



County Offices  
Newland  
Lincoln  
LN1 1YL

14 March 2018

**Pensions Committee**

A meeting of the Pensions Committee will be held on **Thursday, 22 March 2018** 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 blue ink that reads 'Richard Wills' with a horizontal line underneath.

Richard Wills  
Head of Paid Service

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

Councillors E W Strengeil (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 J Summers, District Councils Representative



**PENSIONS COMMITTEE AGENDA  
THURSDAY, 22 MARCH 2018**

<b>Item</b>	<b>Title</b>	<b>Pages</b>
<b>1</b>	<b>Apologies for Absence</b>	
<b>2</b>	<b>Declarations of Members' Interests</b>	
<b>3</b>	<b>Minutes from the meeting held on 11 January 2018</b>	5 - 10
<b>4</b>	<b>Independent Investment Advisor's Report</b> <i>(To receive a report which provides a market commentary by the Committee's Independent Investment Advisor on the current state of the global investment markets)</i>	11 - 14
<b>5</b>	<b>Pensions Administration Report</b> <i>(To receive the quarterly report by the Fund's pension administrator, West Yorkshire Pension Fund, which updates the Committee on current administration issues)</i>	15 - 36
<b>6</b>	<b>Pension Fund Update Report</b> <i>(To receive a report which updates the Committee on Fund matters over the quarter ending 31 December 2017 and any current issues)</i>	37 - 52
<b>7</b>	<b>Investment Management Report</b> <i>(To receive a report which covers the management of the Lincolnshire Pension Fund assets over the period from 1 October to 31 December 2017)</i>	53 - 74
<b>8</b>	<b>Asset Pooling Update</b> <i>(To receive a report which updates the Committee on progress of the creation of Border to Coast, the Fund's chosen asset pool)</i>	75 - 80
<b>9</b>	<b>Exemption of Public and Press</b>  <b>In accordance with Section 100(A)(4) of the Local Government Act 1972, the following agenda item has not been circulated to the press and public on the grounds that it is considered to contain exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended. The press and public may be excluded from the meeting for the consideration of this item of business.</b>	
<b>10</b>	<b>Equity Voting Template Review</b> <i>(To receive a report which explains the reasons for amendments to the voting template, following a comprehensive review of global governance and voting practices undertaken by Manifest, the Fund's voting agent)</i>	81 - 130

### **Democratic Services Officer Contact Details**

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

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

Contact details set out above.

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



## **PENSIONS COMMITTEE 11 JANUARY 2018**

### **PRESENT:**

Councillors 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) and Cllr J Summers (District Councils Representative)

Officers in attendance:-

David Forbes (County Finance Officer), Yunus Gajra, (West Yorkshire Pension Fund), Claire Machej (Accounting, Investment & Governance Manager), Jo Ray (Pension Fund Manager), and Catherine Wilman (Democratic Services Officer)

In attendance: Roger Buttery (Independent Chair, LGPS Pension Board), Peter Jones, (Independent Advisor), Andrew Smith (Prudential), David Vickers (LGPS Pension Board Scheme Member Representative)

### **42     APOLOGIES FOR ABSENCE**

Due to the receipt of apologies from both the Chairman and the Vice Chairman of the Committee, an election was held for a Chairman to preside for this meeting only.

### **RESOLVED**

That Councillor B Adams be elected as Chairman for this meeting only.

Apologies had been received from Councillors R D Butroid, P E Coupland and E W Strengiel.

### **43     DECLARATION OF MEMBERS' INTERESTS**

The following interests were declared:

Mr A N Antcliff declared an interest as an employee of Lincolnshire County Council and a contributing member of the Pension Fund.

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

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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.

44 MINUTES OF PREVIOUS MEETING OF THE COMMITTEE HELD ON 14 DECEMBER 2017

It was noted that Mr J Grant's apologies had not been noted on the minutes.

RESOLVED

That the minutes from the meeting held on 14 December 2017 be approved and signed by the Chairman as a correct record, subject to the above amendment.

45 INDEPENDENT INVESTMENT ADVISOR'S REPORT

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

During a discussion, it was noted that the UK included unemployment in its productivity figures, which made productivity look lower than that of other countries, which was not necessarily the case.

RESOLVED

That the report be noted.

46 PENSIONS ADMINISTRATION REPORT

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

Issues were raised regarding approximately 3,000 outstanding leaver forms awaiting submission by Serco, LCC's payroll provider. A meeting had been held between LCC, LPF, WYPF and Serco during which Serco had promised to provide an action plan highlighting how the backlog would be completed, with timescales. This plan was being presented to the Board at its January 2018 meeting, and would be brought to the Committee in time.

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

- This issue was not exclusive to LCC, as academies, particularly those with outsourced payroll functions, had similar issues at times relating to late or inadequate data. The Fund was working closely with employers to encourage taking responsibility for their payroll providers and returns. This would be reinforced in February at the annual employers' meeting;

- Serco had been contracted to five years initially with the option to extend in a 5+2+2 year model. The Council would need to decide, very shortly, what action to take over the contract beyond the five years, in order to factor in the tendering process. Previously this process had taken approximately two years to complete;
- Over the life of the contract, Serco had been penalised to the maximum amount of £100k each month since it commenced;
- The Pension Board had advised in October 2017 not to refer the issue to The Pensions Regulator at this point, but to request an improvement plan and to monitor the situation;
- In response to a question on the direct effect the situation has on members, it was explained that when key events happened for a member, eg a retirement, the information was provided on request. However, the overall quality of the data, as well as the speed of submission was an issue. On one occasion, WYPF processed certain information and notified members promptly, to be informed by Serco the data was wrong. However, as the responsible employer, LCC would be the organisation penalised for Serco's performance.

Issues were raised regarding comments received from Fund members regarding overpayment of transfer values made by Kier (previously Mouchel). Officers confirmed that the Pension Fund was not able to check transfer valuation calculations, as all transfer payments were received as lump sums into the Fund, without any history provided. It would be up to Kier to decide how to rectify the situation. Members, if they wished, could make complaints to Kier, and escalate, if required, to the Pensions Ombudsman.

RESOLVED

That the report be noted.

47     GENERAL DATA PROTECTION REGULATION AND PENSIONS  
          ADMINISTRATION

The Committee received a presentation from Yunus Gajra, (West Yorkshire Pension Fund) on the implementation of the General Data Protection Regulation (GDPR) within the Pensions Administration Service. The slides for the presentation had been included in the agenda pack.

During the presentation, the following points were noted:

- With 16 different elements of data being processed by several agencies during the administration of pensions, concerns were expressed that data could be misused. Officers assured the Committee that data could not be sold without the members' consent. In addition, it was a requirement for members to be told what information was being gathered about them and why;
- There was a statutory duty to keep data in order to provide pensions services. In addition, enquiries were frequently received from people many years after they had left the scheme;

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## PENSIONS COMMITTEE

11 JANUARY 2018

- Any member wishing to make complaints regarding data protection would approach the Information Commissioner who enforced the regulations.

RESOLVED

That the presentation be noted.

### 48 PENSION FUND UPDATE REPORT

Consideration was given to a report which provided an update on Fund matters over the quarter ending 30 September 2017 and any current issues.

The Pension Fund Manager reported that the Chair of LAPFF (Local Authority Pension Fund Forum) and Greater Manchester Pension Fund, Cllr Kieran Quinn, had passed away on 25 December 2017. The Committee requested that a message be passed on to express their sympathy.

It was noted that the voting numbers over the quarter had fallen from previous reports due to the externalisation of the UK equity portfolio to a pooled fund.

It was noted that there was no change to the TPR Dashboard since the previous quarterly report. It was also noted that F1 – Maintaining Accurate Member Data (*do member records record the information required as defined in the Record Keeping Regulations and is it accurate?*) would be expected remain Amber as this relied upon the Fund employers to provide accurate and timely data.

Members were reminded they were required to complete the TPR Toolkit, as soon as possible, and forward their certificates to the Pension Fund Manager.

RESOLVED

That the report be noted.

### 49 INVESTMENT MANAGEMENT REPORT

Consideration was given to a report which covered the management of the Lincolnshire Pension Fund assets over the period from 1 July to 30 September 2017.

It was noted that there were no changes in the Hymans Robertson manager ratings. Following a question, Officers explained that the Fund would be working with Hymans Robertson more closely over the coming year, as planning was undertaken ahead of assets transitioning across to the BCPP pool. The first transfers for LPF were not expected to be taking place until September 2019.

RESOLVED

That the report be noted.



50     LINCOLNSHIRE PENSION FUND AVC PROVIDER - PRUDENTIAL  
          PRESENTATION

The Committee received a presentation from Andrew Smith, Client Manager at Prudential in relation to AVCs (Additional Voluntary Contributions). Prudential was the Fund's AVC provider and it was noted that every LGPS pension fund must offer scheme members the facility to pay AVCs through a provider.

During the presentation the following points were noted:

- AVCs tended to be used by people aged 35 and over, however the largest proportion of users were aged 60 and over;
- From April 2018, members would see more money in their AVC funds due to a reduction in charges from Prudential;
- Salary Sacrifice was more tax and NI efficient than other methods of paying AVCs;
- Members could opt in and opt out at any time;
- Following a question regarding the future of the salary sacrifice scheme, it was noted that the Government's budget for 2017/18 did not include any changes to the LGPS;
- Issues were raised regarding H5 Maintaining Contributions (*has an annual benefit statement been provided to all members with AVCs within the required timescales?*) and H6 Maintaining Contributions (*Do these meet the legal requirements in relation to format?*) on the TPR Checklist which required information directly from Prudential and were therefore Grey in status. Mr Smith offered to provide the appropriate information, on behalf of Prudential for these areas to be classed as Green.

It was noted that employers within the Fund had to make LPF aware if they were to commence with the salary sacrifice AVC scheme. The Pension Fund Manager would inform the employers of the scheme, and its regulations at the next annual employers' meeting in spring 2018 and provide contact details for Prudential.

The Committee thanked Mr Smith for his presentation.

RESOLVED

That the presentation be noted.

The meeting closed at 1.00 pm

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

Report to:	<b>Pensions Committee</b>
Date:	<b>22 March 2018</b>
Subject:	<b>Independent Investment Advisor's Report</b>

**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**

### **March 2018**

#### **An uneasy truce between the “bulls” and the “bears”.**

2018 has started off on a roller coaster ride for both the equity and fixed interest markets, especially in the USA. As you will be aware, early January saw a strong rise in equity markets worldwide, followed by a slump globally amounting to a roughly 10% fall from the peak levels. In the US, roughly half that fall was regained, resulting in something of a stand-off between the bulls and the bears. In the UK and Europe however the upward bounce in February has been muted. The bulls have been on the sidelines. Yields in the global fixed interest markets have risen so far this year, but there has been no decisive break upwards in yields (fall in prices) as some bond bears have been predicting.

#### **Economic prospects for 2018 continue to be favourable**

Financial news has been very largely positive, with many economic growth forecasts being revised up above 2%: this is especially the case in Germany and Europe generally. The UK, of course, is an exception - but growth is still forecast to be above 1.5% in 2018, despite Brexit uncertainty.

Inflation continues to be well behaved (generally below 2%), allowing Central Banks to sit on the sidelines and not intervene to bring it back to levels they find acceptable. That said, wage inflation is starting to pick up, albeit modestly. In particular, in the USA, a number of major employers e.g. Wal-Mart have boosted

wages utilising the windfalls they have derived from President Trump's tax cuts. Whether these wage rises are a "one off" phenomenon or more durable remains to be seen. In the short term the wage rises boost consumers' expenditure and hence economic growth.

Many commentators feel there remains "slack" in most global economies, with the exception being labour in the US, UK and Germany where the unemployment rate is below 5%, often historically a trigger point for higher wage demands. Prospects for rising equity profits remain excellent. So, the economic scenario remains largely benign and should provide significant support to equities at close to current levels.

### **Fixed interest markets**

There is much less consensus about prospects for bond markets. The yields on US Treasury Bonds have risen this year from around 2.4% to 2.9%, before falling back again in recent days. The argument of the bears is that yields, globally, in all fixed interest markets are far too low and are only so low because of the Central Banks' huge purchases of such securities under Quantitative Easing ("QE"). The amounts purchased are around \$US4.5trillion in the US and perhaps \$US15billion globally. Truly astronomic quantities.

The US Federal Reserve has announced that it will begin a gradual programme to sell off bonds with a view to reducing its holdings to perhaps \$US3trillion by the early 2020's. Since the US Treasury has the need to issue substantial amounts of bonds to finance the US Government's financial deficit (made worse by Mr Trump's ill-advised tax concessions), the pressure on bond markets and hence to higher yields (i.e. falling prices) is self-evident. Only the Bank of England is likely to follow suit in the next couple of years in initiating a selling programme; other Central Banks are still executing buying programmes.

So, there is currently an uneasy truce amongst investors in the US Treasury Bond market. Yields have risen, but not decisively so, as yet. Many participants see a 3% yield as a threshold. Cross over and bonds are then in a bear market. The counter argument of the bulls is that populations are ageing in many parts of the world (especially in the developed world, but in China as well). Demand for bonds to finance pensions for the ageing population will therefore remain high and offset the unwinding of QE. I can see yields moving higher, but in a measured fashion. A catastrophic collapse in bond prices (with a knock on effect on sharply lower equity prices) is not something that I expect. That would not be acceptable to Central Banks – which want orderly markets.

### **Conclusion**

I do not expect to see the equity market move decisively upward: the bears will have been emboldened by the near 10% recent falls. But equally, the economic and financial background remains favourable to equity investment. It was notable that a 10% fall was sufficient to tempt buyers back into the market in February. The outlook for bond prices is more difficult to call – there are significant opposing forces of substantial magnitude.

**Peter Jones**  
**5<sup>th</sup> March 2018**

## **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 Peter Jones, who can be contacted via 01522 553656 or [jo.ray@lincolnshire.gov.uk](mailto:jo.ray@lincolnshire.gov.uk).

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

Report to:	<b>Pensions Committee</b>
Date:	<b>22 March 2018</b>
Subject:	<b>Pensions Administration Report</b>

**Summary:**

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

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

**Recommendation(s):**

That the Committee note the report.

**Background**

**1.0 Performance and Benchmarking**

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

1.2 The table below shows the performance against key areas of work for the period 1 December 2017 to 28 February 2018.

LPF - KPI's for the Period 1.9.17 – 30.11.17					
WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT
AVC In-house (General)	67	10	65	85	97.01
Article 4 Payment Death LG	8	10	3	85	37.5
Article 4 Payment Own Right LG	37	10	4	85	10.81
Change of Address LG	208	5	201	85	96.63

Change of Bank Details LG	86	5	81	85	94.19
DG Nomination Form Received LG	528	20	528	85	100
Death Grant to Set Up LG	25	5	24	85	96
Death In Retirement LG	159	5	145	85	91.19
Death In Service LG	9	5	8	85	88.89
Death on Deferred LG	9	5	8	85	88.89
Deferred Benefits Into Payment Actual	157	5	154	90	98.09
Deferred Benefits Into Payment Quote	178	35	150	85	84.27
Deferred Benefits Set Up on Leaving	943	20	888	85	94.17
Divorce Quote LG	62	20	60	85	96.77
Divorce Settlement Pension Sharing order Implemented	1	80	1	100	100
Enquiry LG	2	5	2	85	100
General Payroll Changes LG	38	5	38	85	100
Initial Letter Death in Service LG	9	5	8	85	88.89
Initial letter Death in Retirement LG	159	5	152	85	95.6
Initial letter Death on Deferred LG	9	5	8	85	88.89
Life Certificate Received LG	39	10	37	85	94.87
Monthly Posting	813	10	499	95	61.38
NI Modification LG	5	20	3	85	60
Pension Estimate	257	10	133	75	51.75
Refund Payment	186	10	181	95	97.31
Refund Quote	200	35	194	85	97
Retirement Actual	122	3	114	90	93.44
Retirement Quote	167	10	150	85	89.82
Set Up New Spouse Pension LG	61	5	56	85	91.8
Spouse Potential LG	6	20	6	85	100
Transfer In Actual	26	35	22	85	84.62
Transfer In Quote	49	35	49	85	100
Transfer Out Payment	4	35	4	85	100
Transfer Out Quote	199	20	183	85	91.96

Reasons for underperforming KPI's:

Article 4 Payment Death LG	complex cases requiring further investigation or information.
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Article 4 Payment Own Right LG	complex cases requiring further investigation or information.
Monthly Posting	Files that cannot be validated because of errors, queries, mismatches etc. Average time taken across all employers is less than 10 days.
NI Modification LG	
Pension Estimate	Larger than normal volumes across all Employers

## 2.0 Scheme Information

2.1 Membership numbers as at 5 March '18 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	26,217	26,594	2,408	20,138	1,879
Councillors	1	38	0	41	-
<b>Totals nos</b>	<b>26,218</b>	<b>26,632</b>	<b>2,408</b>	<b>20,179</b>	<b>1,879</b>
<b>Change</b>	<b>+1,614</b>	<b>+226</b>	<b>-1,760</b>	<b>+195</b>	<b>-62</b>

## 2.2 Age Profile of the Scheme

Status	Age Groups												TOTAL
	U20	20-25	26-30	31-35	36-40	41-45	46-50	51-55	56-60	61-65	66-70	70+	
Active	448	1947	1752	2360	2799	3534	4514	4120	2974	1469	242	58	26217
Beneficiary Pensioner	96	37	2	4	4	13	42	85	145	223	313	1535	2499
Deferred	4	436	1428	2134	2226	3115	5221	5936	4777	1235	36	4	26552
Deferred Ex Spouse	0	0	0	0	3	1	9	15	10	1	0	0	39
Pensioner	0	0	1	1	4	12	50	119	1122	4372	5046	6885	17612
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	2	11	6	4	23
Preserved Refund	33	195	115	115	142	198	266	288	226	154	97	50	1879
Undecided													2408
Councillors													80
<b>Total</b>													<b>77,313</b>

## 2.3 Employer Activity

### Academies and Prime Account Schools

Between 1 December 2017 to 28 February 2018, 3 academies became Scheme employers in the Fund.

WYPF are currently working on 7 schools that are in the process of converting to academies or Prime Account Schools.

### Town and Parish Councils

Between 1 December 2017 and 28 February 2018 no Town or Parish Councils became Scheme employers. A decision is outstanding from one Parish Council as to whether to become a Scheme employer in the Fund.

### Admission Bodies

Between 1 December 2017 and 28 February 2018 there was one new Admission Body in the Fund – backdated to 1 September 2017.

WYPF are currently working on the admissions for 3 Admission Bodies.

### Employers ceasing Participation

Between 1 December 2017 and 28 February 2018 no employers ceased their participation in LPF.

### Number of Employers in LPF

These changes to employers bring the total number of employers in LPF as at 28 February 2018 to 255.

### 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. Contacted by Academy Trust - am responding to queries re their liability as guarantor.

Taylor Shaw (Branston Academy)	Request for admission received.	Need employee data and application form.	Employer confirmed willing to act as interim employer. Actuarial assessment completed by Hymans.	Awaiting decision from scheme employer re Bond requirement.
Compass Group	Request for admission received.	CGS wish to backdate entry. Academy Trust have confirmed they are willing to act as interim employer.	Conference call held with DRET and Compass Group. Actuarial assessment completed by Hymans.	Draft admission agreement currently being prepared by LCC Legal Services.

### Admission Bodies concluded

EMPLOYER	ISSUE	CURRENT POSITION	ACTION	NEXT ACTION REQUIRED
Outspoken Training	Admission due from 1/9/2017.	Application received.		Admission agreement signed and sealed by LCC Legal and concluded on 22/12/2017.

### 3.0 Praise and Complaints

3.1 Over the quarter October to December we received **2** online customer responses. **133** Lincolnshire member's sample survey letters were sent out and **12 (9.03%)** returned:

Overall Customer Satisfaction Score;

October to December 2016	January to March 2017	April to June 2017	July to September 2017	October to December 2017
77.22%	87.07%	78.63%	89.62%	91.74%

Appendix 1 shows full responses.

### 3.2 Employer Training

Over the quarter October to December two Employer sessions were held in Lincolnshire, Ill Health and A complete guide to administration.

Feedback from the event is attached at Appendix 2.

### 4.0 Internal Disputes Resolution Procedures

4.1 All occupational pension schemes are required to operate an IDR. The LGPS has a 2-stage procedure. Stage 1 appeals, which relate to employer decisions or actions, are considered by a person specified by each employer to review decisions (the 'Adjudicator'). Stage 1 appeals relating to appeals against administering authority decisions or actions are considered the Pension Fund Manager. Stage 2 appeals are considered by a solicitor appointed by Lincolnshire County Council.

#### **Stage 1 appeals against the Fund**

One appeal decision in this period. No appeals currently outstanding.

Date of appeal	Member no	Employer	Reason for appeal	Date of decision	Decision	Outcome / comments
20/11/2017	8087247	Lincolnshire County Council	No entitlement to CETV.	12/1/2018	Turned down.	Potential maladministration – member had been issued with a deferred benefit notification when he was entitled to immediate benefits.

#### **Stage 1 appeals against scheme employers**

Two appeal decisions in this period. 2 appeals currently outstanding.

Date of appeal	Member no	Employer	Reason for appeal	Date of decision	Decision	Outcome / comments
15/8/2017	8019981	Compass Point Business Services	Appeal against not backdating ill health pension.	6/2/2018	Turned down.	Satisfied that regulations have been applied correctly.

28/11/2017	8040391	LCC	Appeal against being refused an ill health pension.			LCC have confirmed they have extended the deadline.
20/12/2017	8079811	LCC	Appeal against level of ill health decision.	14/2/2018	Turned down.	Satisfied that regulations have been applied correctly.
29/1/2018	8043598	LCC	Appeal against being refused an ill health pension.			

### **Stage 2 appeals**

1 appeal turned down in current period. 1 appeal currently outstanding.

Date of appeal	Member no	Employer	Reason for appeal	Date of decision	Decision	Outcome / comments
2/10/2017	8044515	Boston Borough Council	Appeal against service used in pension calculation.			Extension notified. Further queries received from Stage 2 appointed person.
27/9/2017	8086729	Lincolnshire County Council	Actual value of benefits paid was less than shown on annual statements - qualifying service incorrectly shown.	14/12/17	Turned down.	Potential maladministration – incorrect information given.

### **Ombudsman**

- 4.2 The Pensions Ombudsman can consider appeals and allegations of maladministration, once the two stages of the IDRP have been exhausted. There were no new appeals to the PO.

## **5.0 Administration Update**

### **5.1 Outstanding Leaver forms**

It was agreed with LCC/Serco for them to provide 200 leaver forms per week so that the backlog can be cleared by end of April 18. The numbers of outstanding leaver forms now currently stand at 1717, so they should be on schedule to meet the target.

### **5.2 GDPR Update**

5.2.1 Work is ongoing by both WYPF and the City of Bradford MC (as Administering Authority) to meet the requirements of the GDPR which are effective from 25 May 18.

#### **Steps Required to Be Taken by 25 May 2018**

The following are the steps the Council is required to take, what steps it has already taken and what steps still need to be taken prior to 25 May 2018. Details are set out in the draft Implementation Plan in Appendix 3.

#### **5.2.2 Personal Data the Council Processes**

Each service area is required to document what personal data it processes, for what purposes and who it shares the data with. These need reviewing by the Information Governance Manager and signing off by the Asset Owners. This needs to be done as a matter of urgency so that the service areas are able to complete the draft privacy notices. These Asset Registers are kept centrally.

Action by WYPF – completed.

#### **5.2.3 Privacy Notices**

All service areas' privacy notices, detailing what information they process, the purpose of the processing and who they share it with, need updating to include additional requirements of the GDPR i.e. the lawful basis for processing the data needs to be identified in the privacy notices together with data retention periods and individuals' rights to complain to the ICO.

It is understood there are a number of service areas which have completed draft privacy notices and others have not. These now need completing as a matter of urgency. A pro forma was issued to all service areas in November 2017 along with guidance to complete the same. However, to be able to complete these properly service areas will need to ensure their asset registers are updated and detailed enough.

Action by WYPF – completed.

#### 5.2.4 Policies, Procedures and Contracts

Policies, procedures, templates etc. need to be reviewed and revised in accordance with the new requirements of GDPR eg. changes to subject access requests (a month to comply rather than 40 days), data breaches (must notify ICO of breach within 72 hours where it is likely to result in a risk to the rights and freedoms of individuals). The Council already has an embedded breach reporting system but managers must be made aware of the need to report immediately to the Information Governance Team any serious breaches. Corporate policies have been reviewed and are currently being updated to recognise the revised timescales. However, contracts with third party processors still need reviewing and updating to ensure they are GDPR compliant.

Action by WYPF – ongoing.

#### 5.2.5 Consents

Each service area needs to review existing consent documents to ensure they comply with GDPR i.e., they must be freely given, specific, unambiguous, able to be withdrawn and there must be a positive “opt in” rather than an “opt out”. If existing consents do not comply with GDPR new consents must be obtained from individuals to be able to process their personal data before 25 May 2018. Further guidance is due to be issued by the ICO on consents but this does not mean we can wait for the guidance before reviewing existing consents.

Action by WYPF – ongoing.

#### 5.2.6 Data Protection Impact Assessments

These are now mandatory in all new initiatives/processes where data processing is likely to result in high risk to individuals. The Information Governance Team are starting to review and amend the corporate documentation and procedure.

Action by WYPF – ongoing.

#### 5.2.7 Staff awareness/training

This needs putting in place prior to implementation of GDPR on 25 May 2018 i.e. e-learning for all staff updated to reflect the new GDPR requirements.

Action by WYPF – Briefings given to staff.

### 5.2.8 Technology

The Council's technology requires reviewing to ascertain what changes are required e.g. rights to object are clearly and separately stated at collection of the data, responding to requests to erase information, i.e. is permanent deletion possible?

Action by WYPF – ongoing.

### 5.2.9 Data Protection Officer

The Council is required to appoint a DPO by 25 May 2018. Other local authorities have decided to designate this mandatory role within their organisations. The Council is waiting to make a decision on this.

Action by WYPF – The Fund has appointed its own designated DPO.

## 6.0 Current Issues

6.1 The Department for Communities and Local Government (DCLG) became the Ministry of Housing, Communities and Local Government (MHCLG) with effect from January 18.

6.2 Following the cabinet reshuffle in January 2018, Rishi Sunak MP (MP for Richmond (Yorkshire), became the new Parliamentary Under Secretary of State (Minister for Local Government), taking over from Marcus Jones who was appointed in May 2015.

6.3 High Court judgement in the case of Elmes v Essex. This case concerns Nichola Elmes versus Essex County Council with an interested party of MHCLG. This is a similar case to that decided upon in the Supreme Court on 8 February 2017 concerning Denise Brewster versus NILGOSC (Northern Ireland LGPS).

The case of Nichola Elmes versus Essex County Council was heard before the High Court on Tuesday 18 January 2018 and declared that: "The requirement to nominate a person under regulations 24 and 25 of the LGPS (Benefits, Membership and Contributions) Regulations 2007 is incompatible with Article 1 of the first Protocol to, and Art 14 of, the European Convention on Human Rights and must therefore be disapplied".

6.4 Exit Payment Reforms update

The further consultations on the introduction of the Government's policy on exit payment recovery and the introduction of an exit payment have still to be issued

6.5 Contribution bands for 2018/19



On 17 October 2017, the Office for National Statistics (ONS) announced that the Consumer Prices Index (CPI) rate of inflation for September 2017 was 3.0%. Government policy in recent years has been to base both pensions increase under the Pensions (Increase) Act 1971 and revaluation of pension accounts under section 9 of the Public Service Pensions Act 2013 on the rate of CPI for September of the previous year. The Pensions Increase (Review) Order 2018 is expected to be published in the near future confirming this. The table below sets out the draft contribution bands, which will be effective from 1 April 2018. These are based on the pay bands for 2017/18 as increased by the September 2017 CPI figure of 3%, with the result rounded down to the nearest £100.

<b>Draft Contribution table 2018/19</b>			
<b>Band</b>	<b>Actual pensionable pay for an employment</b>	<b>Contribution rate for that employment</b>	
		<b>Main section</b>	<b>50/50 section</b>
1	Up to £14,100	5.5%	2.75%
2	£14,101 to £22,000	5.8%	2.9%
3	£22,001 to £35,700	6.5%	3.25%
4	£35,701 to £45,200	6.8%	3.4%
5	£45,201 to £63,100	8.5%	4.25%
6	£63,101 to £89,400	9.9%	4.95%
7	£89,401 to £105,200	10.5%	5.25%
8	£105,201 to £157,800	11.4%	5.7%
9	£157,801 or more	12.5%	6.25%

6.6 Consultation outcome on indexation and equalisation of GMP in public service pension schemes.

On 28 November 2016, HM Treasury commenced a consultation that proposed options for the indexation of GMP elements for members of public service pension schemes who will reach SPA on and after 6 December 2018.

On 22 January 2018, HM Treasury published its response to the consultation. "This consultation was about how government should continue to meet its obligations to index (price protect) and equalise (make equal payments to men and women) the pension entitlements of a certain group of public servants with an occupational pension known as a GMP.

The government has been implementing an “interim solution” between 6 April 2016 and 5 December 2018. The outcome of this consultation is that this solution will be extended for a further two years and four months. This will cover those members of public service schemes with a GMP who reach state Pension Age on or after 6 December 2018 and before 6 April 2021. During this period, the government will investigate the possibility of an alternative long term methodology, known as “conversion”.

## **6.7 The Pensions Advisory Service dispute function moves to the Pensions Ombudsman**

The Pensions Advisory Service’s (TPAS) dispute resolution function is moving to The Pensions Ombudsman (TPO). The move includes the transfer of the TPAS dispute resolution team and volunteer network of over 350 advisers. The transfer is expected to be completed by 1 March 2018.

At present customers can approach both TPO and TPAS for help when dealing with a pension complaint. TPAS usually focussed on complaints before the pension scheme’s internal dispute resolution procedure (IDRP) had been completed, whilst TPO typically deals with complaints that have been through IDR. We have been advised that this transfer of functions will simplify the customer journey. Customers will be able to access all pension dispute resolution, previously handled by two services, whether pre or post IDR, in one place, leading to a smoother customer journey and improved complaint handling. TPAS will continue to focus on providing pension information and guidance, and will become an integral part of the new Single Financial Guidance Body.

## **7.0 Finance**

### **7.1 Cost per member**

#### **Shared service cost per member 2017/18 £13.62 (£15.05 for 2018/19 initial budget)**

The shared service pension admin cost per member of £13.62 has been used to recharge LPF for this year. Our cost target for shared service pension admin is to maintain a cost target of £17. The projected cost for 2018/19 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 shortlisted by Pensions Age Awards under the following categories:

DB Scheme of the Year

Pension Scheme Communication Award

Pension Administration Award  
Pension Scheme Innovation Award

## **Conclusion**

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

## **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Customer Survey Results
Appendix B	Feedback Summary
Appendix C	Draft GDPR Implementation Plan

## **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 (1<sup>st</sup> October to 31<sup>st</sup> December 2017)

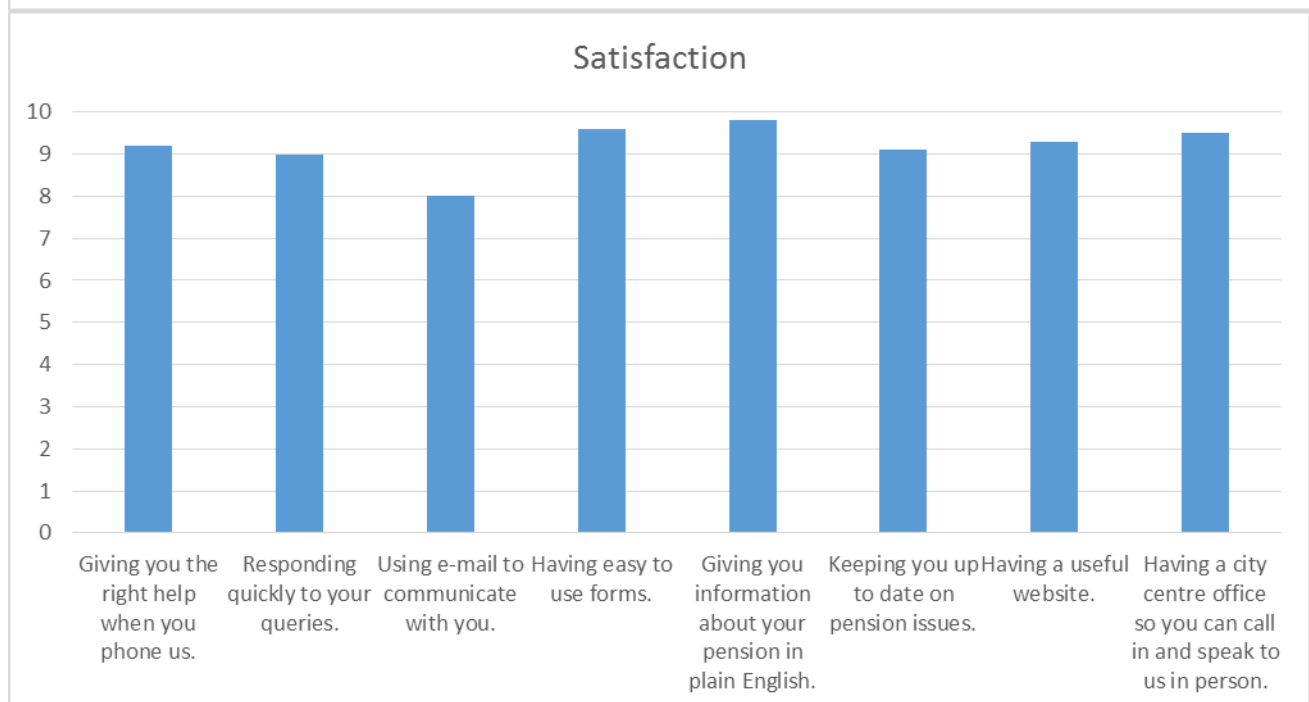
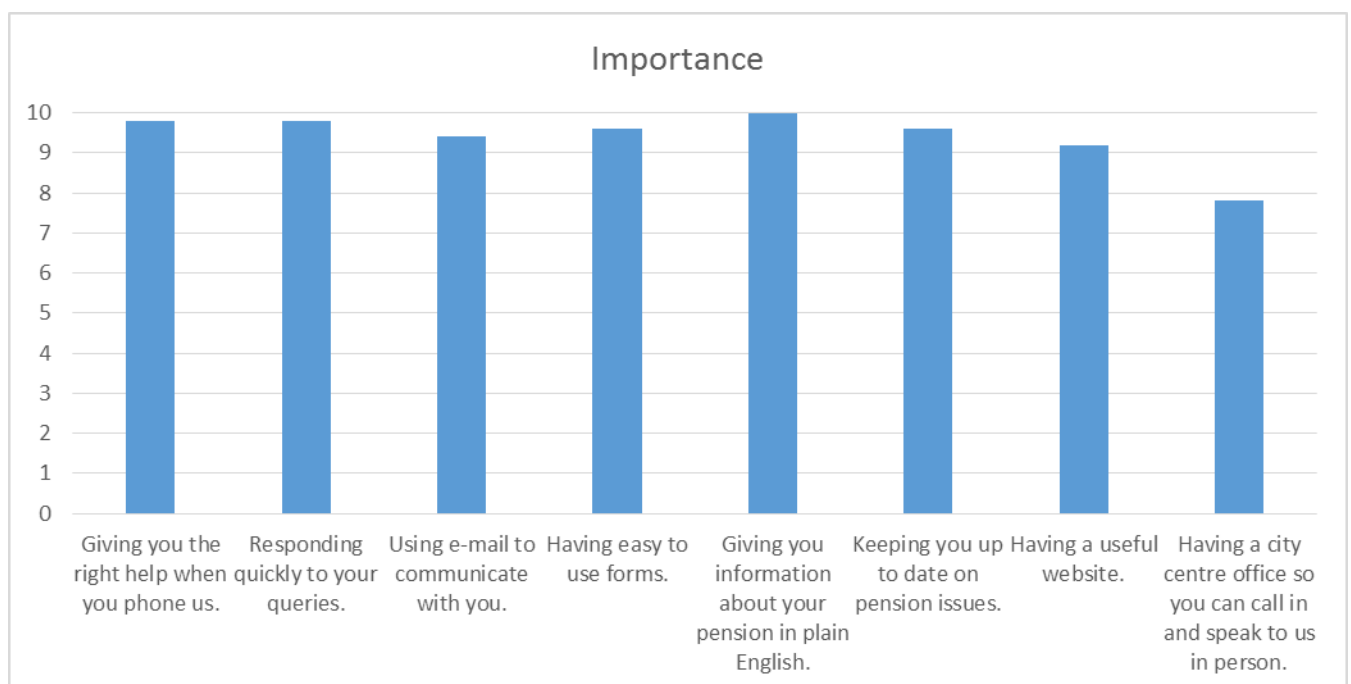
Over the quarter October to December we received **2** online customer responses.

Over the quarter October to December **133** Lincolnshire member's sample survey letters were sent out and **12 (9.03%)** returned:

Overall Customer Satisfaction Score;

October to December 2016	January to March 2017	April to June 2017	July to September 2017	October to December 2017
77.22%	87.07%	78.63%	89.62%	91.74%

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



**Sample of positive comments:**

<b>Member Number</b>	<b>Comments</b>
8068128	Spot on. Just retired and the process was clearly explained and executed in a timely manner. Thank you very much.
8108529	A clear effective service. I was very impressed by your phone service.
8117549	My enquiries and subsequent action was very quickly dealt with.

**Complaints/Suggestions:**

<b>Member Number</b>	<b>Comments</b>	<b>Corrective/ Preventive Actions</b>
8100165 (online)	Slow, repetitive and very uninformative. Slow service, kept being told would be completed within next 3 weeks which ended up taking around 2 years. Had to ring twice to change address. Was not updated by yourselves at all unless I contacted you.	Delays in receiving accurate information from the Employer

**Employer Feedback (LPF)  
Quarter 3 October – December 2017**

**III Health – 18 October 2017**

**Feedback score: 87.20%**

<b>Comment</b>	<b>Action taken</b>
Would have been useful to cover firefighter pension schemes	None.
Some comments made re: individuals making IDRPs claims were inappropriate.	Discussed with presenter, do not agree with comment.

**A summary of the compliments**

- Very useful and informative. Engaging training (as always). Thank you
- Great workshop

**Complete Guide – 22 November 2017**

**Feedback score: 91.71%**

<b>Comment</b>	<b>Action taken</b>
Did not receive course info after booking - had to chase yesterday	Late booking.

**A summary of the compliments**

- I found this workshop really helpful and informative as a new comer to pension administration.
- Very happy with the content.

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## DRAFT GDPR IMPLEMENTATION PLAN FEBRUARY 2018

Ref	Title	Details	Responsible Officer	Time	Implementation
1	Data Protection Officer	<p>The Council is required to appoint a Data Protection Officer or assign the role to a Senior Officer including agreeing the relationship with the Council's SIRO.</p> <ul style="list-style-type: none"> <li>To inform and advise the organisation and its employees about their obligations to comply with the GDPR and other data protection laws.</li> <li>To monitor compliance with the GDPR and other data protection laws, including managing internal data protection activities, advise on data protection impact assessments; train staff and conduct internal audits.</li> <li>To be the first point of contact for supervisory authorities and for individuals whose data is processed (employees, customers etc).</li> </ul>	Strategic Director Corporate Services	By 25 May 2018	Decision still required to be taken on this
2	Information Asset Registers, Privacy Notices, and Data Sharing Agreements	<p>Asset registers need reviewing, approving by Information Governance Team and signing off by Assistant Directors to enable draft privacy notices to be completed</p> <p>Draft Privacy Notices to be prepared by the end of February 2018</p> <p>Completed Privacy Notices to be prepared and Published for each Assistant Director area before 25 May 2018.</p>	Head of Internal Audit, Insurance Information Governance and Risk	Before 25 May 2018	<p>Asset registers need reviewing, approving by Information Governance Team and signing off by Assistant Directors to enable privacy notices to be completed</p> <p>Written Instructions and Pro forma on the preparation of Privacy Statements have been issued to all Assistant Directors.</p> <p>.....out of 32 have been</p>

		Data Sharing Agreements need reviewing and central register kept			returned. Data Sharing Agreements need reviewing and central register kept
3	Data Protection Impact Assessments	<p>The Council will need to ensure that privacy and data protection is a key consideration in the early stages of any projects/systems involving 'high risk' processing which include the following:</p> <ul style="list-style-type: none"> <li>• building new IT systems for storing or accessing personal data;</li> <li>• developing legislation, policy or strategies that have privacy implications;</li> <li>• embarking on a data sharing initiative; or using data for new purposes</li> </ul>	System Owner/Project Manager is responsible for ensuring that a full Data Protection Impact Assessment is carried out on all IT systems and for all process changes that could impact on individuals' privacy	25 May 2018	Standard documents need putting on the Bradnet
4	ICT Compliance	<p>WYPF will liaise with System Owner, ICT and the Information Governance Team</p> <ul style="list-style-type: none"> <li>• to implement any system changes to ensure GDPR compatibility</li> <li>• identify issues on right to erasure</li> <li>• identify issues on right to restrict processing</li> <li>• Rights in relation to automated decision making and profiling</li> <li>• Assess the impact on processes</li> </ul> <p>A risk assessment of each information asset should be undertaken before advising IT Services to undertake any further compliancy work to ensure any internal and external</p>	Director of WYPF/System Owner	25 May 2018	

		resources are expended on the information assets posing the highest level of risk.			
5	Communication Strategy	Build on the initial communication on Bradnet with further communications on the GDPR.  Communication set up for each month to all staff through Bradnet and Management comms announcing GDPR enactment	Head of Internal Audit, Insurance Information Governance and Risk	Before 25 May 2018	
6	Training Staff	Establish Training sessions and updated GDPR e-learning for Senior Management Training  Key Staff Training  General Training on GDPR for all staff  Assessment of any Web Based Training to be delivered.	Head of Internal Audit, Insurance Information Governance and Risk	Before 25 May 2018	
7	Consents (including social media)	All Service Areas are required to review current consent issues to ensure they comply with the GDPR requirements	All Strategic Directors	Prior to 25 May 2018	
8	Update Policies and Procedures and GDPR Long Term Plan	Update Subject Access Policy and Procedure and Data Breach Procedure  Determine a GDPR Policy to ensure the Council complies with the requirements	Strategic Director Corporate Services	Prior to 25 May 2018	The regular review of service areas' information asset registers - list of personal and non-personal information assets including IT systems held by departments

					Regular review of privacy notices  Regular review of consents
9	Review Existing and Standard Contracts	Need to review the Council's <b>Procurement Contracts</b> with third party processors to ensure data protection clauses are GDPR compliant. Standard documents for new contracts also need updating to ensure GDPR compliant.	Strategic Director	Prior to 25 May 2018	Review Existing Contracts and Standard Documentation

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

Report to:	<b>Pensions Committee</b>
Date:	<b>22 March 2018</b>
Subject:	<b>Pension Fund Update Report</b>

**Summary:**

This report updates the Committee on Fund matters over the quarter ending 31<sup>st</sup> December 2017 and any current issues.

**Recommendation(s):**

That the Committee notes the report.

## **Background**

### **Fund Summary**

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £85.3m (3.9%) to £2,246.0m on 31<sup>st</sup> December 2018. Fund performance and individual manager returns are covered in the separate Investment Management report, item 7 on the agenda.
- 1.2 Appendix A shows the Fund's distribution as at 31<sup>st</sup> December. 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 3%

UK Equities underweight by 0.7%  
Global Equities overweight by 3.7%

Underweight Alternatives by 1.2%

Overweight Property by 0.2%

Underweight Infrastructure by 1.0%

Underweight Bonds by 1.7%

Overweight Cash by 0.7%

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

- 1.3 The purchases and sales made by the Fund's portfolio managers over the period (including those transactions resulting from corporate activity such as take-overs) are summarised in Appendix B.
- 1.4 Appendix C shows the market returns over the three and twelve months to 31<sup>st</sup> December 2017.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 31<sup>st</sup> December, accounting for 10.7% of the Fund, compared to 9.3% in the last quarter. Direct equity holdings in the Fund are now shown on the Pensions shared website ([www.wypf.org.uk](http://www.wypf.org.uk)), and updated on a quarterly basis.

	<b>Company</b>	<b>Total Value £M</b>	<b>% of Fund</b>
1	ROYAL DUTCH SHELL	37.8	1.7
2	BRITISH AMERICAN TOBACCO	37.6	1.7
3	HSBC	26.9	1.2
4	MICROSOFT	26.8	1.2
5	UNILEVER	23.0	1.0
6	RECKITT BENCKISER	21.5	0.9
7	BP	17.6	0.8
8	APPLE	17.3	0.8
9	JP MORGAN	16.2	0.7
10	ACCENTURE	15.9	0.7
	<b>TOTAL</b>	<b>240.6</b>	<b>10.7</b>

- 1.6 Appendix D presents summarised information in respect of votes cast by the Manifest Voting Agency, in relation to the Fund's equity holdings. Over the three months covered by this report, the Fund voted at 38 company events and cast votes in respect of 414 resolutions. Of these resolutions, the Fund voted 'For' 294, 'Against' 86, abstained on 28 and withheld votes on 6.
- 1.7 A breakdown of the issues covered by these resolutions together with an analysis of how the votes were cast between 'For', 'Abstain' or 'Against' a resolution is given in Appendix D. Votes were cast in accordance with the voting template last reviewed at the 9<sup>th</sup> January 2014 meeting of this Committee, and effective from 1<sup>st</sup> March 2014. Amendments to the current template have been brought to this Committee meeting in paper 9.

## **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](http://www.lapfforum.org). Some of the highlights during the quarter included:

- The Forum issued a voting alert in support of JD Wetherspoon's remuneration policy. During 2017, LAPFF identified companies with highest and lowest oppose votes on their remuneration reports in 2016 that held policy votes in 2017. JD Wetherspoon has had very strong support for both its remuneration report in 2016 (88%) and its remuneration policy in 2014 (99.7%).
- A successful meeting took place between Executive Rewards Director at Diageo and LAPFF Executive member, Cllr Paul Doughty. The Forum met with Diageo to gain further understanding of the Company's pay policy, in particular the stakeholder consultation process and how pay rates are determined. Cllr Doughty also asked about the Company's gender pay disclosure. The Company was welcoming and open to future meetings with LAPFF.
- LAPFF attended the Hargreaves Lansdown AGM, and asked the Board about remuneration for the CEO, specifically awards given when he joined the Company. Faith Ward, who attended the AGM on behalf of LAPFF, also asked about the Company's plans to implement the findings of the Taskforce for Climate-Related Financial Disclosure (TCFD). The Company was receptive to LAPFF's views and is open to a follow up meeting on the TCFD.
- Reflecting growing member concerns on cybersecurity and data content, LAPFF has had a number of meetings with companies to probe their governance and risk management procedures on this issue. Companies met included WPP, Sainsbury, Prudential and IAG.

- LAPFF issued its Climate Change Investment Policy Framework in November, to help member funds in their policy approach to current and future investment risks and opportunities that result from the impacts of climate change. The framework provides guidance in terms of Governance, Investment Strategy, Risk Management and Metrics and Goals. A companion document provides practical guidance for considering climate risk in investment strategy for funds.
- LAPFF has engaged with a number of companies to promote greater board gender diversity including on a collaborative basis. Together with other members of the 30% Club Investor Group, LAPFF met with companies in the real estate sector to determine companies' initiatives to increase female representation. The Group is considering whether to publish a note about the engagements with the sector.

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 £15.5m. The invested cash has outperformed the benchmark from 1<sup>st</sup> April 2017 by 0.30%, annualised, as shown in the table below, and earned interest of £60.7k.

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.

<b>Pension Fund Balance – Q1 to 31<sup>st</sup> December 2017</b>				
<b>Pension Fund Average Balance £'000</b>	<b>Interest Earned £'000</b>	<b>Cumulative Average Yield Annualised %</b>	<b>Cumulative Weighted Benchmark Annualised %</b>	<b>Performance %</b>
15,548.0	60.7	0.52	0.22	0.30

### 4 TPR Checklist Dashboard

4.1 To assist in the governance of the Lincolnshire Fund, it assesses itself against the requirements of the Pension Regulator's (TPR's) code of practice 14 for public service pension schemes, as set out in a check list



attached at Appendix E. This is presented to the Committee and Board at each quarterly meeting, and any non-compliant or incomplete areas are addressed. This is seen as best practice in open and transparent governance.

4.2 The areas that have changed since the last quarter's report are listed below.

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

*Grey to Green – Prudential has provided assurance evidence that this happened.*

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

*Grey to Green – Prudential has provided assurance they do.*

4.3 The Areas that are not fully completed and/or 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 submissions and employer training are improving data accuracy, 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.*

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 and employer training 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.*

## 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 No risks have changed status or been added over the quarter.
- 5.3 There is still one red risk, 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 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

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

## 6 21st Century Trusteeship

- 6.1 The Pensions Regulator (TPR) has formally launched its campaign on 21st century trusteeship, with a section dedicated to the subject on its website (<http://www.thepensionsregulator.gov.uk/21st-century-trusteeship.aspx>). This campaign follows the discussion paper published in 2016 looking at

how standards could be raised across trustees, to improve the way that pension funds are managed, and research findings that many pension schemes are not meeting the governance standards that TPR expects.

6.2 Whilst the language is directed at private Boards of Trustees, TPR expect all pension schemes to consider the guidance. The programme includes a series of communications to make clear what TPR expectations are on those responsible for managing a scheme effectively. This includes the main things that need to be in place and which will support good decision-making. For example:

- clear roles and responsibilities and clear strategic objectives
- a skilled, engaged and diverse board led by an effective chair
- close relationships with employers, advisers and others involved in running the scheme
- sound structures and processes focused on outcomes
- a robust risk management framework focused on key risks

6.3 The overall programme is divided into three themes:

- Good governance
- Clear roles and responsibilities
- Clear purpose and strategy

6.4 TPR are clear to point out that they not creating new or higher standards of governance for those running schemes, rather they are making clearer what they think good governance looks like, and what they will do if they don't see these standards being met. Overall the message is clear: trustees who fail to comply will face enforcement action.

6.5 In addition to completing the Trustee Toolkit, as discussed at previous meetings (<https://trusteetoolkit.thepensionsregulator.gov.uk/>), it is suggested that the Committee also visit the website at paragraph 6.1 to familiarise themselves with TPR's campaign.

## **Conclusion**

7 This reporting period saw the value of the Fund rise, increasing by £85.3m to £2,2456.0m. At the end of the period the asset allocation, compared to the strategic allocation, was;

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

## **Consultation**

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

Yes

**b) Risks and Impact Analysis**

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

**Background Papers**

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

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

APPENDIX A

DISTRIBUTION OF INVESTMENTS

INVESTMENT	31 Dec 2017			30 Sept 2017			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
<b>UK EQUITIES</b>								
UK Index Tracker	170,495	0.0%	0.0%	170,329	0.0%	0.0%		
Legal & General	433,567,930	30.6%	19.3%	412,821,914	30.7%	19.1%	20.0%	+/- 2%
<b>TOTAL UK EQUITIES</b>	<b>433,738,425</b>		<b>19.3%</b>	<b>412,992,243</b>		<b>19.1%</b>	<b>20.0%</b>	
<b>GLOBAL EQUITIES</b>								
Invesco	524,978,456	37.1%	23.4%	500,193,978	37.2%	23.1%	22.5%	+/- 2.5%
Threadneedle	137,499,819	9.7%	6.1%	129,173,578	9.6%	6.0%	5.0%	+/- 1%
Schroder	129,025,813	9.1%	5.7%	123,955,124	9.2%	5.7%	5.0%	+/- 1%
Morgan Stanley	189,592,648	13.4%	8.4%	177,386,063	13.2%	8.2%	7.5%	+/- 1%
<b>TOTAL GLOBAL EQUITIES</b>	<b>981,096,737</b>		<b>43.7%</b>	<b>930,708,743</b>		<b>43.1%</b>	<b>40.0%</b>	
<b>TOTAL EQUITIES</b>	<b>1,414,835,162</b>	<b>100%</b>	<b>63.0%</b>	<b>1,343,700,986</b>	<b>100%</b>	<b>62.2%</b>	<b>60.0%</b>	<b>+/- 6%</b>
<b>ALTERNATIVES</b>	<b>310,350,717</b>		<b>13.8%</b>	<b>303,718,336</b>		<b>14.1%</b>	<b>15.0%</b>	<b>+/- 1.5%</b>
<b>PROPERTY</b>	<b>207,104,260</b>		<b>9.2%</b>	<b>203,043,607</b>		<b>9.4%</b>	<b>9.0%</b>	<b>+/- 1.5%</b>
<b>INFRASTRUCTURE</b>	<b>32,719,260</b>		<b>1.5%</b>	<b>31,796,434</b>		<b>1.5%</b>	<b>2.5%</b>	<b>+/- 1.5%</b>
<b>FIXED INTEREST</b>								
Blackrock Interim	138,440,190	52.1%	6.2%	135,010,965	51.7%	6.2%	6.75%	+/- 1%
Blackrock	127,064,948	47.9%	5.7%	126,201,580	48.3%	5.8%	6.75%	+/- 1%
<b>TOTAL FIXED INTEREST</b>	<b>265,505,137</b>	<b>100%</b>	<b>11.8%</b>	<b>261,212,545</b>	<b>100%</b>	<b>12.1%</b>	<b>13.5%</b>	<b>+/- 1.5%</b>
<b>TOTAL UNALLOCATED CASH</b>	<b>15,465,237</b>		<b>0.7%</b>	<b>17,255,7963</b>		<b>0.8%</b>	<b>0.0%</b>	<b>+ 0.5%</b>
<b>TOTAL FUND</b>	<b>2,245,980,217</b>		<b>100%</b>	<b>2,160,727,704</b>		<b>100%</b>	<b>100%</b>	

**APPENDIX B**

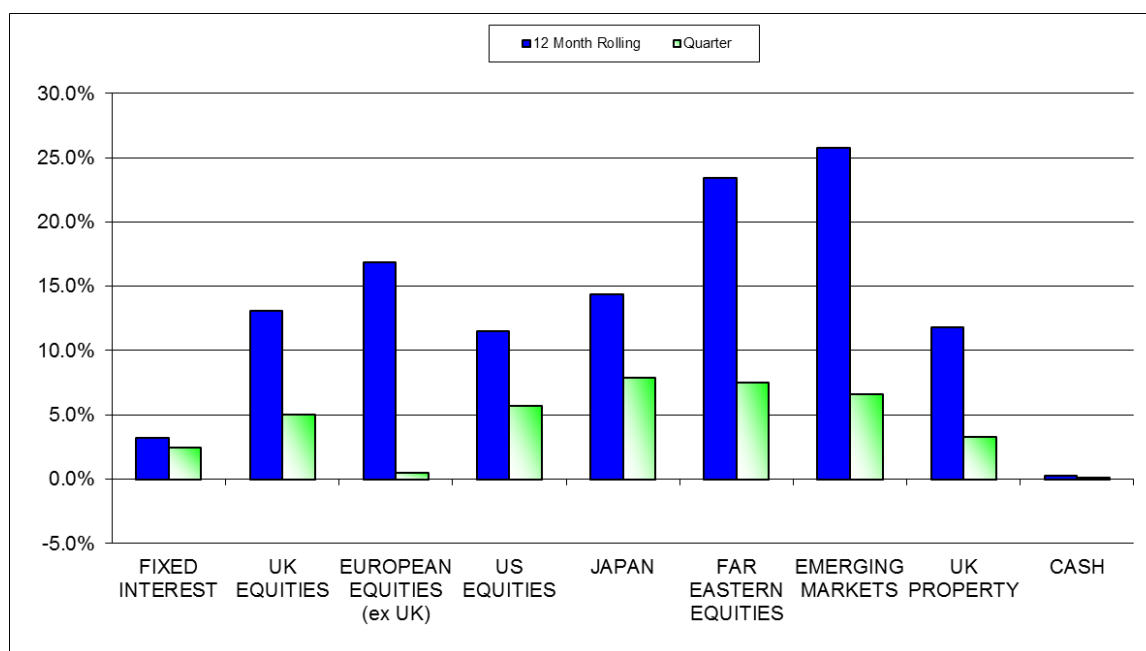
**PURCHASES AND SALES OF INVESTMENTS**  
**Quarter Ended 31<sup>st</sup> December 2017**

<b>Investment</b>	<b>Purchases £000's</b>	<b>Sales (£000's)</b>	<b>Net Investment £000's</b>
<b>UK Equities</b>			
Legal & General	0	0	0
<b>Global Equities</b>			
Invesco	46,745	(44,830)	1,915
Threadneedle	18,646	(21,145)	(2,499)
Schroders	11,814	(12,508)	(694)
Morgan Stanley Global Brands	0	0	0
<b>Total Equities</b>	<b>77,205</b>	<b>(78,483)</b>	<b>(1,278)</b>
<b>Alternatives</b>			
Morgan Stanley	0	0	0
<b>Total Alternatives</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Property</b>	<b>35</b>	<b>(2,700)</b>	<b>(2,665)</b>
<b>Infrastructure</b>	<b>1,258</b>	<b>0</b>	<b>1,258</b>
<b>Fixed Interest</b>			
BlackRock	0	0	0
Blackrock Interim	0	0	0
<b>Total FI</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL FUND</b>	<b>78,498</b>	<b>(81,183)</b>	<b>(2,685)</b>

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 31<sup>st</sup> DECEMBER 2017



INDEX RETURNS	12 Months to Dec 17 %	Oct-Dec 17 %
<b>FIXED INTEREST</b>	3.2%	2.5%
<b>UK EQUITIES</b>	13.1%	5.0%
<b>EUROPEAN EQUITIES</b>	16.9%	0.5%
<b>US EQUITIES</b>	11.5%	5.7%
<b>JAPANESE EQUITIES</b>	14.4%	7.9%
<b>FAR EASTERN EQUITIES</b>	23.4%	7.5%
<b>EMERGING MARKETS</b>	25.8%	6.6%
<b>UK PROPERTY</b>	11.8%	3.3%
<b>CASH</b>	0.3%	0.1%

## APPENDIX D

Votes Summarised by Votes Cast				
Votes Cast at Management Group Level				
Report Period: 01 October 2017 to 31 December 2017				
Voting Guideline Code	For	Abstain	Against	Total
All Employee Share Schemes	1	0	0	1
Annual Incentive Plan Metrics	2	0	0	2
Appoint Independent Proxy	1	0	0	1
Appoint Remuneration Committee Member	4	0	0	4
Approve Agreement	1	0	0	1
Auditor - Appointment	18	0	3	21
Auditor - Remuneration	2	0	3	5
Auth Board to Issue Shares	2	0	1	3
Auth Board to Issue Shares w/o Pre-emption	4	0	2	6
Authorise Political Donations & Expenditure	1	0	0	1
Board of Directors aggregate remuneration approval	2	0	0	2
Board Rem - Allow Board to Set	2	0	0	2
Board Size Range	1	0	0	1
Delegate Powers	2	0	0	2
Director - Discharge from Liability	1	0	0	1
Director Election - All Directors [Single]	169	0	47	216
Director Election - Chairman	9	0	16	25
Director Election - Chairs Audit Committee	17	0	4	21
Director Election - Chairs Nomination Committee	14	0	10	24
Director Election - Chairs Remuneration Committee	17	0	3	20
Director Election - Chairs Risk Committee	2	0	1	3
Director Election - Executives	25	0	9	34
Director Election - Lead Ind. Director/DepCH	7	0	2	9
Director Election - Non-executive/Sup Board	139	0	37	176
Director Election - Sits on Audit Committee	50	0	10	60
Director Election - Sits on Nomination Committee	57	0	11	68
Director Election - Sits on Rem Com	47	0	13	60
Director Election - Sits on Risk Committee	10	0	1	11
Director Election - Slate	1	0	0	1
Distribute/Appropriate Profits/Reserves	3	0	0	3
Dividends - Ordinary	5	0	0	5
Executive aggregate remuneration approval	2	0	0	2
Financial Statements	5	0	1	6
Financial Statements - Environmental Issues	4	0	1	5
Individual Share Award	13	0	0	13
Individual Share Option Grant	3	0	0	3
Long-term Incentive Plans	0	0	4	4
LTI: Discretionary Share Option Plan	1	0	0	1



LTIP Performance Measures	1	0	0	1
NED Remuneration - Fee Rate/Ceiling	3	0	0	3
Non-voting Agenda Item	1	0	0	1
Other Changes to Governance Arrangements	4	0	1	5
Other Meeting Procedures	1	0	0	1
Proportional Takeover Provisions	2	0	0	2
Provision of Financial Assistance	0	0	0	0
Reduce Nominal Value	1	0	0	1
Reissue (Use) Treasury Shares	0	0	0	0
Related Party Transaction - Mandate	1	0	0	1
Related Party Transaction - Specific Transaction	0	0	0	0
Remuneration Policy	2	0	0	2
Remuneration Report	6	0	23	29
Say-on-pay Frequency	13	26	0	39
SH: Director Election - Proxy Contest	1	0	0	1
SH: Diversity & Equality Policies	2	0	0	2
SH: Lobbying - Improve Disclosure	1	0	0	1
SH: Other	0	0	1	1
SH: Pay Disparity	1	0	0	1
SH: Political Spending - Improve Disclosure	1	0	0	1
SH: Restrict Accelerated Vesting of LTIP Awards	1	0	0	1
Share Buy-back Authority (inc Tender Offer)	4	0	0	4
Share Split	1	0	0	1
Significant Transactions	0	0	0	0
'Spill' Resolution (Australia)	0	0	1	1
Termination Provisions (Contract clauses)	1	0	0	1
Treasury Shares - Set Re-Issue Price Range	1	0	0	1
Unclassified	2	0	1	3
	<b>695</b>	<b>26</b>	<b>206</b>	<b>927</b>

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

### Summary Results Dashboard

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

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

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

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

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

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

Report to:	<b>Pensions Committee</b>
Date:	<b>22 March 2018</b>
Subject:	<b>Investment Management Report</b>

**Summary:**

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

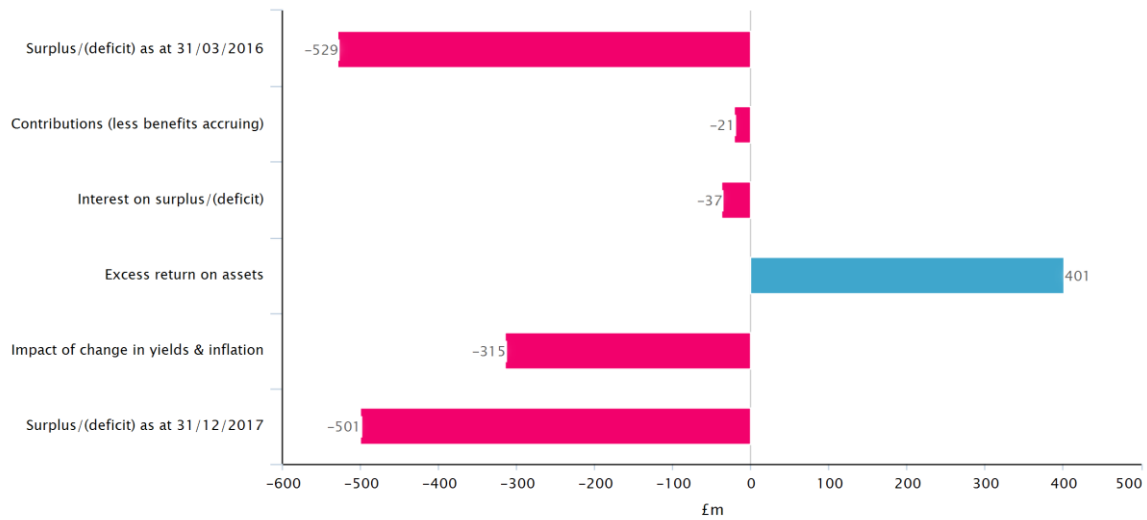
### **1. Funding Level Update**

- 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, 31<sup>st</sup> March 2016, to the current quarter end, 31<sup>st</sup> December 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 31<sup>st</sup> December 2017, where the funding level has increased to 82.1%.

### Change in funding level since last valuation



1.3 Over that same time period the deficit, in real money, has decreased from £529m to £501m. The chart below shows the main impactors on the deficit, with the excess return in assets offsetting the negative changes in yields and inflation.



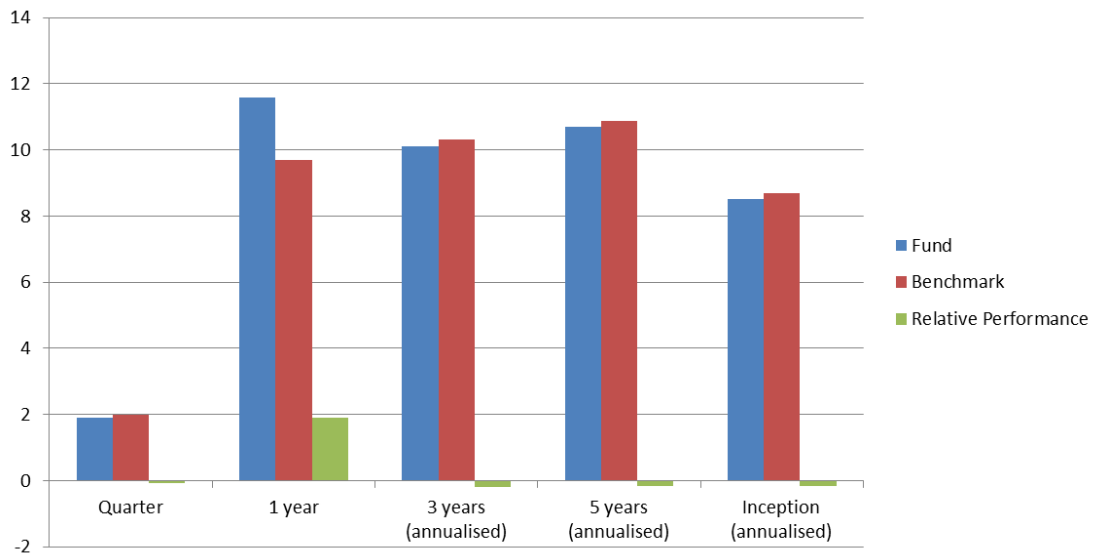
1.4 On a shorter term time horizon, looking at the last quarter, the funding level increased from 81.8% to 82.1% between 30<sup>th</sup> September 2017 and 31<sup>st</sup> December 2017, and the deficit increased from £492m to £501m.

## 2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £85.3m during the quarter from £2,160.7m to £2,246.0m, as the table below shows.

Asset Class	Q4 2017 £m	Q3 2017 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	433.7	413.0	19.3	20.0	(0.7)
Global Equities	981.1	930.7	43.7	40.0	3.7
Alternatives	310.4	303.7	13.8	15.0	(1.2)
Property	207.1	203.0	9.2	9.0	0.2
Infrastructure	32.7	31.8	1.5	2.5	(1.0)
Fixed Interest	265.5	261.2	11.8	13.5	(1.7)
Cash	15.5	17.3	0.7	0.0	0.7
<b>Total</b>	<b>2,246.0</b>	<b>2,160.7</b>	<b>100.0</b>	<b>100.0</b>	

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	1.9	1.98	(0.08)
1 year	11.58	9.69	1.89
3 years*	10.11	10.31	(0.2)
5 years*	10.7	10.87	(0.17)
Inception**	8.5	8.68	(0.18)

\*Annualised from Yr 3 \*\*Since Inception figures are from March 1987

2.3 Over the quarter, the Fund produced a positive return of 1.9% (as measured by JPMorgan), slightly underperforming the benchmark by (0.08%). The Fund was ahead of the benchmark over the 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 Morgan Stanley Alternative Investments has been moved from one notch down from preferred manager, but still within "retain". Seventeen managers remained rated as "retain", and one manager, Reef 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	Retain - preferred
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 one manager, Schrodgers, underperformed their benchmark over the quarter. Over the 12 month period, all managers have produced a positive absolute return, and all have matched or outperformed their benchmark.

Manager	3 months ended 31/12/17			Previous 12 months			Target p.a. %
	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	
Legal & General (UK Equities)* <small>*From February 17</small>	5.0	5.0	0.0	N/A	N/A	N/A	Match Index
Invesco (Global Equities (ex UK))	4.9	4.6	0.3	11.9	11.8	0.1	+1.0
Columbia Threadneedle (Global Equities)	6.5	5.0	1.4	20.8	13.8	6.1	+2.0
Schroder's (Global Equities)	4.0	4.9	(0.8)	16.0	13.2	2.4	+3.0
Morgan Stanley Global Brands	6.9	4.6	2.1	14.8	11.8	2.6	n/a
Blackrock (Fixed Interest)	2.5	2.5	0.0	3.3	3.2	0.1	Match Index
Blackrock Interim (Fixed Interest)	0.7	0.7	0.0	1.7	1.7	0.0	Match Index
Morgan Stanley (Alternative Investments)	2.2	1.1	1.1	7.6	4.5	3.0	3M LIBOR + 4%

### Infrastructure

4.3 At the January 2017 meeting of this Committee, an increase in the strategic allocation to infrastructure was approved, and authority delegated to Officers to identify new investments to commit to. Officers updated the Committee on the first infrastructure commitment to Infracapital's Greenfield Partners I Fund at the October meeting. Following more research and due diligence undertaken by Officers and the Investment Consultant, it was agreed to commit an additional £15m to Pantheon's Global Infrastructure III fund.

4.4 Pantheon is a manager well known to the Lincolnshire Fund, as we have been invested in their private equity funds since 2000. Hymans Robertson regards Pantheon as a manager with strong credentials within infrastructure and with broad capabilities across the market.

- 4.5 Pantheon's Global Infrastructure III (PGI III) is targeting \$1.2 billion in capital commitments to build a portfolio of high quality assets through secondaries and co-investments, partnering with leading infrastructure GPs. It will focus on developed economies, with the aim to capitalize on investment opportunities arising from infrastructure deficiencies, government policies supporting infrastructure investment and a growing range of mid-market opportunities coming from the private sector. It is targeting exposure to a range of sub-sectors, including energy (renewables and conventional power) transport, communications, water and social infrastructure. The focus is on brownfield and operating assets, with limited exposure to greenfield investments and development risks. This complements the previous commitment to Infracapital's fund that focuses on greenfield investments.
- 4.6 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 December 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.

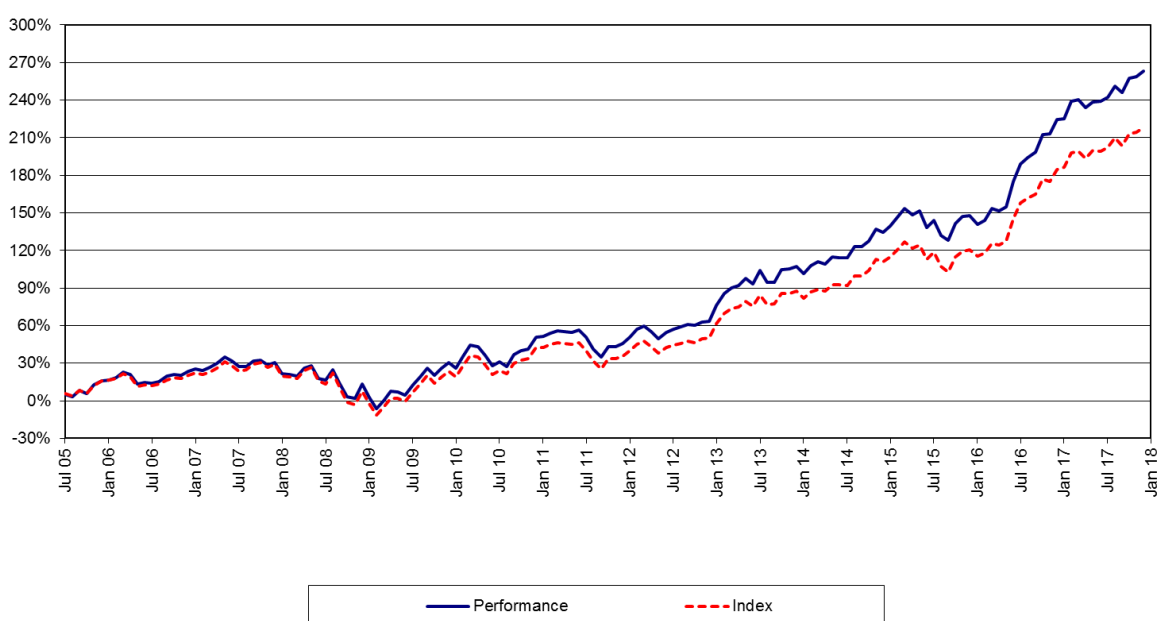
**Portfolio Valuation**

Value at 30.09.17	Value at 31.12.17
£500,193,978	£524,978,456

**Performance**

During the quarter Invesco's strategy outperformed its benchmark, with two of three positive months. As should be expected, stock selection led the outperformance. Within stock selection, the stocks with high value scores were the highest contributors. 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	4.9	11.9	15.7	17.3	10.3
MSCI World ex UK	4.6	11.8	14.7	16.2	9.2
Relative Performance	0.3	0.1	0.8	0.9	1.0

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

## Turnover

Holdings at 30.09.17	Holdings at 31.12.17	Turnover in Qtr %	Turnover in Previous Qtr %
463	454	7.5	8.8

## Purchases and Sales

During the quarter, Invesco made a number of stock adjustments to the portfolio. Top purchases over the quarter included adding Marathon Petroleum, Nippon Express Co and Toll Brothers into the portfolio, and increasing their positions in Faurecia, Mastercard and Facebook. Top sales over the quarter were in selling out of their positions in Inditex, Sysco and DowDuPont, and decreasing their positions in Merck, Wellcare Health Plans and Philip Morris.

## Largest Overweights

Wal-mart	1.00%
Boeing	0.96%
Citigroup	0.95%
Faurecia	0.86%
JP Morgan Chase	0.80%

## Largest Underweights

Amazon	(0.66%)
Alphabet	(0.56%)
Verizon Communications	(0.52%)
DowDuPont	(0.44%)
Walt Disney	(0.44%)

\* Measured against MSCI World ex UK (NDR)

## Top 10 Holdings

1	Apple	14,664,876
2	Microsoft	9,397,342
3	JPMorgan Chase	9,338,109
4	Citigroup	7,717,235
5	Boeing	7,258,385

6	Wal-mart	7,256,081
7	Johnson & Johnson	5,928,430
8	Facebook	5,657,252
9	Bank of America	5,656,313
10	Procter & Gamble	5,176,044

## Hymans Robertson View

This is a quantitative global equity strategy run from Invesco's Frankfurt office. The team aims to implement a factor based strategy in a systematic manner - producing a well-diversified equity portfolio exhibiting a low level of volatility. The portfolio managers carry out a final check on the proposed portfolio / trades but the portfolio construction process is essentially carried out within the model. The strategy has been successful in generating modest levels of outperformance at very low levels of risk.

There were no significant developments over the quarter.

## Risk Control

The predicted tracking error of the portfolio slightly increased 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 December 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.

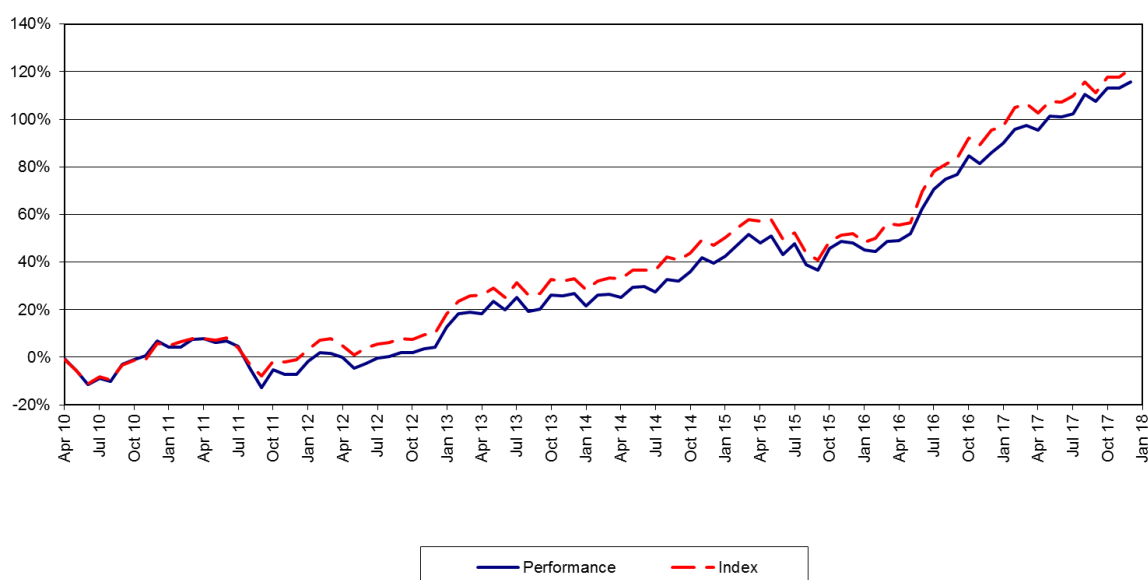
**Portfolio Valuation**

Value at 30.09.17	Value at 31.12.17
£123,955,124	£129,025,813

**Performance**

The portfolio underperformed the benchmark over the quarter, but strongly outperformed over the year. Stock selection, while weaker in this quarter, contributed most of the positive relative return in 2017. Positions in the IT, financial and healthcare sectors posed the principal headwinds and offset a stronger contribution from industrial stocks. By region, the underperformance was mainly attributable to the North American and emerging markets exposure, while Europe was positive.

Schroders Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Schroders	4.0	16.0	15.7	15.7	10.4
MSCI ACWI (Net)	4.9	13.2	14.6	15.0	10.8
Relative Performance	(0.8)	2.4	0.9	0.6	(0.3)

\*annualised, Inception date April 2010

## Turnover

Holdings at 30.09.17	Holdings at 31.12.17	Turnover in Qtr %	Turnover in Previous Qtr %
81	80	8.2	10.9

## Purchases and Sales

Several trades were made over the quarter; closing a number of positions as either the investment thesis played out or the stock deviated from the expectations for the business. Proceeds were rotated into higher conviction ideas. Two key transactions were buying Toyota and selling TAX Group. Toyota has an extremely strong balance sheet and is making investments in new technologies that leave it well placed to emerge as a leader in the transition to electric vehicles. TAX Group had disappointed on a number of key milestones, notably same store sales and market share gains, and the position was exited.

### Top 5 Contributions to Return

Estee Lauder	0.2%
Amazon.com	0.2%
Union Pacific	0.2%
General Electric	0.2%
United Health Group	0.1%

### Bottom 5 Contributions to Return

Grupo Financiero	(0.2%)
Celgene	(0.2%)
Bayer	(0.2%)
Intesa Sanpaolo	(0.1%)
Amgen	(0.1%)

### Top 10 Holdings

1	Citigroup	£4,110,581
2	Alphabet	£4,030,603
3	JPMorgan Chase	£3,359,795
4	United Health	£3,148,982
5	Comcast	£3,100,297

6	Amazon.com	£3,092,363
7	Taiwan Semiconductors	£3,060,477
8	DowDuPont	£3,008,911
9	Visa	£2,871,978
10	Union Pacific	£2,758,525

## Hymans Robertson View

The Schroder's fundamental equity team has settled down under the leadership of Alex Tedder. We regard his actions in rebuilding the team as being a good foundation for the future and should improve consistency. There have been periods in recent years when portfolios focused on fundamental long term growth have struggled in markets dominated by low growth and risk aversion - though we support the broad philosophy of the team.

In October 2017, Frank Thormann joined the Global Equity team, from Union Investment. The recruitment of Thormann means there are now six Portfolio Managers on the team.

## 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 December 2017**

**Investment Process**

The portfolio is designed to outperform the MSCI All Countries World Index by 2% per annum, gross of fees, over rolling three-year periods. The team focus on quality growth companies with high or rising returns on investor capital, and sustained or improving competitive advantage. The focus is on stock selection, with a well-diversified portfolio designed to deliver superior risk adjusted returns.

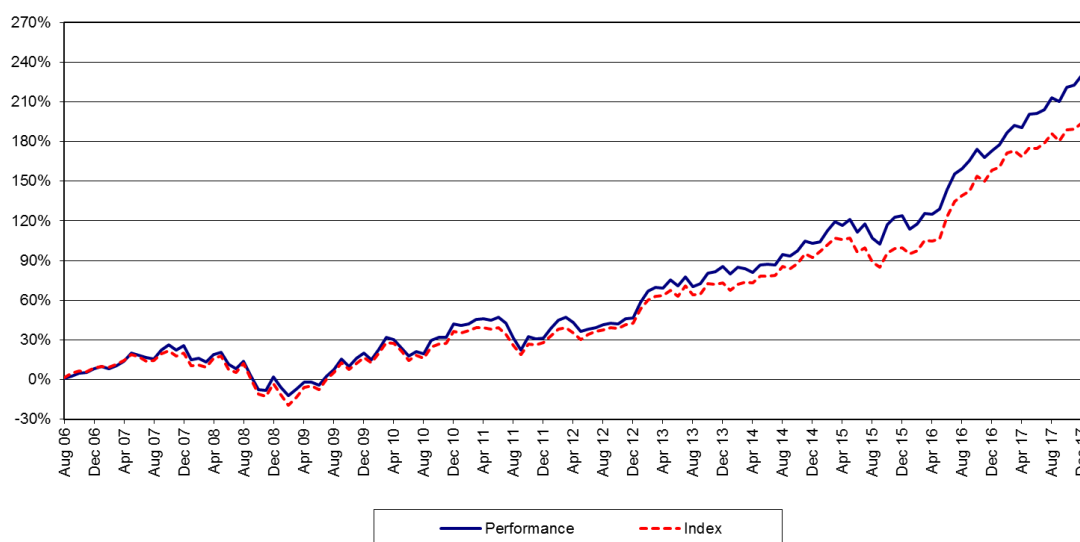
**Portfolio Valuation**

Value at 30.09.17	Value at 31.12.17
£129,173,578	£137,499,819

**Performance**

Gross of fees, the fund outpaced its index, extending its calendar-year relative gains. Stock selection drove returns, led by picks in financials and industrials. Top contributors included: Yaskawa, which continued to rise on positive sentiment surrounding the robotics space and themes of factory automation; Ping An, where markets continued to laud their tech driven expansion; and United Rentals, who extended its strong run on a positive quarterly earnings report in October, where the company exceeded estimates. Detractors included: Tesaro, which fell amid concerns over the competitive environment for the company's ovarian cancer therapy drug, Zejula; and Criteo, a position that was sold on potential business model disruption by Apple software.

Columbia Threadneedle Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Columbia Threadneedle	6.5	20.8	17.6	17.6	11.0
MSCI ACWI	5.0	13.8	15.2	15.6	9.9
Relative Performance	1.4	6.1	2.1	1.8	1.0

\* annualised, inception date 01/08/2006

## Turnover

Holdings at 30.09.17	Holdings at 31.12.17	Turnover in Qtr %	Turnover in Previous Qtr %
84	81	12.7	5.1

## Purchases and Sales

New positions were initiated in Rio Tinto, from a belief that it can benefit from its competitive cost advantage and attractive cash flow valuation, and Ingersoll-Rand, switching in from Johnson Controls. Ingersoll-Rand continues to win share in the commercial and residential heating, ventilation and air-conditioning (HVAC) business, and has the potential to deliver mid-teen earnings-per-share growth, driven by margin expansion and organic growth. Also a position in global biopharmaceutical company Celgene was bought, which offers strong prospects for operating margin improvements in the medium-term. This was funded by the exit from Novartis. Other new holdings included software giant Microsoft, and Tyler Technologies. Both Micron Technology and Costco were exited on valuations.

### Top 5 Contributions to Return

Ping An Insurance	0.61%
Amazon.com	0.45%
Yaskawa Electric	0.40%
United Rentals	0.36%
Charles Schwab	0.33%

### Bottom 5 Contributions to Return

Criteo SA	(0.25%)
Tesaro	(0.25%)
Macom Technology	(0.21%)
Gilead Sciences	(0.18%)
CRH plc	(0.11%)

### Top 10 Holdings

1	Alphabet	£4,798,411
2	JPMorgan Chase	£3,495,452
3	Amazon.com	£3,423,472
4	Bank of America	£3,248,136
5	Goldman Sachs	£3,022,816

6	Charles Schwab	£3,008,226
7	Visa	£2,774,337
8	Microsoft	£2,725,024
9	Alibaba	£2,722,904
10	Mastercard	£2,703,412

## Hymans Robertson View

The team's investment approach is based on fundamental research with a strong emphasis on inputs from the broader investment research resources at Columbia Threadneedle. The portfolios of around 60 - 70 stocks typically have a growth bias. The team is now well resourced and will hopefully enjoy a period of stability. William Davies is regarded as key to the operation of the team and we will be monitoring whether his expanded role as Head of Equities for EMEA has any detrimental impact in terms of his time spent on portfolio management.

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 December 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.

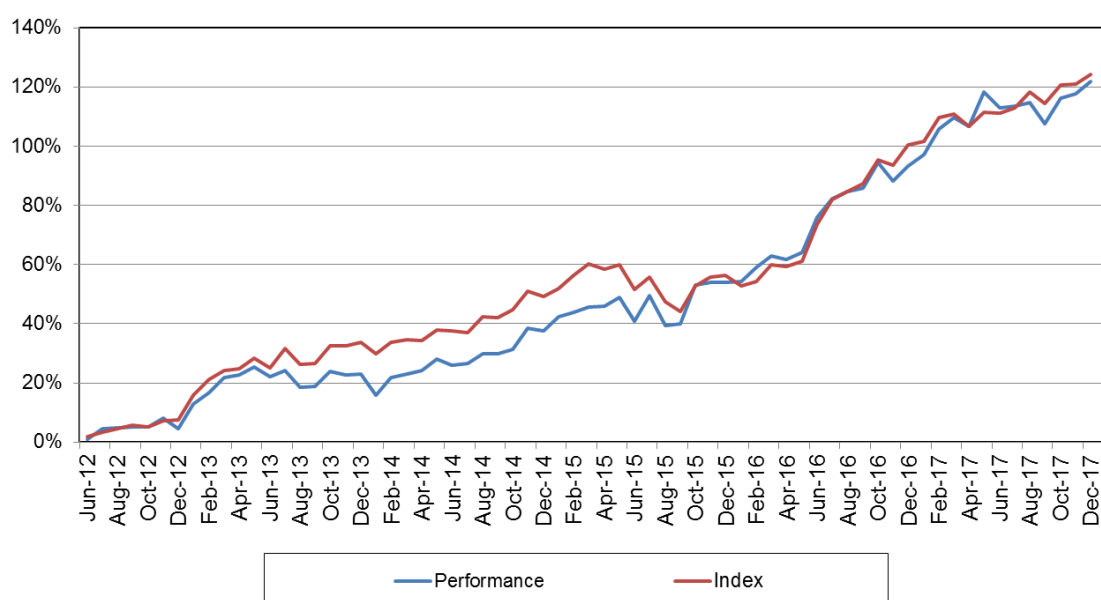
**Portfolio Valuation**

Value at 30.09.17	Value at 31.12.17
£177,386,063	£189,592,648

**Performance**

The portfolio outperformed in relative terms over the quarter, returning 6.9% versus 4.6% for the index. The key driver for the fourth quarter was stock selection in Consumer Discretionary, followed by stock selection and allocation in Information Technology and Health Care. Stock selection in Consumer Staples detracted, as did the underweights in Materials and Energy.

**Morgan Stanley Global Brands Performance Since Inception**



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley Global Brands	6.9	14.8	17.3	16.3	15.3
MSCI World Index	4.6	11.8	14.6	15.8	15.6
Relative Performance	2.1	2.6	2.4	0.4	(0.2)

\*annualised, inception date 18/06/2012

## Purchases and Sales

During the quarter, positions were initiated in FactSet and Fidelity National Information Services (FIS). FactSet is a financial software data and analytics vendor that continues to gain market share. FIS is a leading global provider of software solutions and innovations to the financial services industry. BAT was added to, given the firm's positive operational outlook and attractive valuation, and the positions in Danaher and RELX were increased. Positions were reduced in Unilever given strong performance, and also in Reckitt Benckiser, Nestlé and Disney. The position in Time Warner was sold, given concerns that intervention from the U.S. Department of Justice would block the proposed merger with AT&T.

### Top Contributors to Return

Twenty-First Century Fox	1.23%
Microsoft	1.04%
Accenture	0.98%

### Bottom Contributors to Return

Unilever	(0.29%)
Philip Morris	(0.20%)
Time Warner	(0.06%)

### Top Ten Holdings

Company	Industry	% Weighting
British American Tobacco	Tobacco	8.64
Microsoft	Software	7.73
Accenture	IT Services	7.71
Reckitt Benckiser	Household Products	6.37
Unilever	Personal Products	6.35
Visa	IT Services	4.70
L'Oreal	Personal Products	4.56
SAP	Software	4.41
Twenty-First Century Fox	Media	4.17
Philip Morris	Tobacco	4.01

### Hymans Robertson View

The manager runs concentrated portfolios of 20 - 40 stocks with a strong quality bias, low turnover and low volatility in absolute terms. Companies need to exhibit high returns on capital, be investing to protect their brands and have shareholder friendly management teams. There is a tendency for the portfolio to have large allocations to consumer and technology stocks, often with limited exposure to many other sectors of the market. On a regional basis the strategy is often overweight in UK listed stocks though high levels of revenue earned in emerging markets is a more important feature. The strategy is currently open but with limited capacity available. The long term track record is strong, performing well in relative terms in down markets and generally keeping pace in all but the most extreme up market phases. This provides stability when employed alongside other active equity managers.

No significant developments were reported over the quarter.

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

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

**Portfolio Valuation at 31<sup>st</sup> December 2017**

<b>Portfolio</b>	<b>30.09.17 £</b>	<b>31.12.17 £</b>
Corporate Bond All Stocks Index Fund	67,566,248	68,867,424
Over 5 Years UK Index-Linked Gilt Index Fund	40,571,464	42,165,987
All Stocks UK Gilts*	26,873,350	27,406,875
Cash (residual)	1	1
<b>Total</b>	<b>135,201,580</b>	<b>138,440,288</b>

\*Switched from Overseas Bond Index Fund in February 17

**Performance**

Over all periods the portfolio has performed as expected.

	<b>Quarter %</b>	<b>1 Year %</b>	<b>3 Year* %</b>	<b>5 Year* %</b>	<b>Inception* %</b>
Blackrock	2.5	3.3	7.1	6.8	7.5
Composite Benchmark	2.5	3.2	7.0	6.7	7.4
Relative Performance	0.0	0.1	0.1	0.1	0.1

\*annualised since inception 28/07/10

**Hymans Robertson View**

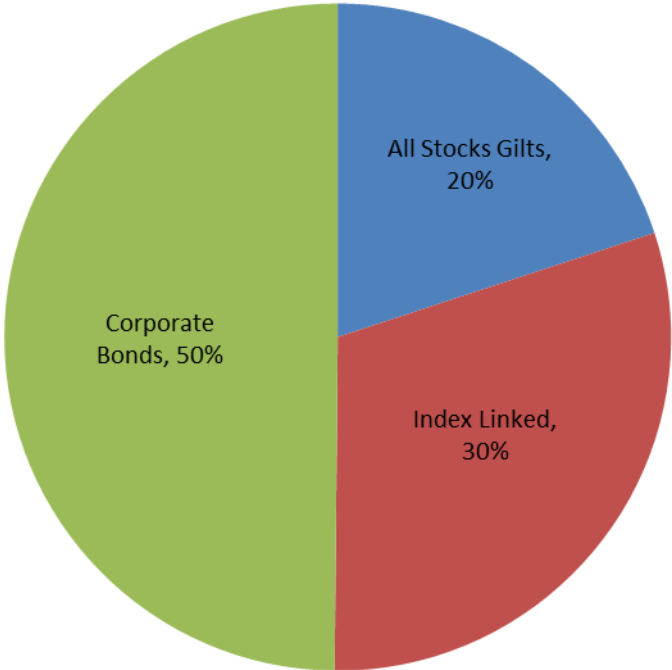
There were no significant developments within the Index Fixed Income team over the quarter.

**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 31<sup>st</sup> December 2017.



**Lincolnshire Pension Fund**  
**Passive Bonds – Blackrock interim**  
**Quarterly Report December 2017**

**Investment Process**

Since the termination of BMO's Absolute Return bond fund, that element of the Fund's asset allocation has been temporarily housed in an interim Blackrock fund of short dated corporate bonds. The fund is managed passively, and aims to achieve index returns in line with the iBoxx Sterling Non-Gilts 1-5 Year Index.

**Portfolio Valuation**

Value at 30.09.17	Value at 31.12.17
£126,328,641	£127,064,948

**Performance**

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock Interim	0.7	1.7	n/a	n/a	1.5
Benchmark	0.7	1.7	n/a	n/a	1.5
Relative Performance	0.0	0.0	n/a	n/a	0.1

\*annualised since inception 14/09/16

**Hymans Robertson View**

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

**Lincolnshire Pension Fund  
Alternative Investments – Morgan Stanley  
Quarterly Report December 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 manage the legacy private equity investments, however they are excluded from this report.

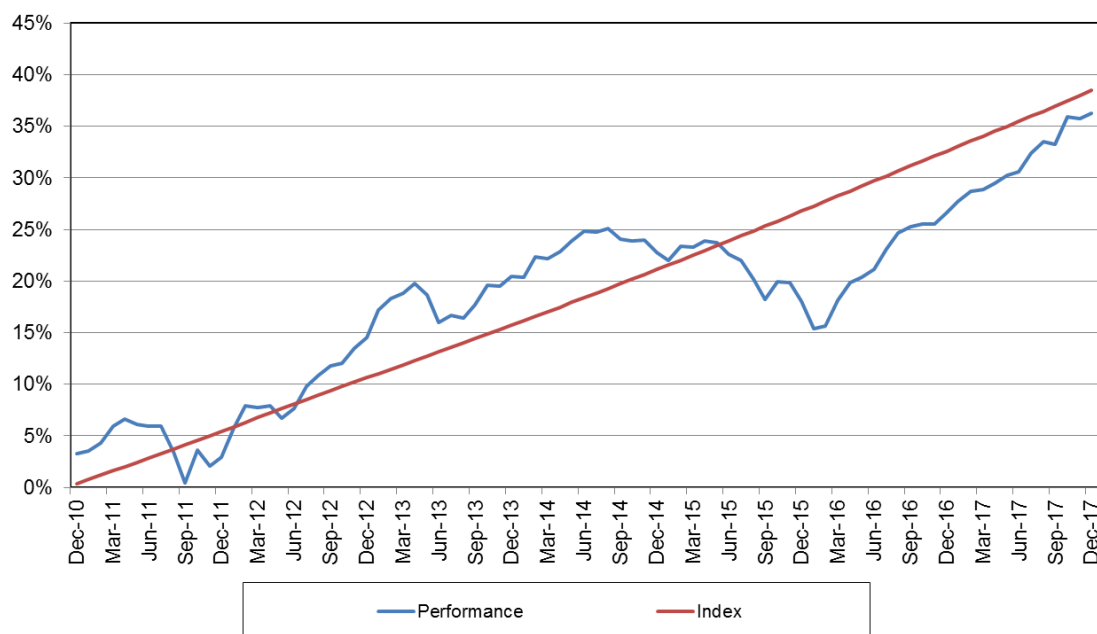
**Portfolio Valuation**

Value at 30.09.17	Value at 31.12.17
£264,390,864	£273,986,004

**Performance**

The portfolio outperformed during the quarter, where private markets and hedge funds drove absolute returns. Tactical decisions were overall additive, particularly the increased frontier equity exposure, while manager selection modestly detracted from relative returns. Within manager selection, frontier equity, hedge funds and EM debt particularly lagged.

Morgan Stanley AIP Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley	2.2	7.6	3.5	3.5	4.5
3 Month LIBOR + 4%	1.1	4.5	4.6	4.6	4.7
Relative Performance	1.1	3.0	(1.0)	(1.0)	(0.2)

\* annualised since inception date 24/11/2010

## Allocation

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

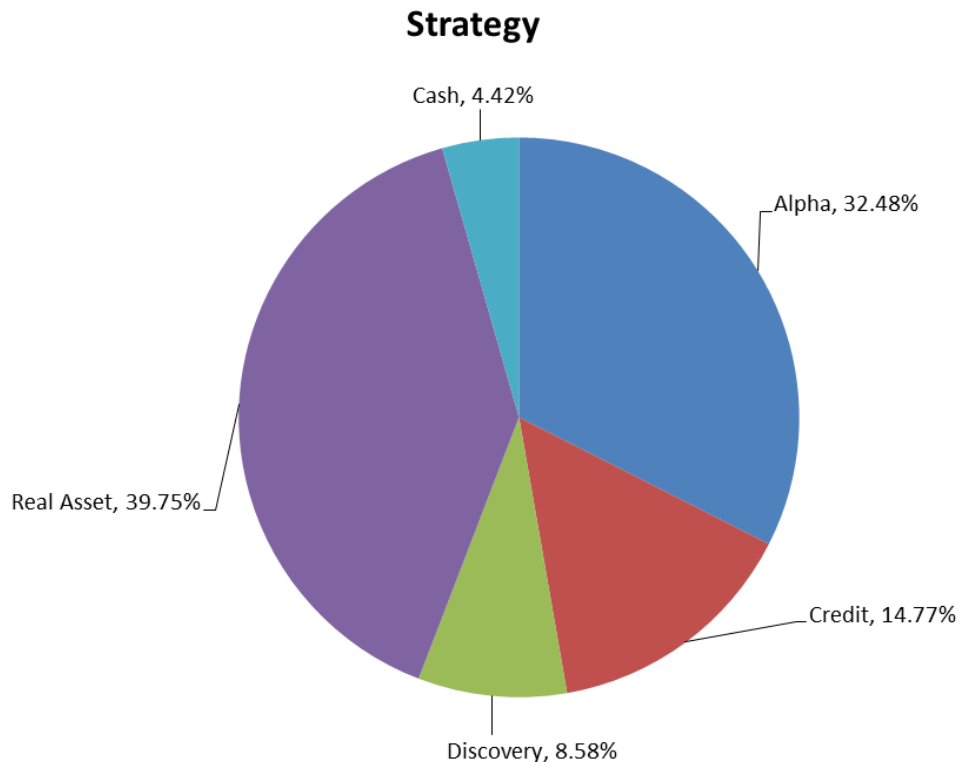
**Alpha** These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.

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

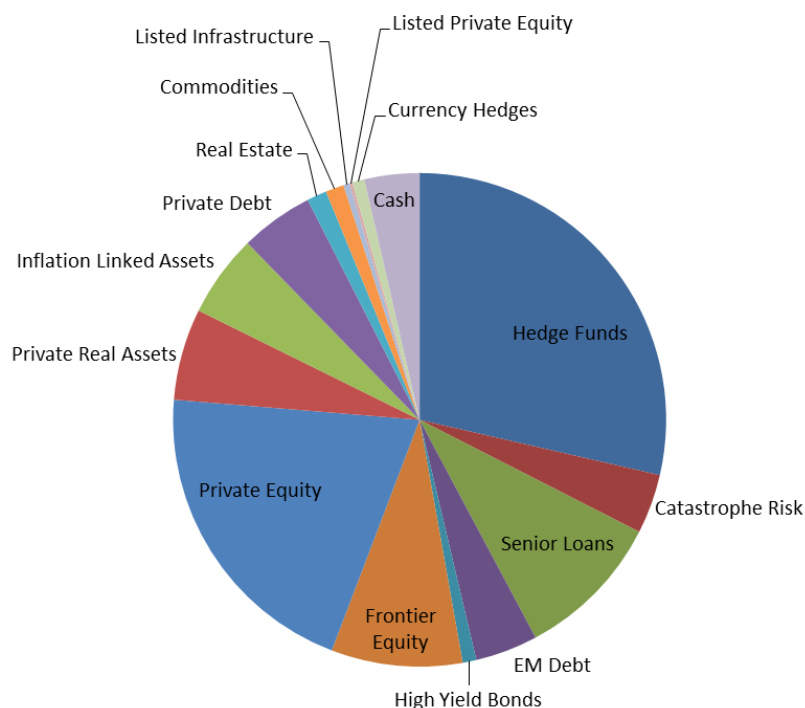
**Credit** These are the purchase of the lower rated bonds where higher default is more likely. Manager selection is important to ensure the correct bonds are purchased that will appreciate following rating upgrades and merger and acquisition activity. Credit opportunities include Emerging Market Debt,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

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

The pie charts below shows the strategy and asset class positions of the Morgan Stanley portfolio as at 31<sup>st</sup> December 2017.



## Asset Class



### Portfolio Outlook

Most assets performed well in 2017, as the combination of sustained economic expansion and continued easy financial conditions buoyed risky assets. As 2018 starts, it's difficult to see what will disrupt this not-too-hot, not-too-cold environment. Growth continues to surprise on the upside, but inflationary pressures remain dormant, implying the unusually slow pace of central bank policy normalisation will continue. In this world of a positive macroeconomic environment, somewhat high valuations and low correlations, alpha/issuer selection is likely to be a far bigger driver of performance.

There are always things to worry about from central bank policy surprises to geopolitical explosions. MS believe one of the key risks, if not maybe the most important risk, for 2018 is not so much the macroeconomic picture turns unfavourable, but that the market's demanding expectations are not met. Central banks may still normalise policy very slowly in comparison to previous cycles, but it will not take much to exceed current market pricing. This would happen if the Fed raises rates more than twice, if the ECB ends quantitative easing (QE) in September, or if the Bank of Japan shifts at all on its yield curve control policy. In the U.S., the composition of the FOMC still in flux, as President Trump has several more appointments to make. Given current valuations, the skew in potential outcomes for government bond markets is towards yields moving meaningfully higher rather than lower. Therefore, even if one's central scenario is not very different from what the market expects, it makes sense to position for higher yields.

In credit, the concern is that even a benign economic outlook may not be enough to drive outperformance given the spread compression that has already happened. One will need to be far more selective in where one takes spread risk to both eke out higher returns and minimise potential losses in a sell-off. Alpha/issuer selection is likely to be a far bigger driver of performance than just being long



beta/carry. Given the greater diversity of macroeconomic situations, Emerging Markets may be an attractive space to look for alpha opportunities.

In terms of new research in private real assets, MS are cautious on current market pricing and we are exploring opportunities to purchase investor interests in existing assets and funds as a method of navigating elevated valuations. MS remain disciplined in their small and mid-cap private equity bias and have a consistently strong flow of attractive co-investment opportunities with their high quality partners. Also, MS increasingly see opportunities in private equity to participate in appealing investments that have non-standard structures and have negotiated several of these transactions during the fourth quarter that benefited from limited investor competition. During the quarter MS complemented the existing private debt portfolio with the addition of a real estate debt strategy, which is expected to provide attractive floating rate income through exposure to U.S. commercial real estate.

### **Hymans Robertson View**

This strategy offers exposure to a broad range of alternative assets. Morgan Stanley employs an open architecture approach, investing through both internal and external fund managers. For liquidity purposes the portfolio has historically maintained a high allocation to hedge funds. In addition, the strategy is designed to remain fully invested and the manager will not make active use of cash or fixed income to preserve capital during stress periods in markets.

There were no significant developments over the quarter.

### **Risk Control**

Portfolio volatility since inception is 3.70%, within the guidelines specified by the mandate.

## **Conclusion**

Over the quarter, the Fund produced a positive return of 1.9%, slightly underperforming the benchmark which returned 1.98%.

## **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 Jo Ray, who can be contacted on 01522 553656 or [jo.ray@lincolnshire.gov.uk](mailto:jo.ray@lincolnshire.gov.uk).

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

Report to:	<b>Pensions Committee</b>
Date:	<b>22 March 2018</b>
Subject:	<b>Asset Pooling Update</b>

**Summary:**

This report updates the Committee on progress of the creation of Border to Coast, the Fund's chosen asset pool.

**Recommendation(s):**

That the Committee

- 1) notes the report;
- 2) delegate authority to agree expenditure up to an additional £75k to the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee; and
- 3) delegate authority to the Executive Director of Finance and Public Protection, in consultation with the Chair and Vice Chair of the Pensions Committee, to respond to the time-critical implementation decisions.

**Background**

1. As the Committee are aware, the Lincolnshire Fund has been working closely with 11 other partner funds since 2015, to create the asset pool now known as Border to Coast Pensions Partnership Ltd (Border to Coast). Since the last update in given at the October meeting of this Committee, much progress has been made in ensuring that Border to Coast will be operational in June 2018. This paper will summarise the key progress points to date, and the work being done to meet the June deadline.

**Joint Committee Meetings**

2. The Joint Committee (JC) last met on 16<sup>th</sup> January 2018, and the papers were circulated to all Pensions Committee members. The minutes will be circulated once approved, and below are the key decisions made from each paper:
  - Partner Fund Director proposals – the expectation is that two representatives nominated by the Partner Funds and approved by the Joint Committee will be proposed to the Border to Coast Board, and then

agreed by shareholders. The process will be brought to the next JC to be held on 13<sup>th</sup> March.

- Joint Committee budget – the proposed budget was agreed, with the cost shared equally across all partner funds.
- Cost sharing principles – the principles and high level approach were approved, subject to a change in relation to the long term allocation of Pensions Past Service Deficiency costs.
- Regulatory update – progress in the FCA application was noted, and the provision of a CASS waiver (client money provisions) was approved subject to each authorities S151 agreement.
- Responsible investments initiatives - the JC approved the governance process for supporting Responsible Investment initiatives and noted Border to Coast's stance in supporting the Financial Stability Board Task Force on Climate-related Financial Disclosures.
- Project update – it was agreed to recommend the increase in the implementation budget of an additional £75k cost per Fund (see paragraph 6 below).
- Draft three year operating budget – the draft budget was approved and recommended to shareholders for approval of the Border to Coast annual operating charge, and noted the risks and sensitivities of cost items currently estimated or reliant upon asset management transition.
- Pensions - the details of the proposals regarding the establishment of pension schemes which will be made by the Company to shareholders for approval was noted, and authority was delegated to the Chair and Vice Chair of the JC to sign off on the final proposal to be put to shareholders.

### **Key Milestones**

3. The key milestones achieved so far in 2018 are shown below:

#### **Governance**

- Board and Committees up and running
- Partner Fund Directors concept agreed
- Risk framework drafted, risk capital calculated
- External Auditor appointed: KPMG
- FCA application submitted

#### **Investment**

- Platform provider appointed: Bloomberg
- Outline ACS prospectus drafted

## Operations

- Third Party Administrator and depository appointed: Northern Trust
- Initial multi-party implementation workshops held
- Finance system chosen: Sage
- Corporate ICT ITT issued
- Banking relationship established: Lloyds

## People

- Significant recruitment activity
- TUPE discussions underway with affected Local Authorities
- Cultural design work underway
- Property chosen and design complete

## Next steps

4. The next stage involves six workgroups being set up to cover the areas listed below, with the outcomes required. Funds will be working with Border to Coast employees to resource these groups, and timescales are very tight to ensure that the June deadline is met.

<b>Workshop</b>	<b>Outcomes</b>
Internally managed sub-funds	Detailed investment specifications ACS Prospectus – FCA Investment Management Agreements Agreement that assets will be transitioned if funds launched (subject to the governance and transition workstreams)
Externally managed sub-funds and selection of external managers	Confirmation that OJEU process is required (to get approval from the Board) OJEU tender documentation ACS Fund Factsheets ACS Prospectus – FCA Investment Management Agreements
Transition management	Transition strategy Transition plan for sign-off
Alternatives	Agreement on what, how and when of alternatives capability build

Governance	<p>Identification of conditions required to approve transition of assets</p> <p>Identification of governance routes for each of the partner funds, including key governance meeting dates and approach to delegated authorities</p> <p>Agree content of information pack for each scheme to enable officers to achieve necessary approvals</p> <p>Approach to any due diligence requirements (shared duty of care, one provider, procurement process etc)</p>
Reporting and Required Authority Accounting Information	<p>Identification of standard reporting requirements</p> <p>Identification of reporting timelines</p>

### **Recommendations for delegated authority**

5. There will be a number of time-critical implementation decisions which will have to be made over the coming months, regarding the sub-fund structure, transition plans and other implementation actions. Therefore it is requested that authority to make these decisions is delegated to the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee.
6. As explained in the JC Project Update paper of 16<sup>th</sup> January, the implementation budget was originally expected to be £350k per partner Fund. This figure was the estimated total cost of ensuring that the Border to Coast company would be in a position to start managing assets within the Government's timeframe. At the October 2016 Pensions Committee, it was agreed to delegate authority to the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee, to allow expenditure up to that amount. For the reasons detailed in the JC paper, and with the greater visibility on actual costs, the implementation budget has increased and Funds are asked to approve an additional £75k each to ensure that the timescale for Border to Coast to begin managing assets can be met. Therefore it is requested that authority to agree expenditure up to an additional £75k is delegated to the Executive Director of Finance and Public Protection, in consultation with Chair and Vice Chair of the Pensions Committee. Actual implementation costs will be reported to the Committee once known.

## Conclusion

7. Significant progress has been made on the asset pooling project, and the pace is increasing as the deadline of June 2018 looms closer. To enable this deadline to be met, delegated authority is sought for time-critical decision making and additional expenditure to the implementation budget.

## 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	

## 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](mailto:jo.ray@lincolnshire.gov.uk).

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# Agenda Item 10

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of the Local Government Act 1972.

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