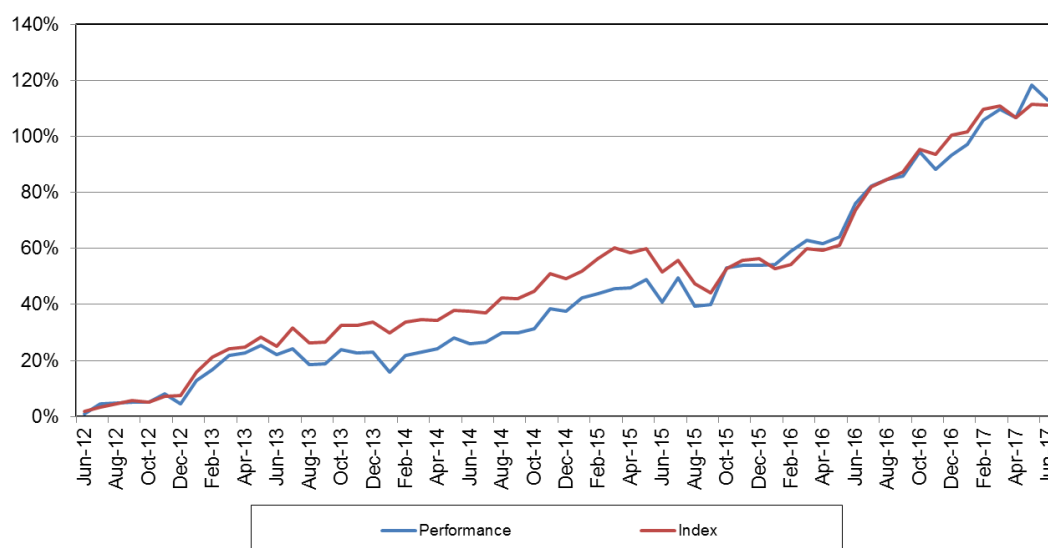
Portfolio Valuation

Value at 31.03.17	Value at 30.06.17
£170,016,235	£181,969,012

Performance

During the quarter, the Morgan Stanley Global Brands Fund performed strongly, despite a very poor performance in June. Over the quarter sector allocation was neutral, having been strongly positive in the first quarter (1Q17), with the fund's zero weighting of Energy stocks still providing some support. The main source of outperformance was again in Staples where the holdings performed 4.57% better than the sector, driven by Reckitt Benckiser and Unilever. The largest contributors to absolute performance during the quarter were Reckitt Benckiser, Unilever and Zoetis. Top absolute detractors were Twenty-First Century Fox, Walt Disney and Automatic Data Processing.

Morgan Stanley Global Brands Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley Global Brands	1.6	21.0	19.2	16.1	16.0
MSCI World Index	0.1	21.7	15.3	15.7	15.8
Relative Performance	1.5	(0.5)	3.3	0.4	0.2

*annualised, inception date 18/06/2012

Purchases and Sales

There were no initial purchases or final sales in the portfolio in the second quarter. The fund further reduced positions in Nestlé, now below 1.50%, down from a top three position at the end of 2015. Over time, the manager has become increasingly concerned about strategic inertia and growing centralization at Nestlé. Bringing in a new CEO from outside should help the company. In terms of valuation, Nestlé is amongst the names with the lowest free cash flow yield in the portfolio. During the period, positions were added to and reduced in select Information Technology, Consumer Staples, Materials, Industrials, Consumer Discretionary and Health Care names, for quality or valuation reasons.

Top Contributors to Return

Reckitt Benckiser	69bps
Unilever	61bps
Zoetis	36bps

Bottom Contributors to Return

Twenty-First Century Fox	(76bps)
Walt Disney	(34bps)
Automatic Data Processing	(9bps)

Top Ten Holdings

Company	Industry	% Weighting
Unilever	Personal Products	9.65
Reckitt Benckiser	Household Products	8.92
Microsoft	Software	6.75
Philip Morris	Tobacco	6.53
L'Oreal	Personal Products	5.41
Accenture	IT Services	4.86
British American Tobacco	Tobacco	4.55
Twenty-First Century	Media	4.50
Altria	Tobacco	4.47
Reynolds American	Tobacco	4.38

Hymans Robertson View

Morgan Stanley recently announced that Christian Derold, a Portfolio Manager within the International Equity Team, will be retiring at the end of the year. Nathan Wong has been hired as a replacement and Christian's sector research responsibilities will be shared across the team. Hymans do not consider this a material change, as Christian Derold did not cover any stocks in the Global Brands portfolio and a replacement has been hired.

Lincolnshire Pension Fund **Passive Bonds – Blackrock** **Quarterly Report June 2017**

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 All Stocks UK Gilt Index Fund	Sampled

Portfolio Valuation at 30th June 2017

Portfolio	31.03.17 £	30.06.17 £
Corporate Bond All Stocks Index Fund	67,580,423	67,467,917
Over 5 Years UK Index-Linked Gilt Index Fund	41,896,507	40,885,768
All Stocks UK Gilts*	26,763,537	26,990,517
Cash (residual)	1	1
Total	136,240,468	135,344,203

*Switched from Overseas Bond Index Fund in February 17

Performance

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	(0.7)	4.9	9.6	7.2	7.7
Composite Benchmark	(0.7)	4.8	9.4	7.0	7.7
Relative Performance	0.1	0.2	0.2	0.1	0.1

*annualised since inception 28/07/10

Hymans Robertson View

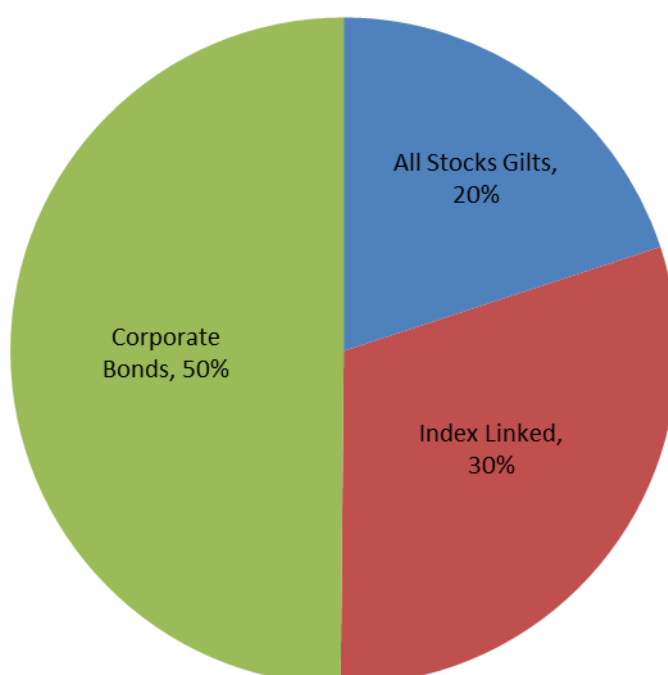
There were no significant developments within the Index Fixed Income team over the quarter.

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 All Stocks UK Gilt Index Fund	20%

The pie chart below shows the allocation as at 30th June 2017.



Lincolnshire Pension Fund

Alternative Investments – Morgan Stanley

Quarterly Report June 2017

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 Fund allocation. The manager has a target to beat the return of 3 Month LIBOR + 4%. Morgan Stanley also manages the legacy private equity investments, however they are excluded from this report.

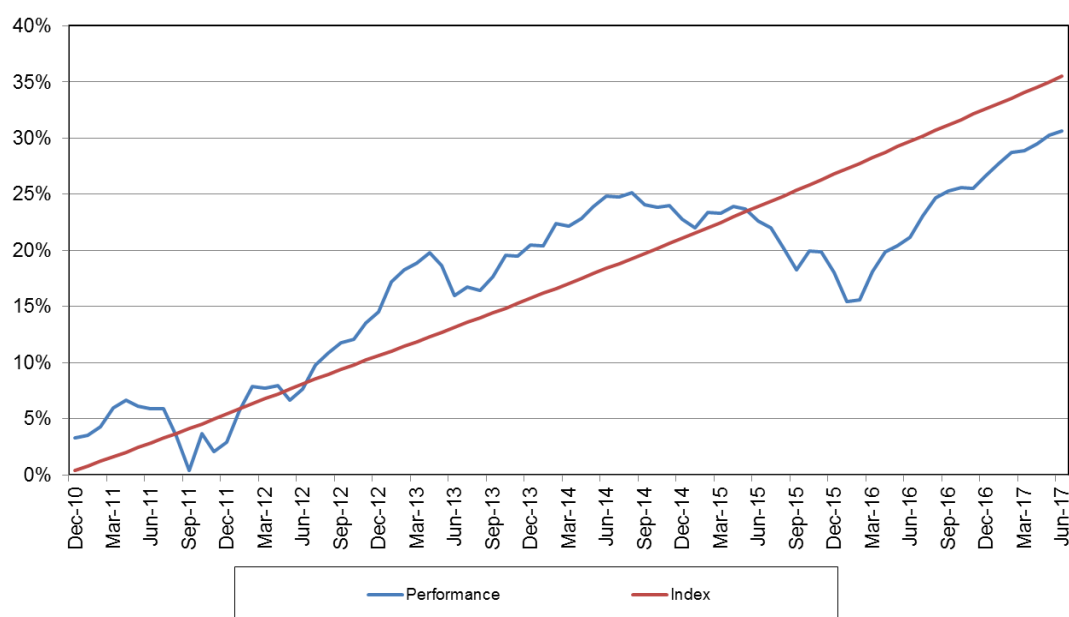
Portfolio Valuation

Value at 31.03.17	Value at 30.06.17
£246,459,818	£256,042,873

Performance

The portfolio outperformed during the second quarter. Private market investments and frontier equities drove absolute returns, offsetting losses from listed real assets and commodities.

Morgan Stanley AIP Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley	1.3	7.8	1.5	3.9	4.1
3 Month LIBOR + 4%	1.1	4.5	4.6	4.6	4.7
Relative Performance	0.2	3.2	(2.9)	(0.7)	(0.6)

* 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;

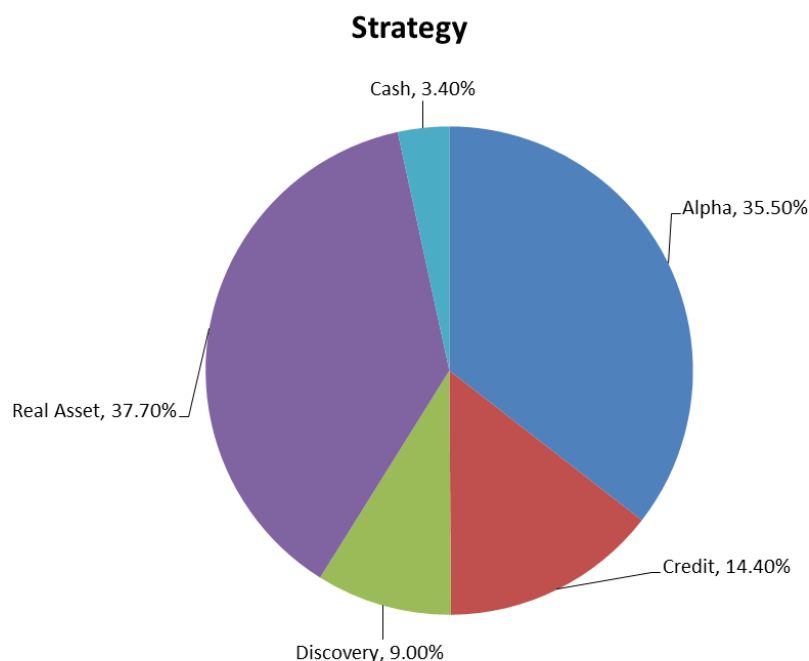
Alpha These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.

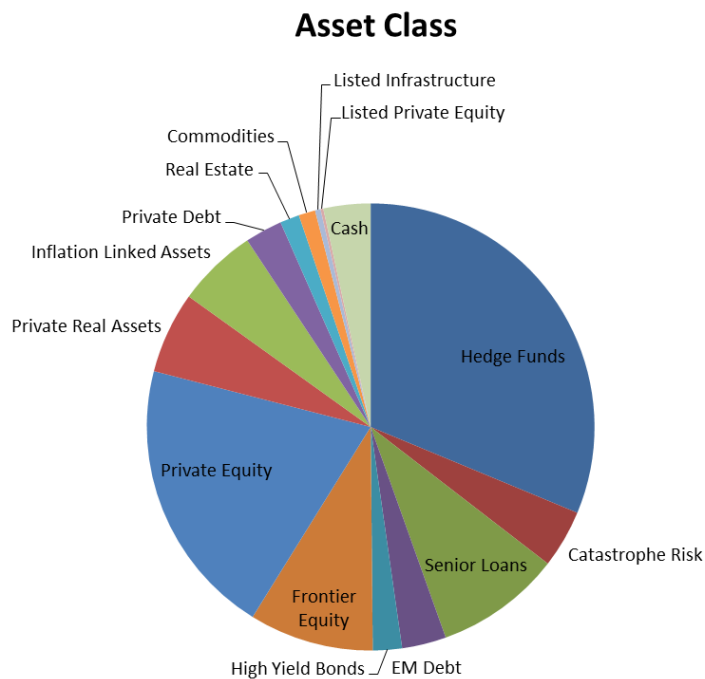
Long Term Real Asset These are long term investments that seek to access illiquidity premium. Investments include Private Equity, Infrastructure, Real Estate, Commodities and Inflation – linked strategies.

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 pie charts below shows the strategy and asset class positions of the Morgan Stanley portfolio as at 30th June 2017.





Portfolio Positioning

MS continue to believe the environment for stock picking is improving. They maintain a preference in hedge funds with relatively lower beta due to elevated valuations and the presence of a wide range of risks which may be under-priced in the market. Europe continues to look relatively appealing from a valuation and event perspective.

On the liquid side, MS maintain a tactical underweight based predominantly on valuation levels. The credit allocation is comprised of senior loans, high yield and EM debt, where they continue to favour senior loans and keep a relatively low duration exposure. Listed private equity offers liquid exposure to private small and medium sized companies with a significant yield advantage, but prices have recovered to long term averages and weaker earnings could put some pressure in dividend coverage.

MS continue to build out the private markets portfolio. They remain disciplined in their small and mid-cap private equity bias and see an increasing amount of attractive co-investment opportunities with their high quality partners. This quarter, MS completed their diligence on farmland opportunities in Australia and have added this complementary southern hemisphere exposure alongside previous commitments to U.S. farmland.

Hymans Robertson View

There were no significant developments over the quarter.

Risk Control

Portfolio volatility since inception is 3.77%, within the guidelines specified by the mandate.

Conclusion

Over the quarter, the Fund produced a positive return of 1.04%, outperforming the benchmark which returned 0.77%.

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.

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

Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	5 October 2017
Subject:	Performance Measurement Annual Report

Summary:

This report sets out the Pension Fund's longer term investment performance, for the period ending 31st March 2017.

Recommendation(s):

That the Committee note the report.

Background

1 INTRODUCTION

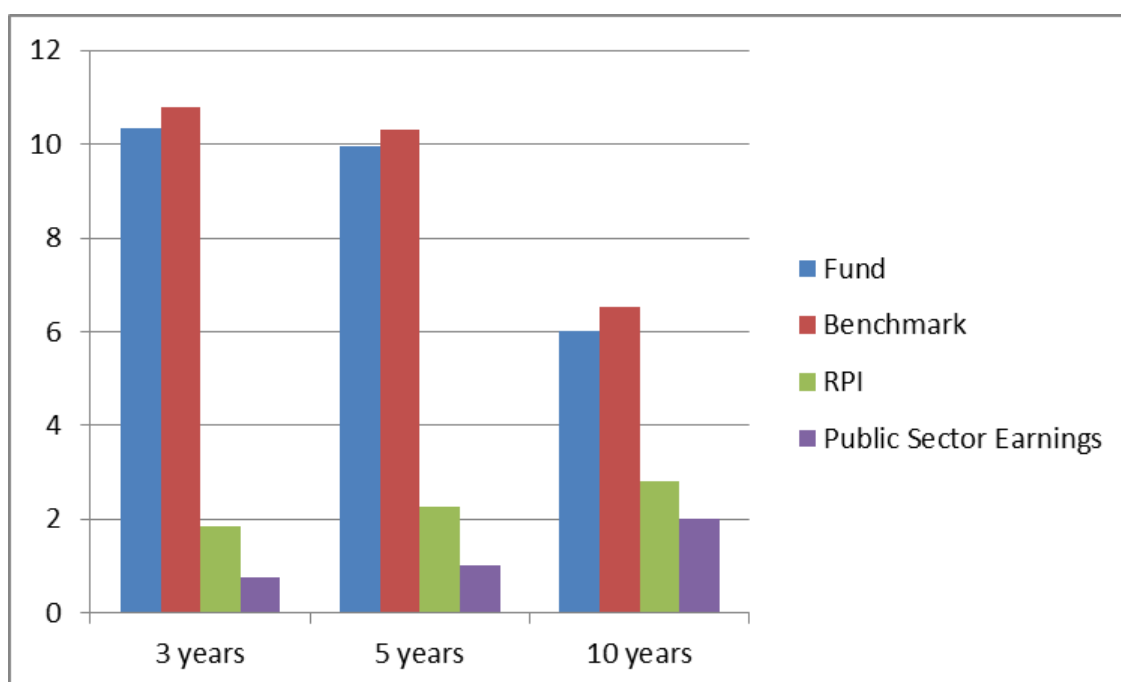
- 1.1 The Pension Fund uses two suppliers for the measurement of the Fund's performance. JPMorgan, the Fund's custodian, calculates the Fund's investment performance and compares it with the returns of the strategic asset allocation benchmark (i.e. the return achieved by the mix of assets as recommended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

2 LONGER TERM PERFORMANCE FOR YEAR ENDED 31 MARCH 2017

- 2.1 The short term performance of the Fund and the performance of its managers are reported in the quarterly Investment Management report. This report will focus on the longer term performance of the Fund overall, compared to its strategic benchmark and the pay and price increases that impact the liabilities of the Fund. At the latest valuation, as at March 2016, the Actuary has calculated the employers contribution strategy based on an assumed annual return of 4.0% over the long term.

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

INFLATION INCREASES AND INVESTMENT RETURNS FOR UP TO 10 YEARS ENDED 31/3/2017



	3 years annualised %	5 years annualised %	10 years annualised %
Retail Prices Index increases	1.9	2.3	2.8
Public sector average Earnings increases	0.8	1.0	2.0
LCC Fund performance	10.4	10.0	6.0
LCC Benchmark Performance	10.8	10.3	6.5
Relative Performance	(0.4)	(0.3)	(0.5)

2.3 10 Year Returns

The Fund's performance over ten years, at 6.0%, is slightly behind the Fund's Benchmark return of 6.5%. This return is ahead of both inflation and average earnings over the last ten years, to which the scheme's liabilities are linked, which were 2.8% and 2.0% p.a. respectively. The biggest impact on performance over this period is from 2010. This was a result of a number

of asset allocation change made over the year and those changes not reflected in the benchmark until they were all complete. This drift from the benchmark over the year negatively impacted the performance as can be seen in the table at paragraph 3.4

2.4 5 Year Returns

Five year returns of 10.0% per annum are ahead of both price and pay inflation. The Fund's actual performance is behind the strategic Benchmark return of 10.3%. This reflects the underperforming active managers over the period.

2.5 3 Year Returns

Three year returns, at 10.4%, are ahead of both inflation and average earnings, but behind the strategic Benchmark return of 10.8%. This reflects underperformance by the active global equity manager, Neptune and the absolute return bond manager, BMO, both of whom were terminated in 2016.

3 ATTRIBUTION ANALYSIS

- 3.1 The attribution of the return over any period can be split between asset allocation and stock selection.
- 3.2 The asset allocation contribution reflects the extent to which decisions to deviate from the strategic benchmark, e.g. to be overweight cash and underweight equities, added to or detracted from performance, compared to the benchmark.
- 3.3 The stock selection contribution reflects the extent to which managers have or have not exceeded their benchmark index.
- 3.4 The Fund's annual performance over the last ten years compared to the Benchmark is set out in the tables below. Generally, stock selection has detracted from overall performance. This supports research that shows that active management generally detracts from performance over time, and the difficulty in selecting active managers that perform well over the long term. This may also be due to the timing of the appointment and termination of fund managers, when they are generally appointed after a period of good performance, and terminated after a period of poor performance.

Long Term Performance Analysis

Year ended March	Fund %	Benchmark %	Relative Performance %	Attributed to Asset allocation %	Attributed to Stock Selection %
2008	(4.4)	(3.3)	(1.1)	0.1	(1.2)
2009	(18.6)	(20.0)	1.7	2.1	(0.4)
2010	29.7	36.7	(5.1)	(3.1)	(2.1)
2011	7.9	7.8	0.1	0.1	0.0
2012	1.5	2.4	(0.8)	(0.2)	(0.6)
2013	12.6	11.3	1.2	0.1	1.1
2014	6.3	6.2	0.1	0.2	(0.1)
2015	12.3	12.4	(0.1)	(0.1)	0.0
2016	0.0	1.4	(1.4)	(0.6)	(0.8)
2017	19.8	19.3	0.3	0.0	0.3

4 PIRC LOCAL AUTHORITY UNIVERSE

- 4.1 PIRC took over the reporting of the Local Authority Universe in April 2016, from the WM Company, after they exited from providing this service. The PIRC Local Authority (LA) Universe is an aggregation of 60 funds (and £162bn) within the LGPS sector, and is used for peer group comparisons. This represents some two thirds of local authority pension fund assets and includes all of the Welsh and Northern Pools, all bar three of the London Pool, and with funds from all other pools except Central.
- 4.2 The weighted average return for Local Authority Pension Funds in the Local Authority Universe over the year 2016/17 was 21.4%, and the median return was 20.6%. The actual performance of the Fund ranked at the 65th percentile. Actual performance of funds in the universe ranged from 26.8% to 13.9%. Over the longer term, the Fund is in the 60th to 70th percentile.
- 4.3 The table below shows how the asset allocation for the Lincolnshire Fund compares with the average Local Authority Pension Fund in 2017 and 2016.

Asset Class	Lincolnshire	LA Average	
		2017	2016
Equities	60.0	62	60
Bonds	13.5	15	16
Property	11.5	8	9
Alternatives	15.0	10	12
Cash	0.0	3	3

- 4.4 Since the 1990's, Funds have been using strategic benchmarks linked to their individual liability profiles, rather than a standard asset allocation. The asset allocation of the Fund was considered at the January meeting of this committee, and the high level growth/low risk asset allocations agreed, following the 2016 triennial valuation results.
- 4.5 Given this move to fund specific strategic benchmarks, the peer group comparison is only a reference point, and not directly comparable. The most important comparison is against the individual funds strategic benchmark.
- 4.6 Within the LA Universe, there has been an increase in Equities, a decrease across other asset classes.

Conclusion

- 6.1 The Pension Fund's investment performance of 6.0% over the 10 year period ended 31st March 2017 was slightly behind the strategic benchmark of 6.5%. The Fund is seeking to outperform the Benchmark by 0.75% per annum over rolling three year periods. Annualised returns over three, five and ten year periods are ahead of inflation in pay and prices. At an absolute level, the ten year performance is ahead of the current actuarial assumption for return of around 4.0% per annum.
- 6.2 Looking at the individual years, there was a positive contribution from both asset allocation and stock selection in the year ended March 2017. In six of the last ten years, stock selection has been the main detractor from performance.

Consultation

a) Policy Proofing Actions Required

n/a

Background Papers

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

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

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

Report to:	Pensions Committee
Date:	5 October 2017
Subject:	BCPP Responsible Investment Policy and Corporate Governance Voting Guidelines

Summary:

This report presents the proposed Border to Coast Pensions Partnership (BCPP) Responsible Investment Policy and Corporate Governance Voting Guidelines for the Committee to consider.

Recommendation(s):

That the Committee

- 1) Approves the proposed BCPP Responsible Investment Policy and Corporate Governance Voting Guidelines;
- 2) Agrees to create and align a Lincolnshire RI Policy and Voting Guidelines to BCPP's; and
- 3) Notes the report.

Background

1. The 2016 Investment Regulations required that all funds state their approach to environmental, social and corporate governance (ESG) factors and how they exercise the rights attached to investments (including voting rights) in their Investment Strategy Statement (ISS). Lincolnshire's ISS was approved at the March meeting of this Committee.
2. Whilst the Fund does not currently have a specific Responsible Investment (RI) Policy, the Fund's approach to ESG is shown below:

The Fund considers itself to be a responsible investor and takes 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 investment's 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.

3. In respect of voting rights, the Fund currently votes on all its segregated assets (where possible) through the use of Manifest Voting Services, against a template agreed by this Committee, that is aligned with best practice in good corporate governance. The Fund does not currently have a specific set of voting guidelines that would be easily published.
4. The Fund has also produced a Stewardship Code Statement, showing compliance to the Financial Reporting Council's (FRC) code, and has been awarded a tier one assessment by the FRC.
5. The Government's decision requiring LGPS funds across England and Wales to work together to pool their investment assets, led to the formation of a number of investment pools. This Authority made the decision to join the Border to Coast Pensions Partnership (BCPP), a grouping of 12 funds with assets totalling in the region of £40 billion. Pooling offers an opportunity to develop and improve RI and stewardship for all the partner funds, with a specific post being created in the company's structure of RI and Voting Manager.
6. The initial transfer of assets is timetabled to begin from June 2018. Although the responsibility for RI will remain with the administering authority, the implementation will be fulfilled by BCPP under the new pooling arrangements. Lincolnshire will still have its own RI policy and Voting Guidelines, as will other partner funds. BCPP will develop its policies through collaboration with Partner Funds at Authority and Joint Committee level to ensure all are aligned. Voting will be done at pool level in order to have a consistent approach; therefore a collaborative RI and voting policy will be put in place which will be enacted by BCPP on behalf of all Partner Funds.
7. Attached at appendices A and B are the proposed BCPP RI Policy and Voting Guidelines. Work has been done within the project team to bring together the existing policies and practices across all partner funds, to create a draft policy and guidelines that reflect both current and best practice. Once approved by

all partner funds, these will be presented for approval to the BCPP Joint Committee.

8. The introduction in the **RI Policy** sums up the objective and benefits of BCPP acting as a responsible investor for the partner funds:

The primary objective of the Border to Coast Pensions Partnership (BCPP) is to ensure that all funds can meet their pension liabilities. This has to be achieved by producing superior financial returns whilst not undertaking undue levels of risk and protecting returns over the long term. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments. BCPP will be an active owner and steward of its investments, both internally and externally managed, across all asset classes.

9. The RI policy covers the areas below:

- What is RI?
- Governance and implementation
- Skills and competency
- Integrating RI into investment decisions
- Climate change
- Stewardship
- Voting
- Engagement
- Litigation
- Communication and reporting
- Training and assistance
- Conflicts of interest

You should note that BCPP will not divest from companies principally on social, ethical or environmental reasons.

10. There may be occasions when an individual fund wishes BCPP to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. However this is expected to be an exception, rather than the norm.
11. The policy is very closely aligned to how the Lincolnshire Fund considers it should act as a responsible investor, with no contentious issues.
12. The **Corporate Governance Voting Guidelines** sets out the framework within which BCPP would administer and assess company and shareholder resolutions, on a case-by-case basis, to ensure that all votes are cast in accordance with the RI Policy. The introduction sets out the principles behind the voting guidelines:

Border to Coast Pensions Partnership (BCPP) believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner, BCPP will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders role is to appoint the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. BCPP considers the UK Corporate Governance Code and other best practice guidelines in formulating and delivering its policy and guidelines.

13. The Voting Guidelines covers the areas below:

- Company boards
 - Composition and independence
 - Leadership
 - Non-executive directors
 - Diversity
 - Succession planning
 - Directors' availability and attendance
 - Re-election
 - Directors' remuneration
 - Annual bonus
 - Long-term incentives
 - Director's contracts
- Corporate reporting
- Audit
 - Non-audit fees
- Political donations
- Shareholder rights
 - Dividends
 - Voting rights
 - Authority to issue shares
 - Disapplication of pre-emption rights
- Share repurchase
- Memorandum and Articles of Association
- Mergers and acquisitions
- Articles of Association and adopting of report and accounts
- Investment Trusts

14. The guidelines are very closely aligned to the current template that the Lincolnshire Fund currently uses with Manifest, and there are no contentious issues.
15. Officers recommend that the Committee approves the proposed BCPP RI Policy and Voting Guidelines, and agrees the creation of an aligned RI Policy and Voting Guidelines for the Lincolnshire Fund.

Conclusion

16. The Fund's chosen asset pool, Border to Coast Pensions Partnership (BCPP), will have the responsibility for implementing the RI policy and voting guidelines of the partner funds within it. BCPP has combined the underlying funds' policies and best practice within corporate governance, and created a draft policy and guideline framework.
17. The Committee are recommended to approve the draft documents, ahead of them being approved by the BCPP Joint Committee. In addition, as the Lincolnshire Fund does not currently have a specific RI Policy or set of publishable voting guidelines, it is recommended that the BCPP documents are used to create and align Lincolnshire Pension Fund documents.

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	BCPP Responsible Investment Policy
Appendix B	BCPP Corporate Governance Voting Guidelines

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

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Responsible Investment Policy

This Responsible Investment Policy details the approach that BCPP will follow in fulfilling its commitment to the partner funds in the delegation of RI and stewardship responsibilities.

1. Introduction

The primary objective of the Border to Coast Pensions Partnership (BCPP) is to ensure that all funds can meet their pension liabilities. This has to be achieved by producing superior financial returns whilst not undertaking undue levels of risk and protecting returns over the long term. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments. BCPP will be an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the BCPP UK Stewardship Code compliance statement.

2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process, to better manage risk and generate sustainable, long-term returns. Investment stewardship, which involves being an active owner and using shareholder rights to improve long-term performance, is also an integral part of the process. The incorporation of ESG factors in the investment process is part of the fiduciary duty to beneficiaries of funds. The Law Commission's 2014 report 'The Fiduciary Duties of Investment Intermediaries' states that Trustees should take into account any factors which are financially material to the performance of an investment including ESG factors.

3. Governance and Implementation

The Responsible Investment Policy is jointly owned and created after collaboration and engagement with the 12 Partner Funds. Implementation and oversight of the policy is by the Chief Investment Officer (CIO). The policy will be monitored with regular reports to the CIO,

Board, Joint Committee and Partner Funds. It will be reviewed at least annually or whenever revisions are proposed, and updated as necessary.

4. Skills and competency

BCPP will, where needed, take proper advice in order to formulate and develop policy. The Board and investment staff will maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil these responsibilities.

5. Integrating RI into investment decisions

BCPP will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that BCPP, as a long term investor, take them into account when analysing potential investments. The factors considered are those which can cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to internally managed assets and also within externally managed mandates. Integration and implementation will be via the CIO.

Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Bribery & corruption

5.1 Climate change

BCPP will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. It poses significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Risks and opportunities can be presented through a number of ways and include: physical impacts, technological changes, regulatory and policy impact, transitional risk, and litigation risk. BCPP will therefore look to:

- Assess its portfolios in relation to climate change risk where practicable
- Incorporate climate considerations into the investment decision making process
- Engage with companies in relation to business sustainability and disclosure of climate risk inline with TCFD recommendations
- Encourage companies to adapt their business strategy in alignment with a low carbon economy

- Support climate related resolutions at company meetings where appropriate
- Co-file shareholder resolutions at company AGMs where appropriate on climate risk disclosure
- Monitor and review its fund managers in relation to climate change approach and policies
- Collaborate with other investors including other pools and groups such as LAPFF
- Engage with policy makers with regard to climate change

6. Stewardship

As a shareowner the BCPP has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, BCPP is a signatory to the UK Stewardship Code¹ and its statement of compliance can be viewed here xxxxxx. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location.

Responsible investment and ESG considerations will be specifically referenced when conducting fund manager due diligence. They will be factored into the selection and appointment process, and included in investment management agreements. Managers will be expected to include ESG issues within their investment decision making process and take into account both financial and “extra-financial” considerations. Managers will be required to report back to BCPP regarding their RI activities on a regular basis.

6.1 Voting

Voting rights are an asset and BCPP will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where practicable. In order to leverage scale and for practical reasons, BCPP has developed a collaborative voting policy to be enacted by BCPP on behalf of the Partner Funds which can be viewed here xxxxxxxx. A specialist proxy voting advisor will be employed to provide analysis of voting and governance issues. A set of detailed voting guidelines will be implemented on behalf of BCPP by the proxy voting advisor to ensure that votes are executed in accordance with policies. The voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances.

Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually. There may be occasions when an individual fund wishes BCPP to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

BCPP has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any rights on lent stock. BCPP has created procedures along with its external providers to enable stock to be recalled prior to a shareholder vote in certain circumstances. This will only occur if the benefits of voting outweigh the benefits of stock lending.

¹ The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. <https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx>

Stock will be recalled ahead of meetings when:

- The resolution is contentious
- The holding is of a size which could potentially influence the voting outcome
- BCPP needs to register its full voting interest
- A shareholder resolution has been filed.
- A company is seeking approval for a merger or acquisition
- BCPP deems it appropriate

Lending can also be restricted in these circumstances.

Where appropriate BCPP will consider co-filing shareholder resolutions and will notify Partner Funds in advance.

6.2 Engagement

The best way to influence companies is through engagement; therefore BCPP will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern.

Meeting and engaging with companies is an integral part of the investment process. As part of our stewardship duties we regularly monitor investee companies and take appropriate action if investment returns are at risk. Engagement takes place with companies across all markets where possible, as well as with external fund managers.

BCPP will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)² recommendations.

BCPP will seek to work collaboratively with other like-minded investors and bodies in order to maximise its influence, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively collaborating with various other external groups e.g. The Local Authority Pension Fund Forum (LAPFF), other LGPS pools and other investor coalitions.

BCPP will engage with regulators, public policy makers, and other financial market participants as and when required.

6.3 Litigation

Where BCPP holds securities which are the subject of individual or class action securities

² The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions. <https://www.fsb-tcfd.org/publications/final-recommendations-report/>

litigation, it will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. BCPP will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. BCPP will work with industry professionals to facilitate this.

7. Communication and reporting

BCPP will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on BCPP's website quarterly; reporting on engagement and RI activities to the Partner Funds; and in the annual report.

Consideration will also be given to voluntarily reporting in line with the TCFD recommendations.

8. Training and assistance

BCPP will offer the Partner Funds training on RI and ESG issues. Where requested, assistance will be given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

9. Conflicts of interest

BCPP's Conflicts of Interests policy will be disclosed and applied to identify and manage any conflicts of interest between the Partner Funds and BCPP.

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Corporate Governance & Voting Guidelines

1. Introduction

Border to Coast Pensions Partnership (BCPP) believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner BCPP will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders role is to appoint the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. BCPP considers the UK Corporate Governance Code and other best practice guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the

framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

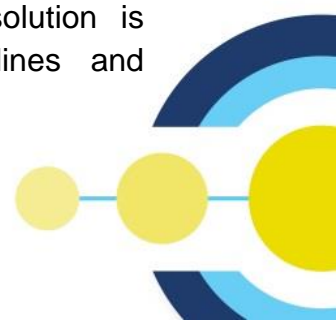
Where a decision has been made not to support a resolution at a company meeting, BCPP will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances attendance at AGMs may be required.

BCPP discloses its voting activity on its website and to Partner Funds on a quarterly basis.

BCPP will support incumbent management wherever possible but recognises that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

It will vote **For**, **Abstain** or **Oppose** on the following basis:

- BCPP will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and



considered to be in line with best practice.

- BCPP will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- BCPP will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge in order to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures and no simple model can be adopted by all companies.

The board of large companies, excluding the Chair, should consist of a majority of independent non-executive directors. As they have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, they must be able to demonstrate their independence. Non-executive directors who have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. The company should therefore, have a policy on tenure which is referenced in its annual report and accounts. There should be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:-

- Representing a significant shareholder.
- Served on the board for over nine years.
- Has had a material business relationship with the company in the last three years.
- Has been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.

Leadership



The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in communicating with shareholders and the media. However, the Chairman should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. In order to do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-

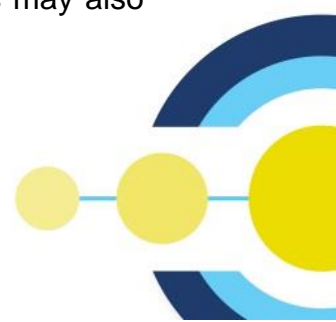
executives, the Chairman and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent. Companies should consider candidates from all racial and religious backgrounds and look to increase the level of female representation on boards in line with best practice; a diversity policy should also be disclosed in the Annual Report.

Succession planning

BCPP expects the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chairman except when it is appointing the Chairman's successor. External advisors may also be employed.



Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore full time executives should not hold more than one non-executive position in a FTSE 100 company nor the chairmanship of such a company. With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings.

Re-election

In order for a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent in order to appropriately challenge management. In order to achieve this, boards need to be regularly refreshed; therefore all directors should be subject to re-election annually.

Directors' remuneration

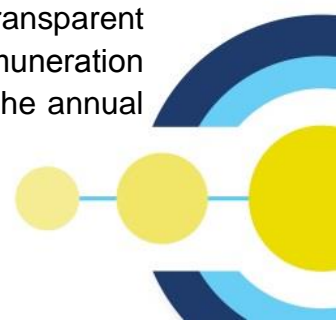
Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration

implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

Research shows that the link between executive pay and company performance is negligible. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that there is a wholly independent remuneration committee.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

In order to ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual



report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided.

- **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to performance over the longer-term.

- **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. BCPP therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. Performance should therefore be measured over a

period in line with the company's strategy; this should be at least three years but preferably longer. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

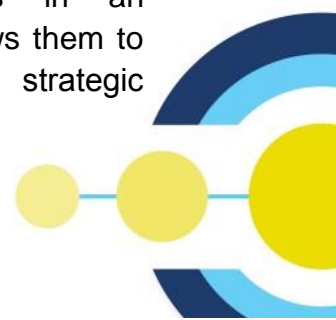
The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore all executive directors are expected to have contracts that are based upon no more than twelve months salary. Retirement benefit policies of directors will also be scrutinised. The main terms of the directors' contracts including notice periods on both sides, and any loans or third party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic



objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report (other than those for investment trusts) should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. BCPP will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts, and maintain the confidence of the capital markets. The audit committee should consist of at least three members who are all independent non-executive directors. Any material links between the audit firm and the client need to be

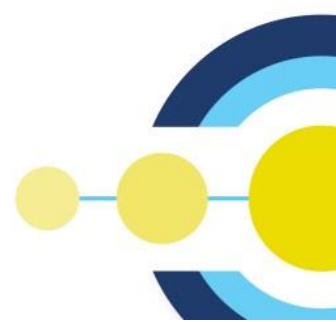
highlighted, with the audit committee report being the most appropriate place for such disclosures.

FTSE 350 companies should tender the external audit contract at least every ten years. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations



There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. It is therefore prudent to oppose all political donations.

Shareholder rights

As a shareowner, BCPP is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

• Dividends

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate.

• Voting rights

Voting at company meetings is the main way which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are

disadvantageous to many shareholders and should be abolished. BCPP will not support measures or proposals which will dilute or restrict its rights.

• Authority to issue shares

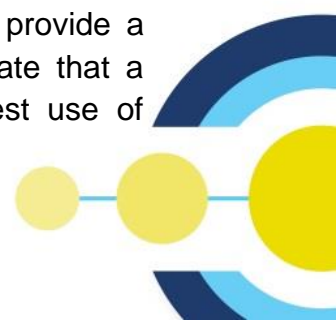
Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

• Disapplication of Pre-emption Rights

BCPP supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

BCPP does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of



company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of BCPP, presented as separate resolutions for each change, and the reasons for each change provided.

Mergers and acquisitions

BCPP will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that BCPP will oppose a vote to adopt the report and accounts

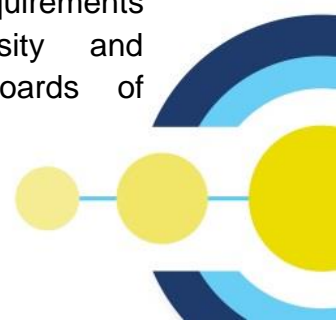
simply because it objects to them per se; however there may be occasion when it might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, BCPP will oppose the changes.

Investment trusts

BCPP acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards and should not necessarily be required to report on such matters as environmental issues. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of



investment trusts as they do to any other quoted companies.

BCPP may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.



Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	5 October 2017
Subject:	Pension Fund External Audit Completion Report

Summary:

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

Recommendation(s):

That the Committee note the Audit Completion Report.

Background

1. The Pension Fund Annual Report and Accounts for the year ended 31st March 2017 have been completed and were approved by this Committee in September. These have now been independently audited by the Council's external auditors, KPMG. In previous years, KPMG have produced a separate ISA 260 report for the Pension Fund. This year, as last year, a joint ISA 260 has been prepared for LCC and the Pension Fund. In order to give reassurance to the Committee about the quality and accuracy of the Pension Fund accounts, officers requested a Completion Report from KPMG, setting out the summary of the status of their audit, and reporting on the ISA260 requirements. At the time of writing this is subject to final review, ahead of the joint ISA260 and Audit Opinions being presented to the Audit Committee of the Council on 25th September.
2. The Audit Completion Report is shown as Appendix A. The key points to note from the external auditor are:

Planning:

- Two significant risks were identified for the 2016/17 Pension Fund accounts:
 - Significant changes in the pension liability due to the triennial LGPS valuation; and

- The continuing weaknesses in the Agresso system controls and financial reporting arrangements.
- In addition, changes to the disclosure requirements under the 2016 CIPFA Code on Local Authority Accounting and the improving performance of the new pensions fund administrator arrangements were identified as areas of audit focus

Financial Statements Audit:

- Their audit of the Pension Fund accounts did not identify any material misstatements. There are no adjusted or unadjusted audit differences that they need to report to the Audit Committee.
- There are no matters directly arising from their audit work on the significant risks that apply to the Pension Fund that they need to report.
- KPMG expect to give an unqualified audit opinion on the Pension Fund accounts by 30 September 2017.
- The draft Pension Fund Annual Report was reviewed and it was confirmed that:
 - It complies with the requirements of the LGPS (Administration) Regulations 2008; and
 - The financial information it contains is not inconsistent with the financial information contained in the audited financial statements.
 - KPMG expect to give an unqualified opinion on the Pension Fund Annual Report at the same time as they give the audit opinion on the Fund accounts.

Completion:

- It is anticipated that an unqualified audit opinion on the Pension Fund accounts will be issued, following approval of the LCC Statement of Accounts by the Audit Committee and the signing of the standard Letter of Management Representations on 25th September.
3. Appendix 1 of the report identifies the matters that the auditors are required to report under ISA260 in relation to the audit of the Pension Fund accounts. These are summarised in the table below:

ISA260 Requirement	Matters to report
Proposed audit opinion	Anticipate an unqualified opinion
Significant audit risks identified	No specific matters to report
Inherent fraud risk	No specific matters to report
Other areas of audit focus	No specific matters to report
Key judgements and accounting estimates	No specific matters to report – considered to be balanced
Materiality, uncorrected differences	Nothing required to report (materiality)

and material misstatements	£19m, trivial threshold £0.6m)
Accounting practices and financial reporting arrangements	No specific matters to report, considered appropriate
Other matters	No specific matters to report. Good quality working papers, officers helpful and responsive. No recommendations arising
Independence and objectivity	No specific matters to report
Fees	£24,350

4. Once the Pension Fund Accounts have been to the Audit Committee, a copy of the annual report will be put on both the Pension Fund and the County Council websites, and all Fund employers will be notified. In addition, the link will be emailed to all County Councillors, trade unions who represent contributing members of the Fund and on request to any other individuals or organisations. A summary of the annual report will be sent to all scheme members in the Autumn newsletters sent by WYPF, as the Fund's scheme administrator.

Conclusion

5. The audit of the Pension Fund Accounts for the year ended 31st March 2017 has been completed. It is anticipated that the external auditor, KPMG, will issue an unqualified audit opinion. Once presented to the Audit Committee, a copy of the Pension Fund Annual Report and Accounts will be distributed to interested parties.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund External Audit Progress Report

Background Papers

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

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

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External Audit: Completion Report

Lincolnshire Pension Fund

September 2017

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

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

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

External Audit – Summary September 2017

This document provides the Pensions Committee with a summary of the status of the audit of the Lincolnshire Pension Fund 2016/17 accounts. The report includes the matters we are required to report under ISA260 before giving our audit opinion on the Fund's accounts.

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Planning	<p>We presented the draft 2016/17 audit plan for the external audit of Lincolnshire County Council ('the Authority') and the Lincolnshire Pension Fund to the March 2017 Audit Committee (in its role as 'Those charged with governance'). We continued to liaise with management on the significant financial and operational issues at the Council and the Fund.</p> <p>In our audit plan we identified two significant audit risks for the 2016/17 Pension Fund accounts:</p> <ul style="list-style-type: none"> • Significant changes in the pension liability due to the triennial LGPS valuation; and • The continuing weaknesses in the Agresso system controls and financial reporting arrangements. <p>We identified in our audit plan the additional audit procedures required relating to these risks.</p> <p>We also identified the changes to the disclosure requirements under the 2016 CIPFA Code on Local Authority Accounting and the improving performance of the new pensions fund administrator arrangements as areas of audit focus.</p> <p>We liaised with the pensions team as part of the interim and final accounts visits (carried out in March and July 2017 respectively) and agreed the working papers and other audit evidence required for our audit.</p>
Financial statements Audit	<p>The Authority published its draft financial statements (including the Pension Fund statements) by the 30 June 2017 deadline.</p> <p>Our audit work on the Pension Fund accounts is complete but subject to final review. At this stage:</p> <ul style="list-style-type: none"> • Our audit of the Pension Fund accounts did not identify any material misstatements. There are no adjusted or unadjusted audit differences that we need to report to the Audit Committee. • There are no matters directly arising from our audit work on the significant risks that apply to the Pension Fund that we need to report. • We expect to give an unqualified audit opinion on the Pension Fund accounts by 30 September 2017. <p>We have reviewed the draft Pension Fund Annual Report to confirm that:</p> <ul style="list-style-type: none"> • It complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and • The financial information it contains is not inconsistent with the financial information contained in the audited financial statements. <p>We expect to give an unqualified opinion on the Pension Fund Annual Report at the same time as we give the audit opinion on the Fund accounts.</p>
Completion	<p>The Authority publishes a single Statement of Accounts, including the accounts of the Authority and the Pension Fund.</p> <p>We anticipate issuing an unqualified audit opinion on the Statement of Accounts following their approval by the Audit Committee at its 25 September 2017 meeting, and the signing of the standard Letter of Management Representations. We expect to issue the audit opinion by 30 September 2017.</p> <p>We have included at Appendix 2 the matters we are required to report under ISA260 in relation to the audit of the Pension Fund's 2016/17 accounts.</p>

ISA260 Requirement	Matters to Report – 2016/17 Pension Fund accounts
Proposed Audit opinion.	We anticipate issuing an unqualified audit opinion on the Pension Fund accounts following approval of the Statement of Accounts by the Audit Committee and the signing of the standard Letter of Management Representations in September 2017.
Significant audit risks identified and work to address the risks.	There are no specific matters directly arising from our audit work on the significant risks that apply to the Pension Fund that we need to report.
Matters relating to the inherent fraud risk of revenue recognition and management override of controls.	There are no specific matters in relation to the Pension Fund audit that we need to report. We rebutted the fraud risk of revenue recognition and there are no matters arising from the procedures carried out in response to the management override risk.
Other areas of audit focus and work carried out.	There are no specific matters in relation to the Pension Fund audit that we need to report.
Key judgements and accounting estimates.	There are no specific matters to report in relation to the Pension Fund audit. We considered the key judgements and estimates to be balanced.
Materiality, uncorrected audit differences and material misstatements.	Our materiality (£19m) and 'trivial' (£0.6m) thresholds are unchanged from those reported in the Audit Plan. There are no audit differences (adjusted or unadjusted) we are required to report in relation to the Pension Fund audit.
Views on accounting practices and financial reporting arrangements.	There are no specific matters to report in relation to the Pension Fund audit that we need to report. We consider the accounting practices to be appropriate.
Other matters: <ul style="list-style-type: none"> — Significant difficulties encountered during the audit; — Significant matters arising from the audit that were discussed, or subject to correspondence with management — Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and — Matters specifically required by other auditing standards to be communicated to those charged with governance. 	There are no specific matters to report in relation to the Pension Fund audit. The audit of the Fund was completed alongside the Authority's audit. The quality of the Fund accounts working papers was good and officers were helpful and responsive during the audit. There are no recommendations arising from our audit which specifically apply to the Fund accounts.
Independence and objectivity	There are no specific matters to report in relation to the Pension Fund audit that we need to report. We have not carried out any non-audit work in the year.
Fees	The scale fee for the audit is £24,350. We will update the Audit Committee if any additional audit fees are required this year.



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