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Lincolnshire COUNTY COUNCIL
Working for a better future

County Offices
Newland
Lincoln
LN1 1YL

2 January 2019

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 10 January 2019** 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

Debbie Barnes OBE
Head of Paid Service

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

Councillors E W Strengiel (Chairman), P E Coupland (Vice-Chairman), B Adams, R D Butroid, P M Key, Clio Perraton-Williams, Mrs S Rawlins and Dr M E Thompson

Co-Opted Members

Mr A N Antcliff, Employee Representative
Mr J Grant, Small Scheduled Bodies Representative
Jeff Summers, District Councils Representative

PENSIONS COMMITTEE AGENDA
THURSDAY, 10 JANUARY 2019

Item	Title	Pages
1	**Apologies for absence**	
2	**Declarations of Members' Interests**	
3	**Minutes of the previous meeting held on 13 December 2018**	5 - 8
4	**Independent Advisor's Report** *(To receive a report from Peter Jones (Independent Advisor), which provides a market commentary on the current state of global investment markets)*	9 - 12
5	**Report by the Independent Chair of the Lincolnshire Local Pension Board** *(To receive a report by Roger Buttery (Chairman of the Lincolnshire Local Pension Board), which provides an update on the work of the Pensions Board)*	13 - 16
6	**Pension Fund Update Report** *(To receive a report from Jo Ray (Pension Fund Manager), which provides an update on Fund matters over the quarter ending 30th September 2018)*	17 - 38
7	**Pensions Administration Report** *(To receive a report by Yunus Gajra (Business Development Manager – WYPF), which will update the committee on current administration issues within the Fund)*	39 - 104
8	**Employer Monthly Submissions Update** *(To receive a report from Claire Machej (Accounting, Investment and Governance Manager), which provides the committee with up to date information on the Employer Monthly Submissions for the financial year 2018/19)*	105 - 110
9	**Investment Management Report** *(To receive a report from Claire Machej (Accounting, Investment and Governance Manager), which covers the management of the Lincolnshire Pension Fund assets over the period from 1st July 2018 to 30th September 2018)*	111 - 132
10	**Border to Coast Responsible Investment Policy and Corporate Governance Voting Guidelines Review** *(To receive an update from Jo Ray (Pension Fund Manager), which invites the committee to consider the new version of the Border to Coast Pensions Partnership Responsible Investment Policy and Corporate Governance and Voting Guidelines)*	133 - 164

11	**Mazars External Audit Presentation** *(To receive a report from Claire Machej (Accounting, Investment and Governance Manager), which provides a report and presentation from the Fund's new external auditor, Mazars)*	165 - 174
12	**CEM Benchmarking Presentation** *(To receive a report from Jo Ray (Pension Fund Manager), which introduces a presentation from the Fund's cost benchmarking provider)*	175 - 192

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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

Lincolnshire COUNTY COUNCIL
Working for a better future

PENSIONS COMMITTEE
13 DECEMBER 2018

PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)

Councillors P E Coupland (Vice-Chairman), B Adams, R D Butroid, Clio Perraton-Williams, Mrs S Rawlins and Dr M E Thompson

Co-Opted Members: Mr A N Antcliff (Employee Representative), Mr J Grant (Small Scheduled Bodies Representative) and Jeff Summers (District Councils Representative)

Roger Buttery (Chairman of the LGPS Pension Board), Ian Crowther (Member of the LGPS Pension Board), Peter Jones (Independent Advisor) and David Vickers (Member of the LGPS Pension Board) also attended the meeting.

Officers in attendance:

David Forbes (County Finance Officer), Claire Machej (Accounting, Investment and Governance Manager), Jo Ray (Pension Fund Manager) and Emily Wilcox (Democratic Services Officer)

35 APOLOGIES FOR ABSENCE

None were received.

36 DECLARATIONS OF MEMBERS' INTERESTS

Mr A N Antcliff declared an interest as a contributing member of the Pension Fund.

37 MINUTES OF PREVIOUS MEETINGS OF THE PENSIONS COMMITTEE HELD ON THURSDAY 4TH OCTOBER 2018

RESOLVED:

That the minutes of the meeting held on Thursday 4 October 2018 be approved as correct record and signed by the Chairman.

38 CONSIDERATION OF EXEMPT INFORMATION

RESOLVED:

That, in accordance with Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of

business on the grounds that if they were present there could be disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

39 CUSTODIAN TENDER AND APPOINTMENT RECOMMENDATION

The Committee received an exempt report from the Pension Fund Manager which provided a summary of the recent Custodian Tender Exercise.

Members were invited to ask questions, in which a number of points were raised.

10:10am - Councillor J Summers entered the meeting part way through the discussion, and was therefore unable to vote on this item.

RESOLVED:

That the committee approved the recommendations, as set out in the exempt report.

40 BORDER TO COAST PRESENTATION

The committee received a presentation from representatives of the Border to Coast Partnership.

The committee were invited to ask questions, in which a number of points were raised.

10:29am - Councillor Mrs S Rawlins entered the meeting part way through the discussion and was therefore unable to vote on this item.

RESOLVED:

That the committee approved the recommendation, as set out in the exempt report.

41 HYMANS ROBERTSON ACTUARIAL PRESENTATION

The committee received an exempt presentation from the Fund's Actuary, Peter Summers.

The committee were invited to ask questions, in which a number of points were raised.

RESOLVED:

That the committee approved the recommendations, as set out in the exempt report.

42 CLUB VITA PRESENTATION

The committee received a presentation from representatives of Club Vita.

The committee were invited to ask questions, in which a number of points were raised.

RESOLVED:

That the committee approved the recommendation, as set out in the exempt report.

The meeting closed at 13:05

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**10 January 2019**
Subject:	**Independent Advisor's Report**

Summary:

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

Recommendation(s):

That the Committee note the report.

Background

Investment Commentary – January 2019

Markets in turmoil

After a quiet summer in markets across the world, recent months have been anything but. For a number of years, almost back to the start of this decade, declines in equity markets had been limited to 10% or so. I certainly attributed this to major institutional investors lacking serious alternative investment opportunities. The other major market – the various government bond markets around the globe – offered such low yields that they were unattractive to all but a small niche of buyers. The commercial property market, whilst large, is difficult to invest in quickly and expensive to do so. So has the phenomenon - of limited falls in equities - broken down?

Global Economics

The trigger for weakness in US equities in October seemed to stem from the belief, no doubt well founded, that the US economic growth rate would ease back in 2019. During the summer of 2018, stimulated by the Trump tax cuts, it was growing at about 4% per annum. But the stimulus of tax cuts does not last indefinitely. Many commentators think the growth rate will fall in 2019 to around a still respectable 2.5%. No disaster, but enough to result in more subdued rates of growth in US profits and earnings per share.

Outside the US, as one commentator put it, the air was slowly escaping from the economic balloon of the rest of the world! In early 2017, Germany and other European economies surprised us all with a robust upturn. Just as suddenly it seems to be subsiding. Surprisingly, the UK seems to be – so far anyway – coping well with the Brexit "pantomime". The summer of 2018 saw good growth, which seems to be sustained at around 1.5% per annum. Not wonderful but enough to keep unemployment in a modest downward trend.

China and the USA

The trigger for raising greater anxiety in global equities was the threat of a trade war between China and the US. But most observers thought even this was resolvable. China and the US are like a married couple who cannot divorce but must live together. They are inter- dependent. They must find a day to day working modus operandi. What seems to have led to sharp falls of over 3% on successive days was the arrest of Huawei's Finance Director in Vancouver in early December, with a view to her extradition to the US on criminal charges relating to Iran. Quite how this saga will play out is not at all obvious to me – or seemingly to markets at the time of writing. Huawei is a Chinese manufacturer of telecoms equipment widely used in the western world. It is believed to be an arm of the Chinese government (which the Chinese deny) and thus constitutes a major threat to the security of western digital networks.

Global Bond Yields

The Committee will be well aware that the Quantitative Easing programmes initiated by all the main Central Banks around the world have led to the injection of huge amounts of liquidity into markets. It is this, overwhelmingly, that has sustained the huge rise in global equities and the fall in long dated government bond yields. Since early 2018, the US Federal Reserve, the US Central Bank, has begun to withdraw some of this liquidity by selling US Treasury Stocks. Other Central Banks are expected to follow suit, albeit cautiously, in 2019. So government bond yield began to rise. For example, US Treasury 10 year yields rose to 3.25% in November from some 2.5% at the start of 2018. Amidst the recent equity market turmoil, there has been an abrupt reversal – representing a "flight to safety". That same security now yields around 2.85%.

Implications for Global Equities

Global bond yields are once again at unattractively low levels. That leaves global equities as the major investible alternative for institutional investors – unless that is they are prepared to build up their cash holdings to high levels. In the US – but not elsewhere – rates for money on deposit are now more attractive than they have been since the financial crisis of some ten years ago. With the end of the calendar year approaching (at the time of writing) – cash will be an attractive holding for many investors. But as 2019 unfolds, despite a slowing global economy, I suspect buyers of equities will once more return.

Conclusion

Peter Jones
16th December 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 on 01522 553641 or claire.machej@lincolnshire.gov.uk.

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**10 January 2019**
Subject:	**Report by the Independent Chair of the Lincolnshire Local Pension Board**

Summary:

The purpose of this report is:

A) To update the Pensions Committee on the work of the Pensions Board (PB) during the last few months.

B) For the Pensions Committee to consider recommendations from the PB.

C) For the Pensions Committee to receive assurances gained from the PB's work.

This is a pilot exercise and the Pensions Committee will be asked whether the report is helpful and if the Committee wishes to receive future reports on a quarterly basis.

Recommendation(s):

The Pensions Committee is requested to:

A) Note the report.

B) Consider including two additional items into the Risk Register (further details of these proposed additions are set out in the Fund Update Report - item 6 on this agenda).

C) Consider whether it wishes to receive future reports from the Pensions Board on a quarterly basis.

Background

<u>OUTCOMES FROM PENSION BOARD MEETING ON 11 OCTOBER</u>

1.1 The PB met on the 11th October and its main focus was on the following topics:

A) Backlog of leaver records – by way of background, in late 2017 the PB identified that Lincolnshire County Council (LCC) had a large number of outstanding leaver forms (approximately 4,000) dating back to April 2015 that had not been supplied to the Fund's administrators, and that numbers were still increasing. The PB wrote to the Director of Children's Services requesting immediate action by both LCC and Serco with the threat of reporting the breach to the Pensions Regulator (tPR). Good progress has been made in clearing the back log although there was slippage against the original improvement plan. LCC also self-reported the issue to tPR. The PB has monitored progress on clearing the backlog throughout 2018. At its October meeting, the PB was pleased to note that the backlog of leavers' records had fallen to 168. However, it transpired that there was a backlog of almost 1,000 current cases (June to September 2018). The PB wrote again to the Director Children's Services and received a detailed response. Serco assured LCC that the remaining historical cases would be cleared by early November 2018 and all other leavers' backlogs by the end of December.

B) Contribution Monitoring - for the past two meetings, the PB has been paying particular attention to Contribution Monitoring and in particular late contributions. At the last meeting, the PB received a presentation from the Accounting, Investment & Governance Manager which provided details and explanation on the Employer Data Submissions for the first four months of the financial year. This showed that generally, the payment of contributions was good, but issues arose from the submission of accurate data on a timely basis. Nine fines had been issued to employers in the period. The PB noted that various forms of support were offered to employers to assist with the payment and data submissions. The PB requested that an update on Employer Data Submissions should be provided as a quarterly report (this information is also included on this Committee's agenda at item 8).

C) Risk Register – the PB conducted an in-depth review of 3 risks from the Risk Register – Economic uncertainty to the UK leaving the EU; Risks associated with Asset Pooling; and the maturing of the Fund. The PB were satisfied that all three of the risks were appropriate and should remain on the risk register under their current risk rating. The PB raised concerns over two other potential risks and agreed to recommend their inclusion in the Risk Register to the Pensions Committee, namely: the forthcoming retirement of two senior finance managers namely the Director of Resources and the County Finance Officer, the latter has extensive pensions experience; and the completion of the Guaranteed Minimum Pension Reconciliation currently being undertaken by the West Yorkshire Pension Fund (these proposed additions to the Risk Register are included in the Fund Update Report on this Committee's agenda at item 6).

Conclusion

ASSURANCES GAINED BY THE BOARD

2.1 Good progress is being made in clearing the backlog of leaver records.

2.2 The vast majority of employers pay their contributions on time and submit the required documentation. However, there are a few late payers and even more where the data submission is late.

2.3 The statutory Scheme Annual Report was submitted on time in November to the Pensions Regulator.

Roger Buttery
Independent Chairman

December 2018

Consultation

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

No

b) Risks and Impact Analysis

N/A

Background Papers

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

This report was written by Roger Buttery, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**10 January 2019**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Committee on Fund matters over the quarter ending 30th September 2018 and any current issues.

Recommendation(s):

That the Committee:

1) approves the changes to the risk register detailed below:
   Risk 25 – Failure to meet requirements as a responsible investor - across all ESG risks – expand the wording to be Failure to meet requirements as a responsible investor - across all ESG risks (including, climate change and a move to a low carbon economy);
2) considers the recommendations from the Pension Board;
   Risk 4 - Calculating and paying pensions correctly – expand the wording to be - Calculating and paying pensions correctly (inc. completion of the Guaranteed Minimum Pension Reconciliation and communication with Pensioners)
   Risk 3 – Loss of key staff and loss of knowledge & skills – whether the current level of risk attached is appropriate;
3) considers whether they would like to visit the offices of Border to Coast; and
4) note the report.

Background

Fund Summary

1.1 Over the period covered by this report, the value of the Fund increased in value by £62.8m (2.7%) to £2,363.3m on 30th September 2018. Fund performance and individual manager returns are covered in the separate Investment Management report, item 9 on the agenda.

1.2 Appendix A shows the Fund's distribution as at 30th September. Across the asset classes, Fixed Interest is slightly below the agreed tolerance

weighting, at 11.5% compared to a lower tolerance of 12%. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 4.1%
UK Equities underweight by 1.5%
Global Equities overweight by 5.5%

Underweight Alternatives by 1.3%

Underweight Property by 0.3%

Underweight Infrastructure by 0.9%

Underweight Bonds by 2%

Overweight Cash by 0.4%

Movements in weight are due to the relative performance of the different asset classes. In light of the impending change of asset managers as we move towards the transition of assets into Border to Coast, it is not expected that any rebalancing would be undertaken, unless it is funded by reinvestment of cash. The strategic asset allocation change of a reduction in UK equities is covered in the Investment Management Report at item 9.

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

1.4 Appendix C shows the market returns over the three and twelve months to 30th September 2018.

1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 30th September, accounting for 10.9% of the Fund, compared to 10.5% in the last quarter. Direct equity holdings in the Fund are now shown on the Pensions shared website (www.wypf.org.uk), and updated on a quarterly basis.

	Company	**Total Value £M**	**% of Fund**
1	ROYAL DUTCH SHELL	39.9	1.7
2	MICROSOFT	33.6	1.4
3	RECKITT BENCKISER	29.6	1.2
4	HSBC	24.2	1.0
5	BRITISH AMERICAN TOBACCO	24.1	1.0
6	UNILEVER	22.5	1.0
7	APPLE	22.0	0.9
8	VISA	21.2	0.9
9	AMAZON	20.9	0.9
10	BP	20.7	0.9
	TOTAL	**258.7**	**10.9**

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 27 company events and cast votes in respect of 217 resolutions. Of these resolutions, the Fund voted 'For' 155, 'Against' 46, abstained on 0 and withheld votes on 16.

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 and approved at the 22nd March 2018 meeting of this Committee.

2 Local Authority Pension Fund Forum

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

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

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

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

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

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

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

- During the last quarter, LAPFF engaged with 63 companies on issues ranging from employment standards to Sustainable Development Goals and shareholder rights.

- The Forum issued two voting alerts ahead of the Ryanair and Sports Direct AGMs in September. Poor human capital management, along with continued concerns related to poor board oversight over governance issues led to recommendations to oppose annual reports

and the Chair at both companies. The Forum also attended both companies' AGMs.

- With an aim to better understand how companies approach the UN Sustainable Development Agenda, LAPFF liaised with 14 companies to discuss the topic of sustainable cities and climate risk management, as well as water stewardship and access to water and sanitation.

- The Forum has submitted its response to the Kingman Review that aims to review the role and power of the Financial Reporting Council (FRC). Despite the responses not being public, the Forum considers that its position on disbanding the current FRC is widely shared.

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 £12.6m for the year financial year to 30th September. The invested cash has outperformed the benchmark from 1st April 2018 by 0.15%, annualised, as shown in the table below, and earned interest of £46.2k.

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

Pension Fund Balance – Q1 to 30th September 2018				
Pension Fund Average Balance £'000	**Interest Earned £'000**	**Cumulative Average Yield Annualised %**	**Cumulative Weighted Benchmark Annualised %**	**Performance %**
12,600.4	46.2	0.75	0.59	0.15

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 No areas have changed since the last quarter's report.

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, whilst all Board members have completed this training, certificates have not been received for all Committee 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 Breaches Reporting - update

5.1 In line with the Breaches reporting policy, any breaches that are reported to the Pensions Regulator (TPR) are brought to the attention of the Pensions Committee and Pension Board. Breaches reporting is included in the standard quarterly update paper of the Board, however this includes all non-material breaches that are not reported to TPR.

5.2 As the Committee are aware, LCC reported itself to the Pensions Regulator in April, following concerns raised by the Pension Board.

5.3 Since the last meeting of the Board in October, LCC have held regular meetings with WYPF and Serco and have kept officers and the Board updated on progress in clearing the backlogs. LCC have also kept the Pensions Regulator updated. Monthly monitoring meetings are now a standard part of the process put in place to ensure that LCC is aware of the performance of Serco in respect to the pensions responsibilities that it undertakes on LCC's behalf.

5.4 The Board will continue to monitor progress to ensure that LCC is meeting the standards required as an employer in the Pension Fund, as all employers should.

5.5 A paper has been brought to the Committee at agenda item 8 to update on the contributions monitoring for all employers. This will be a regular paper on the Committee's agenda.

6 Risk Register Update

6.1 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.

6.2 The October meeting of this Committee compared the Lincolnshire Pension Fund risk register with those of the partner funds of Border to Coast. Whilst no material differences were found, it was agreed that one risk should be amended. This is detailed below, with the proposed additional wording highlighted in italics:

Risk 25	Consequences	Controls	Risk Score	
			L	I
Failure to meet requirements as a	Reputational risk, loss of Fund value	Stewardship code compliance Managers reporting	1	2

responsible investor - across all ESG risks *(including climate change and a move to a low carbon economy)*		requirements LAPFF membership Voting RI Policy and Voting Guidelines		

6.3 The Pension Board review the risk register regularly, and at their October meeting requested that two recommendations were taken to this Pensions Committee:

1) to consider whether the current risk score for Risk 3 – detailed below – was still appropriate given the imminent retirement of the Executive Director of Finance and Public Protection and the County Finance Officer, both of whom have extensive and historical knowledge of the Lincolnshire Pension Fund.

Risk 24	Consequences	Controls	Risk Score	
			L	I
Loss of key staff and loss of knowledge & skills	Inability to deliver service Statutory requirements not met Damaged reputation Pensioners not paid Inability to make investment/administration decisions Loss of professional investor status under MIFIDII	Diversified staff / team Look at other authorities with best practices to ensure LCC positions still desirable Attendance at pensions user groups, both WYPF and LCC Procedural notes which includes new systems as and when (LCC & WYPF) Section meetings / appraisals (LCC & WYPF) Regular team building (LCC & WYPF)	2	2

2) to consider the inclusion of additional words to risk 4 – detailed below – to add the Guaranteed Minimum Pension reconciliation and how the output of that will be communicated to pensioners in the event their pension is amended.

Risk 4	Consequences	Controls	Risk Score	
			L	I
Calculating and paying pensions correctly *(inc. completion of the Guaranteed Minimum Pension Reconciliation and communication with Pensioners)*	Damaged reputation Financial loss	Internal control through audit process Constant monitoring / checking Quality standard at WYPF Process management NFI and Tracing services Data Cleansing	2	2

6.3 There is still one red risk, risk 24, which was added in June 2016 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

6.4 The Committee is asked to approve the amendments to Risk 25 (paragraph 6.2) and to consider the recommendations from the Pension Board to amend Risk 4 and to consider whether the current level of risk attached to Risk 3 is appropriate (paragraph 6.3).

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

7 Asset Pooling Update

7.1 The Committee received a presentation from representatives of Border to Coast at the December Pensions Committee meeting, providing an update on the governance arrangements for Border to Coast, the Global Equity Alpha Fund and the alternative investment proposal.

Sub Funds

7.2 Work on the first externally managed sub-fund for Border to Coast has progressed well, with three managers being appointed to the UK Equity Alpha Fund: UBS, Janus Henderson and Baillie Gifford. Transition of assets from the partner funds are expected to have completed by the time of this Committee.

7.3 Much work has also been done on the Global Equity Alpha Fund, as the Committee heard in December, and the expectation is for assets to transition in Q2/3 2019.

Potential Savings

7.4 The Committee will be aware of the potential savings that asset pooling could bring to the Fund, as detailed in the formal submissions to MHCLG, ahead of the final approval for the creation of the Border to Coast pool, and detailed in a number of Committee papers and training sessions.

7.5 The range of net savings for Lincolnshire at that time was: best case £3.7m p.a. and worst case £1.7m p.a. Since that time (March 2016), assets have grown from £1.76bn to the current value of £2.3bn, therefore the expected savings should be greater, as most savings are from manager fee reductions that are based on assets under management.

7.6 As no assets have transitioned across to Border to Coast, no direct savings as a result of investing in Border to Coast have been realised. However the change from the internal management of the passive UK equities to the external manager LGIM produced approximately 0.005% of a saving on the fee scale – this was directly as a result of the pooling agenda and fees were negotiated for all partner funds in Border to Coast. The scale of the saving was low as a result of the already very low cost internal management – other partner Funds where this was already externally managed achieved far greater savings.

7.7 Once assets transition from current managers into Border to Coast, actual fee savings will be shared with the Committee.

7.8 In addition, further work will be done as part of the year end process to identify savings that can be attributed to pooling, and this will be shown in the Fund's Annual Report.

Joint Committee Meetings

7.9 The Joint Committee (JC) last met on 21st November 2018, and the papers were circulated to all Pensions Committee members. The minutes will be circulated once approved, and below are the highlights:

- Scheme member representation – the appropriate number of scheme member representatives to sit as non-voting members on the JC and the process for appointing these members was agreed.

- Scheme employer representation – the SAB guidance is that Funds should consider this in addition to scheme member representation, and should explain the reasons if they decide against it. It was resolved at the previous JC meeting that employer representatives were not required, and the statement below approved at this meeting to explain the reasoning:

  The Border to Coast Pensions Partnership Joint Committee has decided not to include a non-voting observer representing scheme employers who are not administering authorities within its membership. There are two reasons for this. Firstly, these employers are represented in the governance structures of the 12 Administering Authorities and there have, in contrast to scheme members, been no demands for such representation through this route. Secondly this is an incredibly diverse range of employers ranging from large unitary councils to small charities with one or two members and it is therefore considered that to provide effective representation of such a wide spectrum of organisations which participate in the Local Government Pension Scheme on different bases would be impractical. On balance it is considered that the common interest of this group of employers is in the achievement through an effectively implemented investment strategy of stable and affordable contribution rates, and that that interest coincides with a major part of the interest of administering authorities as employers who are represented on the Joint Committee.

- JC Budget - The JC noted that at the current time the forecast expenditure was broadly in line with the budget set in January 2018.

- JC Terms of Reference – as Border to Coast was now in a "business as usual" state, discussion was had about reviewing the initial terms of reference for the JC.

- Responsible Investment Policies Review – the draft RI Policy and Corporate Governance and Voting Guidelines were discussed. These have been brought to this Committee at agenda item 10.

- Chief Executive Officer (CEO) Report – Rachel Elwell updated the JC on the various interaction with Partner Funds.

- Border to Coast ACS Global Equity Alpha Fund – Chief Investment Officer (CIO) Daniel Booth updated the JC on the progress with the creation of the Global Equity Alpha Fund.

- Border to Coast Alternative capability and target operating model – CIO Daniel Booth updated the JC on the current proposition and process for building the alternatives capability within Border to Coast.

- Chief Operating Officer (COO) Report – COO Fiona Miller updated the JC on the core operational activities progressed since the last JC meeting, presented the out-turn for the Implementation Budget, explained the 2018-19 Operational Budget and the initial work undertaken on the 2019-20 Budget and the future governance process for approval by shareholders.

7.10 The next JC meeting is being held on 11th March 2019 and papers will be circulated to Committee members. Any questions or comments on the papers should be directed to Cllr Strengiel, who can raise them at the meeting.

Workshops

7.11 Officers continue to meet regularly with Border to Coast to ensure that the sub-fund offerings and the strategic asset allocations of the Partner Funds are aligned.

Shareholder Approvals

7.12 As the Committee are aware, there are two distinct roles that Lincolnshire County Council has with Border to Coast: the shareholder and the investor (or client). The Committee's role is that of investor, and is represented at the Joint Committee by the Chairman of the Pensions Committee. The shareholder role is undertaken by the Executive Director of Finance and Public Protection, and fulfils the role as set out in the Shareholder Agreement, which was approved by Full Council in February 2017.

7.13 Ahead of any shareholder approvals, officers, including S151 officers, work closely with Border to Coast to ensure full understanding of the resolution, the impact of it not being approved and discuss this with the JC ahead of any resolution being sent for approval. There are two important shareholder approvals due in the next few months:

- Alternatives Structure – the Committee had the structure for the alternatives vehicle explained to them at the December Committee meeting. As this is creating new subsidiaries of Border to Coast, it requires approval from all shareholders. 100% approval is required, and it needs to be in place for mid-January to meet the timetable for delivering the alternatives offering. To ensure that the proposed structure is suitable, additional legal advice has been commissioned by the Partner Funds.

- Strategic Plan (including budget and capital adequacy) – this sets the budget for 2019/20 and has been approved by the Border to Coast Board. It requires approval from 75% of shareholders (9 Partner Funds) and this approval is required to be in place for the end of February 2019.

Visit to Border to Coast Offices

7.14 To assist with building the relationship and understanding between the Fund and Border to Coast, there is an open invitation for the Committee to visit their offices in Leeds, where there will be the opportunity to meet more of the team. The Committee is asked to consider whether they would like to hold a future meeting at the offices of Border to Coast.

8 **Conference and Training Attendance**

8.1 It is stated in the Committee's Training Policy, approved each July, that following attendance at any conferences, seminars or external training events, members of the Committee and officers will share their thoughts on the event, including whether they recommended it for others to attend. This will now be a standing item within this paper, to enable members and officers to provide this feedback.

8.3 The Committee and officers are therefore requested to share information on relevant events attended since the last Committee meeting.

Conclusion

9 This reporting period saw the value of the Fund fall, increasing by £62.8m to £2,363.3m. At the end of the period the asset allocation, compared to the strategic allocation, was;

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

10 The risk register has been amended to incorporate changes requested at the October meeting of this Committee, expanding the wording on risks 4 and 25. In addition, the Pension Board has recommended that the Committee consider whether the risk score associated to risk 3 is still appropriate.

11 The Committee is asked to consider whether it would be useful to visit the Border to Coast Offices in Leeds, to assist in developing the relationship and understanding between the Fund and Border to Coast.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Appendices

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

Background Papers

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

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

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APPENDIX A

DISTRIBUTION OF INVESTMENTS

INVESTMENT	30 Sept 2018			30 Jun 2018			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
UK Index Tracker	170,607	0.0%	0.0%	170,439	0.0%	0.0%		
Legal & General	437,235,675	28.9%	18.5%	440,924,723	30.3%	19.2%	20.0%	+/- 2%
TOTAL UK EQUITIES	**437,406,282**		**18.5%**	**441,095,162**		**19.2%**	**20.0%**	
GLOBAL EQUITIES								
Invesco	573,876,747	37.9%	24.3%	540,403,488	37.1%	23.5%	22.5%	+/- 2.5%
Threadneedle	150,700,695	10.0%	6.4%	142,627,006	9.8%	6.2%	5.0%	+/- 1%
Schroder	139,637,448	9.2%	5.9%	131,834,349	9.1%	5.7%	5.0%	+/- 1%
Morgan Stanley	212,166,714	14.0%	9.0%	200,632,953	13.8%	8.7%	7.5%	+/- 1%
TOTAL GLOBAL EQUITIES	**1,076,381,605**		**45.5%**	**1,015,497,957**		**44.1%**	**40.0%**	
TOTAL EQUITIES	**1,513,787,887**	**100%**	**64.1%**	**1,456,592,795**	**100%**	**63.3%**	**60.0%**	**+/- 6%**
ALTERNATIVES	**323,869,717**		**13.7%**	**318,485,993**		**13.8%**	**15.0%**	**+/- 1.5%**
PROPERTY	**205,572,420**		**8.7%**	**207,609,624**		**9.0%**	**9.0%**	**+/- 1.5%**
INFRASTUCTURE	**38,539,818**		**1.6%**	**39,220,291**		**1.7%**	**2.5%**	**+/- 1.5%**
FIXED INTEREST								
Blackrock Interim	136,008,559	49.8%	5.8%	137,282,258	52.0%	6.0%	6.75%	+/- 1%
Blackrock	136,948,000	50.2%	5.8%	126,875,984	48.0%	5.5%	6.75%	+/- 1%
TOTAL FIXED INTEREST	**272,956,559**	**100%**	**11.5%**	**264,158,242**	**100%**	**11.5%**	**13.5%**	**+/- 1.5%**
TOTAL UNALLOCATED CASH	**8,614,157**		**0.4%**	**14,408,414**		**0.6%**	**0.0%**	**+ 0.5%**
TOTAL FUND	**2,363,340,558**		**100%**	**2,300,475,521**		**100%**	**100%**	

APPENDIX B

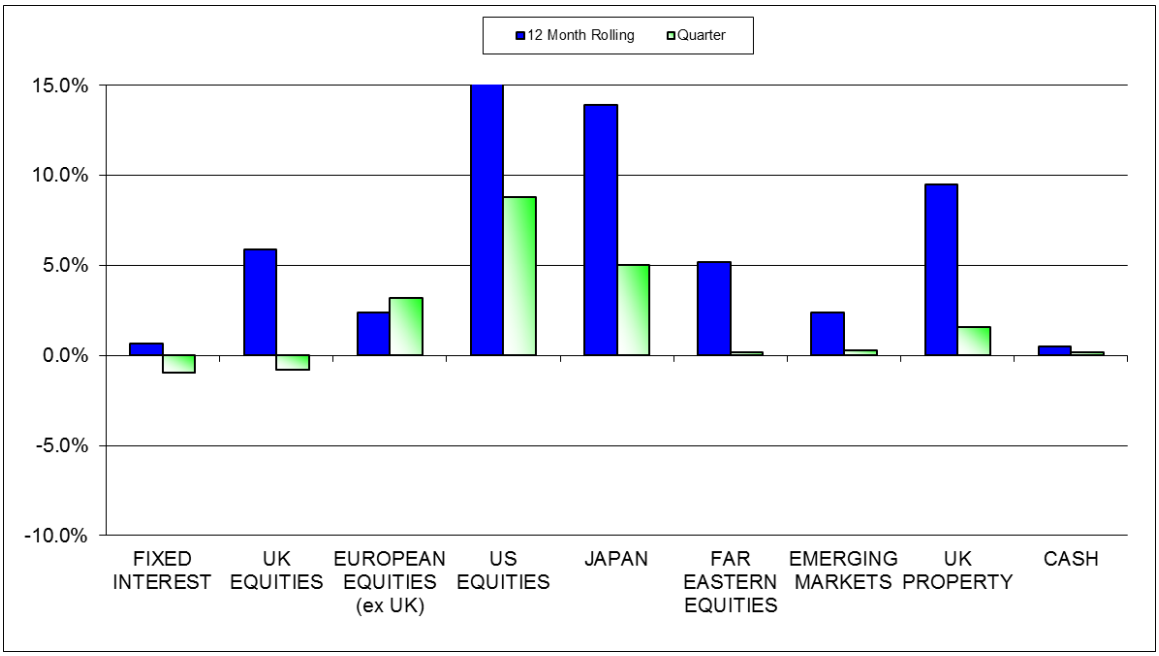
PURCHASES AND SALES OF INVESTMENTS
Quarter Ended 30th September 2018

Investment	Purchases £000's	Sales (£000's)	Net Investment £000's
UK Equities			
Legal & General	0	0	0
Global Equities			
Invesco	61,222	(57,273)	3,949
Columbia Threadneedle	6,451	(4,968)	1,483
Schroders	12,218	(12,056)	162
Morgan Stanley Global Brands	0	0	0
Total Equities	**79,891**	**(74,297)**	**5,594**
Alternatives			
Morgan Stanley	0	0	0
Total Alternatives	**0**	**0**	**0**
Property	**2**	**(998)**	**(996)**
Infrastructure	**(837)**	**0**	**(837)**
Fixed Interest			
BlackRock	0	0	0
Blackrock Interim	10,000	0	10,000
Total FI	**10,000**	**0**	**10,000**
TOTAL FUND	**89,056**	**(75,295)**	**13,761**

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

APPENDIX C

MARKET RETURNS TO 30th SEPTEMBER 2018



INDEX RETURNS	12 Months to Jun 18 %	Jul-Sept 18 %
FIXED INTEREST	0.7%	-0.9%
UK EQUITIES	5.9%	-0.8%
EUROPEAN EQUITIES	2.4%	3.2%
US EQUITIES	21.1%	8.8%
JAPANESE EQUITIES	13.9%	5.0%
FAR EASTERN EQUITIES	5.2%	0.2%
EMERGING MARKETS	2.4%	0.3%
UK PROPERTY	9.5%	1.6%
CASH	0.5%	0.2%

APPENDIX D

Votes Summarised by Votes Cast

Votes Cast at Management Group Level

Report Period: 01 July 2018 to 30 September 2018

Voting Guideline Code	For	Abstain	Against	Total
Adjourn Meeting	8	0	0	8
All Employee Share Schemes	1	0	1	2
Amend Class of Capital	3	0	0	3
Approve Agreement	2	0	0	2
Auditor - Appointment	14	0	1	15
Auditor - Remuneration	4	0	0	4
Auth Board to Issue Shares	3	0	7	10
Auth Board to Issue Shares w/o Pre-emption	4	0	1	5
Authorise Political Donations & Expenditure	1	0	2	3
Authorised Capital	0	0	1	1
Board Size for Year	1	0	0	1
Cancel Treasury Shares	1	0	0	1
Change of Name	1	0	0	1
Delegate Powers	2	0	0	2
Director Election - All Directors [Single]	97	0	14	111
Director Election - Chairman	5	0	4	9
Director Election - Chairs Audit Committee	8	0	1	9
Director Election - Chairs Nomination Committee	10	0	0	10
Director Election - Chairs Remuneration Committee	11	0	0	11
Director Election - Executives	17	0	3	20
Director Election - Lead Ind. Director/DepCH	8	0	0	8
Director Election - Non-executive/Sup Board	78	0	11	89
Director Election - Sits on Audit Committee	31	0	4	35
Director Election - Sits on Nomination Committee	32	0	5	37
Director Election - Sits on Rem Com	30	0	6	36
Director Election - Sits on Risk Committee	2	0	0	2
Distribute/Appropriate Profits/Reserves	1	0	0	1
Dividends - Ordinary	4	0	0	4
EGM Notice Periods	3	0	0	3
Financial Statements	1	0	4	5
Financial Statements - Environmental Issues	1	0	4	5
Individual Share Award	0	0	1	1
Introduce/Amend Multiple Voting Rights	1	0	0	1
Long-term Incentive Plans	0	0	3	3
Merger Related Compensation [US]	2	0	0	2
NED Remuneration - Fee Rate/Ceiling	3	0	0	3
NED Share Plan	1	0	0	1
Other Changes to Governance Arrangements	6	0	1	7

Related Party Transaction - Specific Transaction	0	0	0	0
Remuneration Policy	1	0	1	2
Remuneration Report	0	0	17	17
SH: Lobbying - Improve Disclosure	1	0	0	1
SH: Other	0	0	0	0
SH: Performance Conditions - Strengthen	1	0	0	1
SH: Request CSR/Sustainability Report	1	0	0	1
SH: Restrict Accelerated Vesting of LTIP Awards	1	0	0	1
SH: Special Meetings Lower Threshold	1	0	0	1
Share Buy-back Authority (inc Tender Offer)	3	0	1	4
Share Consolidation	1	0	0	1
Share Issue - Contributions in Kind	1	0	0	1
Share Issue - Employees - Discr Opt/Shares	1	0	0	1
Share Issue - Employees - Free Shares	2	0	0	2
Share Issue - Employees - Savings Plans	1	0	0	1
Share Issue - Other	1	0	0	1
Share Issue - Overall Ceiling	1	0	0	1
Share Issue - Ratify (LR 7.4 ASX & LR 7.3.5c NZ)	1	0	0	1
Share Issue w/o Pre-emption set Issue Price	1	0	0	1
Share Issue w/o Pre-emption w Priority Per	0	0	1	1
Significant Transactions	0	0	3	3
Special Meetings - Introduce Right	1	0	0	1
Unclassified	0	0	0	0
	417	**0**	**97**	**514**

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Appendix E

The Pension Regulator's and Scheme Advisory Board Compliance Checklist

Summary Results Dashboard

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

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

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

No	Completed	Compliant
	Providing Information to Members and Others	
H1	G	G
H2	G	G
H3	G	G
H4	G	G
H5	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
	Internal Dispute Resolution	
I1	G	G
I2	G	G
I3	G	G
I4	G	G
I5	G	G
I6	G	G
I7	G	G

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

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**10 January 2019**
Subject:	**Pensions Administration Report**

Summary:

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

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

Recommendation(s):

That the Committee note the report.

Background

1.0 Performance and Benchmarking

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

1.2 The table below shows the performance against key areas of work for the period 1 June 2018 to 30 November 2018.

LPF - KPI's for the Period 1.6.18 to 30.11.18					
WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT
AVC In-house (General)	82	10	81	85	98.78
Age 55 Increase LG	2	20	2	85	100
Article 4 Payment Own Right LG	19	10	17	85	89.47
Change of Address LG	226	5	217	85	96.02
Change of Bank Details LG	87	5	73	85	83.91

LPF - KPI's for the Period 1.6.18 to 30.11.18					
DG Nomination Form Received LG	787	20	787	85	100
DWP request for Information LG	22	10	21	85	95.45
Death Grant to Set Up LG	40	5	40	85	100
Death In Retirement LG	139	5	125	85	89.93
Death In Service LG	8	5	7	85	87.5
Death on Deferred LG	8	5	8	85	100
Deferred Benefits Into Payment Actual	235	5	223	90	94.89
Deferred Benefits Into Payment Quote	279	35	269	85	96.42
Deferred Benefits Set Up on Leaving	1050	20	1022	85	97.33
Divorce Quote LG	51	20	48	85	94.12
Enquiry LG	6	5	6	85	100
General Payroll Changes LG	140	5	139	85	99.29
Initial Letter Death in Service LG	8	5	8	85	100
Initial letter Death in Retirement LG	139	5	138	85	99.28
Initial letter Death on Deferred LG	8	5	8	85	100
Life Certificate Received LG	7	10	6	85	85.71
Monthly Posting	742	10	516	95	69.54
NI Modification LG	8	20	8	85	100
Pension Estimate	317	10	274	75	86.44
Refund Payment	143	10	139	95	97.2
Refund Quote	114	35	114	85	100
Retirement Actual	123	3	112	90	91.06
Set Up New Spouse Pension LG	82	5	70	85	85.37
Spouse Potential LG	8	20	8	85	100
Transfer In Actual	16	35	14	85	87.5
Transfer In Quote	53	35	53	85	100
Transfer Out Payment	19	35	18	85	94.74
Transfer Out Quote	80	20	70	85	87.5

Reasons for underperforming KPI's:

Change of Bank details	Although not done within target days all changes actioned in time for payroll to enable pension to be paid to the correct account.
Monthly Posting	Files that cannot be validated because of errors, queries, mismatches etc. Average time taken across all employers is less than 10 days.

2.0 Scheme Information

2.1 Membership numbers as at December 18 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	24,479	27,476	1,412	21,132	2,516
Councillors	0	39	0	43	-
Totals nos	**24,479**	**27,515**	**1,412**	**21,175**	**2,516**
Change	+2,339	+287	+156	+656	+634

2.2 Age Profile of the Scheme

	Age Groups												
Status	U20	20-25	26-30	31-35	36-40	41-45	46-50	51-55	56-60	61-65	66-70	70+	TOTAL
Active	337	1610	1602	2124	2689	3075	4226	4037	2999	1487	231	63	24479
Beneficiary Pensioner	88	36	3	2	9	13	40	84	142	239	288	1599	2543
Deferred	4	498	1392	2269	2447	3165	5373	6028	4840	1373	40	5	27434
Deferred Ex Spouse	0	0	0	0	4	1	8	15	11	0	0	0	39
Undecided	18	134	126	138	186	215	251	169	92	56	16	11	1412
Pensioner	0	0	1	1	3	9	45	177	1263	4539	5105	7423	18566
Pensioner Deferred	0	0	0	0	0	0	0	1	2	1	0	0	4
Pensioner Ex Spouse	0	0	0	0	0	0	0	0	1	12	5	6	24
Preserved Refund	64	403	226	182	194	256	302	332	236	164	110	47	2516
Councillors													82
Total													**77,100**

2.3 **Employer Activity**

Academies and Prime Account Schools

Between 1 June 2018 to 30 November 2018, 7 academies became Scheme employers in the Fund.

WYPF are currently working on 13 schools that are in the process of converting to academies or Prime Account Schools.

Admission Bodies

Between 1 June 2018 and 30 November 2018 there were 5 new Admission Bodies in the Fund.

WYPF are currently working on the admissions for 2 Admission Bodies.

Employers ceasing Participation

Between 1 June 2018 and 31 August 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 31 May 2018 to 260.

Admission Bodies in progress and completed

Name	Start date	Current position	Date Completed
Future Cleaning Services	01/08/2016	Employer is now saying they have not deducted contributions and the employees all left within a few months of transferring. Agreeing further actions to be taken.	
Taylor Shaw (Branston)	1/1/18 (with scheme employer acting as interim employer)	Admission agreement now signed by Taylor Shaw and Branston Academy. With LCC Legal for signing and sealing.	
Easyclean (Baston Primary)	1/6/2018	Admission agreement concluded. Employee notified.	29/11/2018
Nightingale Cleaning	1/12/2018	Admission agreement concluded. Member record to be updated once monthly conts are up to date.	
Adults Supporting Adults	Tbc	Contract due to go head early in the New Year. Ensuring that actions are taken for any admission to be in place.	

3.0 Praise and Complaints

3.1 Over the quarter January to March we received **2** online customer responses. **121** Lincolnshire member's sample survey letters were sent out and **172** (**14.05%)** returned:

Overall Customer Satisfaction Score;

July to September 2017	October to December 2017	January to March 2018	April to June 2018	July to September 2018
89.62%	91.74%	87.34%	72.10%	81.60%

Appendix 1 shows full responses.

3.2 Employer Training

Over the quarter July – September 2018 two Employer sessions were held in Lincolnshire, Your Monthly Return and Employer Responsibilities.

Over the quarter October – December 2018 two Employer sessions were held in Lincolnshire, Ill Health and A complete Guide to Administration.

Feedback from the events is attached at **Appendix 2 and 3**.

4.0 Internal Disputes Resolution Procedures

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

Stage 1 appeals against the fund

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

Date of appeal	Member no	Employer	Reason for appeal	Date of decision	Decision
26/11/18	8021422	Welland and Deepings Drainage Board	Appeal against being asked to repay overpayment of pension due to incorrect pay figure used in calculation.		

Stage 1 appeals against scheme employers

No appeal decisions in this period. Two appeals currently outstanding.

Date of appeal	Member no	Employer	Reason for appeal	Date of decision	Decision	Outcome / comments
28/11/17	8040391	LCC	Appeal against being refused an ill health pension.			LCC still confirming that they have extended the deadline and are regularly being monitored to ensure they are working to conclude this.

Stage 2 appeals

3 appeals turned down in current period. No appeals currently outstanding.

Date of appeal	Member no	Employer	Reason for appeal	Date of decision	Decision
8/6/18	8019981	Compass Point Business Services	Appeal against refusal to pay ill health pension.	8/11/2018	Turned down.
23/7/18	8079811	Lincolnshire County Council	Appeal against refusal to pay ill health pension.	2/11/2018	Turned down.
16/8/18	8043598	Lincolnshire County Council	Appeal against decision not to allow early access to deferred benefits on health grounds.	8/10/2018	Turned down.

Ombudsman

4.2 Ombudsman cases are considered by Lincolnshire County Council Legal Services. One appeal is outstanding against being turned down for early release of pension on ill health grounds. LCC Legal has compiled information for the response after receiving details of the relevant regulations from WYPF.

5.0 Administration Update

5.1 Staffing

Recruitment is currently underway for two additional Pensions Officer to be based in the Lincoln Office. This will bring the total number of staff in Lincoln to 10.

5.2 Accreditation to ISO27001 – Information Security Management System

WYPF is looking to attain accreditation to ISO27001 - Information Security Management System. This quality management standard will help the Fund to demonstrate its compliance with GDPR and Data Governance etc. Work on this started in December.

5.3 TPR Returns

WYPF has completed TPR returns recently received. We are required to report a data quality score by measuring the quality of our data for common data and scheme specific data. Common data is defined so will be easy to measure but scheme specific data is not defined so it is expected that Administering Authorities will be measuring different data fields. LGA have said they will do a fuller consultation next year to come up with a standard definition. The most common data issue for common data failures is not having a current address (deferred's). WYPF are already using a tracing bureau for these cases so this will form part of the data improvement plan. LPF's data score is as follows:

Common Data – 95.71%
Scheme Specific Data – 94.81%

5.4 Newsletters

Autumn Newsletters have been produced and sent to both WYPF and LPF members.

Appendix 4 – Copy of Newsletters

5.5 CIPFA Benchmarking

WYPF takes part in the CIPFA Benchmarking Club for Pensions Administration. This report provides information about the costs of the Fund's pensions administration service, and compares those costs with other LGPS funds who are part of the CIPFA Benchmarking Club.

The Fund's unit costs are one of the lowest across all pension funds. This is not at the expense of customer service, Member surveys reveal good levels of satisfaction from different categories of members. WYPF continue to win awards over the years for quality of service and best administration. Overall the administration service is considered effective and low cost, however the Administration Service will continue to seek efficiencies and savings wherever possible.

5.6 GMP Reconciliation

Data has been submitted to HMRC by the deadline of 31 October 2018. The type of queries submitted to HMRC consist of:

- Member on our records but not HMRC records
- Member on HMRC records but not on our records
- Where HMRC and LPF Scheme Contracted out numbers are different (SCON)
- Where HMRC and LPF contracted out dates are different
- Where HMRC show LPF have GMP liability but member has transferred out of the FPS.

HMRC have a 3 month target date to complete their work and come back with responses.

6.0 Current Issues

6.1 SCAPE discount rate – impact on actuarial guidance for Transfer calculations. As expected, the Chancellor of the Exchequer confirmed the reduction in the SCAPE discount rate from CPI + 2.8% to CPI + 2.4% in the 2018 Budget.

The SCAPE discount rate is used to set the employer contribution rates in the unfunded public service pension schemes and determine the actuarial factors used across all of the public service pension schemes. The reduced rate is effective from 29 October for the calculation of actuarial factors in the LGPS – this means that some non-club transfers, some interfund calculations and all CETVs for divorce will need to be put on hold until new transfer factors are issued. These have now been issued so calculations have now recommenced.

6.2 Other actuarial guidance
MHCLG have confirmed that the remainder of the scheme's actuarial factors will be amended for the reduction in the SCAPE discount rate in due course. Their intention is to introduce revised factors from around February/March 2019. MHCLG and GAD have agreed that where any change to the calculation methodology is introduced this will be communicated with the software providers in advance of its introduction, in order that changes can be made to pensions administration systems in time for the implementation of the new factors.

6.3 Section 13 report published
On 27 September 2018, MHCLG published the first statutory review of the LGPS under section 13 of the Public Service Pensions Act 2013. The department is required to report on the Scheme every three years; this report covers the period up to 2016. The Government Actuary reported that in aggregate, the LGPS is in a strong financial position and funds have made significant progress since the 2013 valuation.

6.4 SF3 data published
Ministry of Housing, Communities & Local Government (MHCLG) have published "Local government pension scheme funds for England and Wales: 2017 to 2018" (SF3) statistics. Highlights include:

- Total expenditure was £12.7 billion. Removing the effect of mergers and large transfers in 2016-17 and 2017-18 there was a like-for-like increase of £0.8 billion or 7.4% on 2016-17.
- Total income was £17.4 billion. Removing the effect of mergers and large transfers in 2016-17 and 2017-18, there was a like-for-like increase of £3.0 billion or 21.4% on 2016-17. This is mainly due to an increase in employer contributions in 2017-18.
- Employer contributions amounted to £9.5 billion, up 27.7% on 2016-17, and employee contributions to the scheme were £2.1 billion. Employer contributions increased due to some large upfront pension contribution payments (deficit contributions) by some employers and higher contribution rates following the triennial valuation.
- The market value of the Scheme at the end of March 2018 was £270.9 billion, an increase of £12.1 billion or 4.7%.
- Membership encompassed 5.8 million people at the end of March 2018 (5.6 million 31 March 2017). Of this number, 2.0 million are employees who are still contributing to the scheme, 1.7 million are pensioners and 2.1 million are former employees who are entitled to a pension at some time in the future.
- The number of people leaving the Scheme due to redundancy reduced by 19.9% from 2016-17 to 10,847. A number of funds reported there were special redundancy exercises or restructuring in 2016-17 and that the large reduction in 2017-18 was a consequence of that.

6.5 Harvey v Haringey and MHCLG judgment

On 30 October 2018, in the High Court Mr Justice Julian Knowles handed down his judgment on the above case. The case relates to the non-payment of a cohabiting partner's pension where the member left the LGPS before 1 April 2008.

Ms Harvey maintained that the Council's refusal to pay her a pension was discriminatory and in violation of the European Convention on Human Rights. Mr Justice Julian Knowles found in favour of Haringey Council and MHCLG and dismissed the application for judicial review.

In his judgment Mr Justice Julian Knowles states the central and core justification running throughout this case is that spouses in the 1997 Scheme and cohabitees of 2008 Scheme members are entitled to a pension because it was costed into the relevant Schemes and paid for. Where a member left before April 2008 the member did not pay for a cohabitee to receive a benefit, nor was it otherwise costed into the 1997 Scheme.

6.6 Governance and administration survey

TPR have sent out the annual governance and administration survey to scheme managers in the week commencing 5 November with a closing date of 30 November.

Some changes have been made to the survey this year; the survey will seek to find out in more detail how well local pension boards are working and asked for more detailed information about employer data. In addition, a new section on cyber-risks has been included. The survey was completed by the Pension Fund Manager, in consultation with the Pension Board Chairman, and returned by the deadline.

6.7 High Court ruling on GMP equalisation

On 26 October 2018, Mr Justice Morgan handed down judgment in Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank PLC, HBOS PLC, Angela Sharp, Judith Cain, Susan Dixon, Secretary of State for Work and Pensions and HMT. The High Court has held that schemes must equalise the discriminatory effects of GMPs and that this can be achieved using several methods.

We are aware that concern has been raised as to the impact to Public Service Pension Schemes. HMT have confirmed that this judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension
schemes". For more information concerning the current method of equalisation of Public Service Pension Schemes, please consult the outcome to the Government consultation on indexation and equalisation of GMP in public service pension schemes published on 22 January 2018.

6.8 Budget 2018

On 29 October, the Chancellor of the Exchequer, Philip Hammond, presented the 2018 Budget setting out the government's plans for the economy and public finances.

Announcements relating to public service pensions schemes confirmed as expected the reduction of the SCAPE discount rate to 2.4% plus CPI, indicating an increased cost to employers of providing pensions in the long-term. The government further acknowledged that the provisional valuation results of all public service schemes indicate that an improvement to member benefits is needed from 2019-20.

While there were no major announcements in relation to pension tax, it has been confirmed that the Lifetime Allowance for 2019-20 will increase in line with CPI, to £1,055,000.

In relation to pensions cold calling, the Government's response to its consultation has been published alongside the Budget, and according to the Budget document the Government will "shortly be implementing legislation to make pensions cold calling illegal".

The government pledged support for pension savers by committing £5m extra funding for the Pension Dashboard, which will allow individuals to see all of their pension pots, including State Pension, in one place. The Budget report confirms that DWP will consult on the project later in the year.

Pension scam leaflet changed

In bulletin 175, we reported that TPR, in conjunction with the FCA, have launched a new ScamSmart TV advertising campaign to raise awareness of pension fraud and the most common tactics used by scammers.

As part of the ScamSmart campaign a new customer leaflet and other communication materials have been introduced. The new leaflet replaces the

scorpion leaflet with immediate effect and, as before, will be included with transfer packs and is suitable to accompany annual benefit statements.

Appendix 4 – ScamSmart Leaflet

6.9 Simpler annual benefit statement launched
Pensions Minister Guy Opperman recently launched a simpler annual statement at the Pensions and Lifetime Savings Association (PLSA) Annual Conference in October.

The simpler annual pension statement has been produced by former PLSA chair Ruston Smith, in his capacity as an adviser to the Government on its review of automatic enrolment. Input was also received from the pensions industry.

The aim of the statement is to help pension schemes and providers give savers just the key information they need, presented in plain English and with more consistency.

6.10 Civil partnerships to be extended to opposite sex couples
At the Conservative Party Conference, Prime Minister Theresa May announced that heterosexual couples will be able to enter into civil partnerships. The move follows a decision of the Supreme Court [UKSC 2017/0060] on 27 June 2018 that the existing law around civil partnerships was incompatible with the European Convention on Human Rights as it only permitted civil partnerships between same-sex couples.

6.11 Analysis of the LGPS Academy Sector
GAD has now published the work commissioned by MHCLG and DfE to review the treatment of academies within the Local Government Pension Scheme. In particular, GAD was asked to gather evidence on the variation in treatment of academies within and across different LGPS Funds. Data from the most recently completed valuations as at 31 March 2016 was obtained for this purpose. A copy of the report can be found at
https://www.gov.uk/government/publications/academies-lgps-pension-arrangements"

6.12 Options for separation of host authority and pension fund
In 2015, SAB commissioned KPMG to undertake a project to examine the issues and challenges of separating the pension's functions of LGPS administering authorities from their host authorities. As part of SAB's 2018/19 work programme, a further project was established to see how the recommendations that emerged from the exercise undertaken in 2015 could be made to work in practice.

In August 2018, SAB invited interested parties to assist in developing options for change. Three bids were received before the closing date of 21 September. These were due to be considered at the next Board meeting on 10 October.

6.13 Third tier employers
At the SAB meeting on 27 June 2018, Aon presented members with a summary of the final draft report commissioned by SAB, to review the current issues in relation

to third tier employers participating in LGPS funds in England and Wales. On 24 September 2018, SAB published this report on their website.

The report does not make any recommendations, instead, it outlines a range of issues raised by stakeholders and how they envisage these concerns being resolved. SAB will now establish a small working group to evaluate the options for change. The working group will report to SAB later this year with a set of recommendations for further consideration.

Once approved, stakeholders will be given the opportunity to comment on SAB's recommendations before any formal approach is made to MHCLG for changes to the scheme regulations and guidance.

6.14 HM Treasury statement on quadrennial scheme valuation of public service pension schemes

On 6 September 2018, in a Written Ministerial Statement the Chief Secretary to the Treasury, Elizabeth Truss, announced details of the quadrennial national scheme valuation of public service pension schemes.

For the unfunded schemes, initial results from the HMT Employer Cost Cap (ECC) process show that their members will get improved pension benefits over the period April 2019 to March 2023. In addition, due to the proposed changes to the SCAPE discount rate, which is used to assess the current cost of future payments from public service pension schemes (excluding Local Government Pension Schemes (LGPS)), early indications are also that the amount employers pay into the unfunded schemes will need to increase.

In the case of the funded LGPS in England and Wales, the Scheme Advisory Board England & Wales (SAB E&W) operates an additional cost cap process (called the Scheme Advisory Board Future Service Cost (FSC) process). In accordance with agreed policy, the FSC will be allowed to complete before the ECC is tested. Therefore, it is not possible at this stage to give any indication of what the outcome might be. If the FSC process results in a recommendation that changes to the scheme should be made and the government accepts the SAB E&W recommendations, the ECC process will be adjusted to consider the new scheme design.

The Chief Secretary also announced in the technical annex to a letter to Frances O'Grady at the TUC, that the scheme valuation under ECC process should be moved from the current triennial to a quadrennial cycle in line with other public service scheme valuations. This is not to be confused with local fund valuations; however, discussions with MHCLG and actuarial advisers will take place shortly to consider the implications of this change for local fund valuations.

A statement from the SAB E&W can be found at www.lgpsboard.org.

7.0 Finance

7.1 Cost per member

Shared service cost per member 2017/18 £14.73 (£14.58 for 2018/19 initial budget)

Latest forecast of outturn for 2018/19 is £12.23m, against a budget of £13.1m, underspend of £0.87m. The projected cost for 2018/19 Pension Admin shared services has been estimated at £14.58. Our projected cost per member is therefore below our target cost of £17.

NB. There is an ongoing review of staffing across the fund with the aim of increasing resources to deal with investment pooling and increased shared service clients.

8.0 Awards

WYPF were winners of two awards recently at the LAPF Investment Awards:

Pension Fund of the Year,
Best Administration Award.

Conclusion

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

Appendices

These are listed below and attached at the back of the report	
Appendix 1	Customer Survey Results
Appendix 2	Employer Feedback Summary
Appendix 3	Employer Feedback Summary
Appendix 4	Newsletters
Appendix 5	CIPFA Benchmarking Report Summary

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.

Customer Survey Results - Lincolnshire Members
(1st July to 30th September 2018)

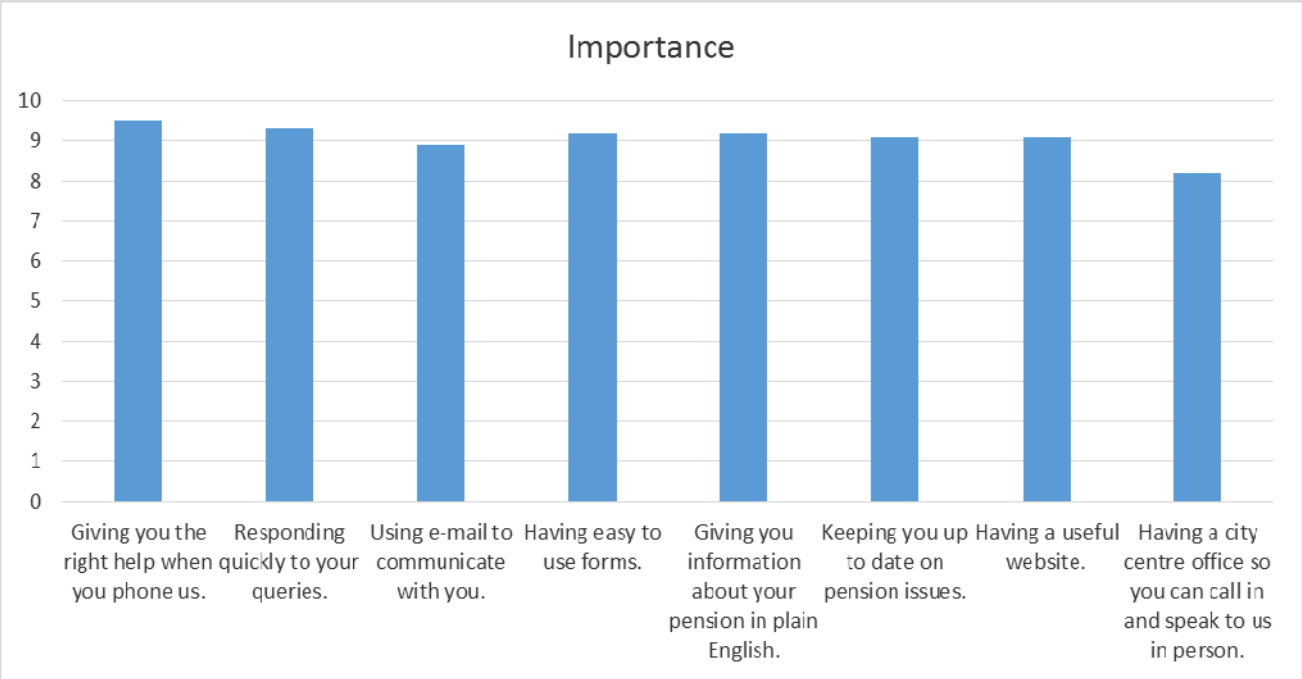
Over the quarter July to September we received **2** online customer responses.

Over the quarter July to September **356** Lincolnshire member's sample survey letters were sent out and **36 (10.12%)** returned:

Overall Customer Satisfaction Score;

July to September 2017	October to December 2017	January to March 2018	April to June 2018	July to September 2018
89.62%	91.74%	87.34%	72.1%	81.6%

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



Sample of positive comments:

Member Number	Comments
810554	Very good. Excellent help received from Kendal Leask particular. Kendal helped me to navigate though the complexities of a divorce pension sharing calculation. All staff helpful and Annamaria Hodgkinson also deserves a mention.
8031797	From start to finish deciding to retire the process has been less difficult that I thought and efficient and stress free - always a bonus. Well done satisfied.
8023136	Very informative and helpful staff. The whole process was made easy by being able to contact with queries and that person having the knowledge to be able to answer.
8017746	I always found people helpful on phone and passed information with very professional manner.
8105310	No long wait before my call answered. Much better than dealing with state pension issues.

Complaints/Suggestions:

Member Number	Comments	Corrective/ Preventive Actions
8108813	I tried to register got so far then the system failed. I now can't log in. Can you help?	Response sent by Sandra Thank you for taking time to complete and return our customer survey. Your comments have been noted and will be reviewed by our senior management team during the next review of customer service. If you are still experiencing issues with registering and would like help with this, Please call us on the telephone number below.
8117799	Too slow to perform by far. Too many different handlers. No continuity. Did not even know you have an office to call into Lincoln.	Passed to Dipika. No response sent.
8108027	I wrote or rather sent one of your forms in 2 months ago asking to transfer my pension to NHS. I have not heard anything. Except this survey. Obviously if I don't get a statement or the form I needed to transfer before November I cannot transfer anyway. I am only doing it as I don't want lots of frozen pensions. I already have 2. I just thought I	Response sent by Selma; Thank you for completing and returning the Customer Survey form with comments about the transfer of your benefits to the NHS. I apologise for the lack of communication regarding this and can confirm that before the transfer quote can be produced the Regulations state that your preserved refund record 8108027 must be automatically linked to record 8115509 which you left on 3 July 2017.

	could put my major amount into NHS as I intend to stay there until retirement. Both my jobs with this pension scheme were temporarily. This is permanent. But I understand you will loose money.	I have requested that the linking process be completed as a matter of urgency and as soon as this has been done, the transfer quotation will be produced and sent to you. Again, please accept my apologies for the delay and any upset caused by lack of communication.

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APPENDIX 2

Employer Feedback (LPF)
Quarter 3 July – September 2018

Your Monthly Return – 26 July 2018

Feedback score: 96.18%

Comment	Action taken
Be able to upload submissions on a test platform	Not currently available on our systems
A workshop about how to complete forms / blocks etc would be very helpful.	We are producing additional support material for forms. The blocks have a guide and video to help already.
In house training would be extremely useful. We have a large team who need training so on site would be very helpful.	We offer in-house training to all employers. This employer was made aware after this comment.

A summary of the compliments

- Excellent workshop. Goes in to more detail than last years. Big improvement
- Very well presented workshop. Easy to understand and content good, Thank you.

Employer Responsibilities – 27 September 2018

Feedback score: 96.72%

Comment	Action taken
Maybe HR advisors should be invited, as I feel a lot of the points in the material relate to policy / disputes that they may be dealing with.	Employers can send anyone they wish to the event, they do not have to be a main contact.

A summary of the compliments

- I think the workshops are very informative and very useful. Really enjoyed course
- Very good and very informative.

Please note, no workshops held in August.

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APPENDIX 3

Employer Feedback (LPF)
Quarter 4 October – December 2018

Ill health – 31 October 2018

Feedback score: 89.96%

Comment	Action taken
Make the exercises a bit more challenging	Passed to PFR
Earlier start time	No plans to hold earlier than 10.00

A summary of the compliments

- Informative and thorough as always
- Excellent workshop, clear, easy to understand, will recommend to colleagues.

Complete guide to administration – 29 November 2018

Feedback score: 94.14%

Comment	Action taken
Deferred benefits - employer consent option not fully covered until questioned. Death in service not really covered.	This workshop was audited and these were covered suitably.

A summary of the compliments

- None

Please note, no workshops held in December.

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West Yorkshire Pension Fund

Lincolnshire Pension Fund

London Borough of Hounslow

Pension

AUTUMN 2018 • PENSIONER LINCOLNSHIRE MEMBER NEWSLETTER

- 2018 fund report
- LPF Local Pension Board

Corporate member of Plain English Campaign
Committed to clearer communication
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London Borough of **Hounslow Pension Fund** joins WYPF

We're very pleased to welcome members of the London Borough of Hounslow Pension Fund, which has joined our shared-service arrangement from 1 August 2018. We look forward to offering Hounslow's members the high-quality service already enjoyed by members in West Yorkshire and Lincolnshire.

London Borough of Hounslow

National Fraud Initiative

We have taken part in the Cabinet Office's National Fraud Initiative (NFI) for many years. It's a data matching exercise that helps prevent and detect fraud. Taking part means we regularly provide sets of data to the Minister for the Cabinet Office. See https://www.gov.uk/government/collections/national-fraud-initiative for more.

The NFI compares information held by and between around 1,300 organisations like councils, police, hospitals and private sector companies. This helps to identify fraud, errors and overpayments. Under the Fair Processing and the Data Protection Act we have to tell you that your data will be processed in this way.

Data protection

You can read about how our policy on data protection covers the proper management of personal data privacy at **www.wypf.org.uk/data**

LPF Local Pension Board

Local Pension Boards were introduced in April 2015, under the Public Service Pensions Act 2013. Their role is to assist the administering authority (Lincolnshire County Council) in the administration and governance of the fund, and to ensure compliance with the relevant regulations.

The board consists of an independent Chairman, two scheme member representatives and two scheme employer representatives. They provide an oversight function to the fund and work closely with the pensions team at Lincolnshire and the administrators at WYPF.

Much of the work that the board does is to ensure that processes are in place so that scheme members, whether they are contributing, deferred or pensioners, receive a high-quality and timely service. They also make sure that employers in the fund are providing accurate information, in line with the regulations, so that WYPF can respond promptly to any scheme member events, such as retirements.

Should the board have any concerns about how the fund is being managed or where employers are not meeting their responsibilities, and are not content with any suggested changes or improvement plans in place, they have a duty to report these matters to the Pensions Regulator.

A full report of the work done by the board over the last year is included in the fund's *Annual Report and Accounts*, which can be found at **www.wypf.org.uk**

Information on board membership and meetings can be found on the council's website at **http://lincolnshire.moderngov.co.uk/**

Moving house?

If you move house, we need to know your new address to keep your records up to date and make sure personal or sensitive information doesn't go to your old address, putting you at risk of identity fraud. So when you move, please let us know about it as soon as you can.

Fund report 2018

Introduction by Jo Ray, Pension Fund Manager, LPF

At the end of 2017/18, the value of the fund was £2.189 billion – an increase of £74 million from the previous year.

Our Pensions Committee meets quarterly and reviews the asset allocations and the strategic benchmark, based on expected investment returns. It also monitors administration performance and provides governance across all aspects of the Pension Fund. It is now three years since the creation of the Lincolnshire Pension Board, which assists the committee and oversees the governance and administration of the fund. An annual report on the work of the board is included within the full annual report. Our shared-service pensions administration partnership with West Yorkshire Pension Fund continues to develop, improving service for members, while also improving resilience and bringing efficiency savings to the Lincolnshire Fund.

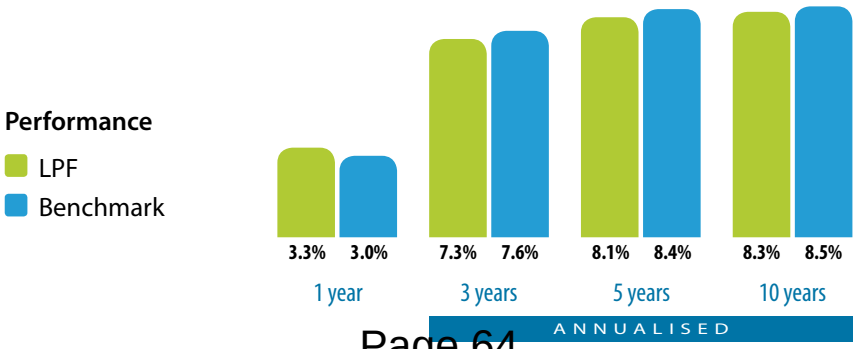
The government's requirement for funds to pool assets has continued to keep us very busy, working with 11 other funds to form the Border to Coast Pensions Partnership. The project is still on track to begin transitioning assets into the new company in July 2018. Assets from the Lincolnshire fund are not expected to begin moving across to Border to Coast until next year.

This summary gives a flavour of our full Annual Report and Accounts, published on our shared website at **www.wypf.org.uk**

Performance

Our investment return was 3.3% in 2017/18, 0.3% above the return for the Fund's strategic benchmark of 3.0%.

Actual investment performance against the Fund's strategic benchmark performance is set out in the table below. Across all periods the returns are positive, and the longer-term return, whilst slightly behind the benchmark, is ahead of the long-term required return set by the fund's actuary of 4.0% (as per the March 2016 triennial valuation).



Fund account

Opening assets of the fund at 1 April 2017	**£2,115.4m**
Investment return and income	
Return on investments	£55.0m
Investment income	£17.8m
Dealing with members	
Benefits paid	(£91.2m)
Contributions (including transfer in £7.1m)	£104.4m
Management expenses (including administration, manager fees and governance)	(£12.0m)
Closing net assets of the fund at 31 March 2018	**£2,189.4m**
Closing net assets made up of	
• Market value of fund investment portfolio	£2,167.9m
• Net current assets (debtors, overdraft and creditors)	£21.5m
Total (closing assets of the fund at 31 March 2018)	**£2,189.4m**

Ten biggest equity holdings at 31 March 2018

	Company	Market value	Percentage of total fund
1	Royal Dutch Shell	33.3	1.5
2	British American Tobacco	31.9	1.5
3	Microsoft	24.7	1.1
4	HSBC	23.6	1.1
5	Reckitt Benckiser	22.5	1.0
6	Unilever	22.5	1.0
7	BP	16.3	0.8
8	JP Morgan	16.1	0.7
9	Apple	15.6	0.7
10	Visa	15.0	0.7
Total		**221.5**	**10.1**

LPF investment management arrangements

The arrangements for segregated management of the fund's assets, in place at 31 March 2018, are set out below. Portfolio values include cash at the balance sheet date.

Segregated investment management mandates

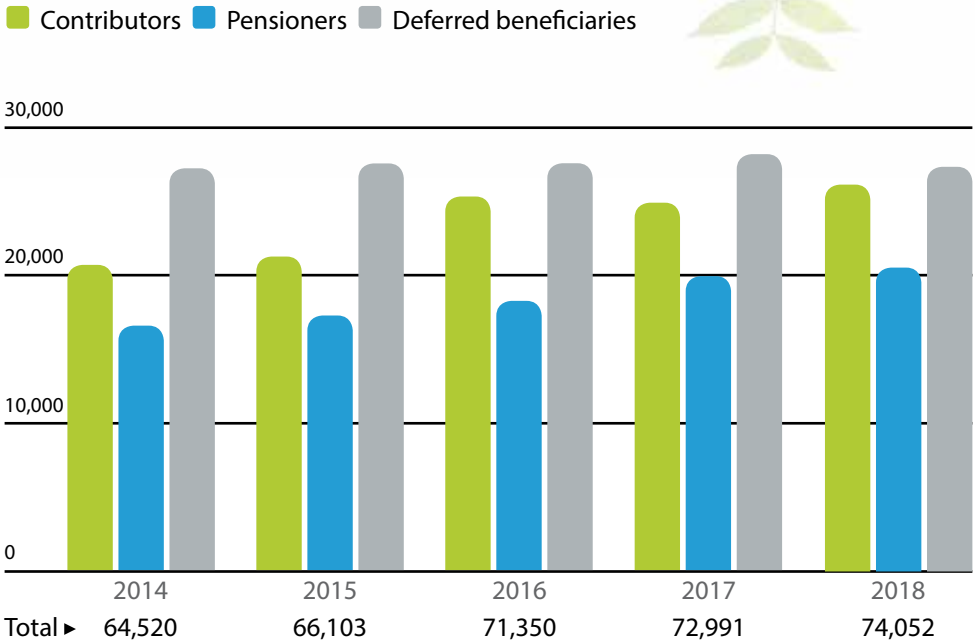
Asset class	Manager	Market value £m	% of the fund
Global equities – (Ex UK)	Invesco	502.3	22.9
Global equities	Schroders	123.9	5.7
Global equities	Columbia Threadneedle	132.6	6.1
	Total segregated equities	**758.8**	**34.7**

Pooled funds – the fund also invests in a number of asset classes by means of collective investment vehicles, also known as pooled funds.

Asset class	Manager	Market value £m	% of the fund
Property and infrastructure	Franklin Templeton	3.9	0.2
	Igloo	2.5	0.1
	Aviva	46.6	2.1
	Royal London	23.5	1.1
	Rreef	0.5	0.0
	Blackrock	41.4	1.9
	Standard Life	76.0	3.5
	Total UK property	**194.4**	**8.9**
Infrastructure	Innisfree	32.5	1.5
	Infracapital	1.5	0.1
	Pantheon	1.5	0.1
	Total UK Property	**35.5**	**1.7**
Alternatives	Morgan Stanley	268.2	12.2
UK Equities	Legal and General	264.1	12.1
Global Equities	Morgan Stanley	178.7	8.2
Fixed Interest	Blackrock	403.8	18.4
Total Pooled Vehicles		**1,374.0**	**62.9**

Local Government Pension Scheme membership

There were 74,052 members and beneficiaries from 219 employers at 31 March 2018. The fund is reasonably mature, with deferred members (those that are no longer in the scheme but will be entitled to a pension at some point in the future) making up 37% of the overall membership and pensioner members 28%.



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BD1 1UP

We welcome visitors at
County Offices • Newland • Lincoln • LN1 1YL
We are open weekdays 8.00am to 5.15pm (4.45pm on Fridays)
Ask for the pensions team at reception.

New bank account?

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

Which tax office deals with my pension?

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

Published autumn 2018 by West Yorkshire Pension Fund

Available in large type, Braille or in audio format on request.

West Yorkshire Pension Fund

Lincolnshire Pension Fund

London Borough of Hounslow

Pension

AUTUMN 2018 • ACTIVE LINCOLNSHIRE MEMBER NEWSLETTER

- 2018 fund report
- Regulators launch Scamsmart campaign
- Decision on AVC freedoms

Corporate member of Plain English Campaign
Committed to clearer communication
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London Borough of Hounslow Pension Fund joins WYPF

We're very pleased to welcome members of the London Borough of Hounslow Pension Fund, which has joined our shared-service arrangement from 1 August 2018. We look forward to offering Hounslow's members the same high-quality service already enjoyed by members in West Yorkshire and Lincolnshire.

London Borough of Hounslow

Government says no to freedom and choice for AVCs

Following consultation, the government has now confirmed that it will not offer those paying **AVCs** (additional voluntary contributions) the chance to access them while still working and paying into the LGPS, since this would create 'substantial administrative complexities'.

Your existing options are still available however. You can use your AVC 'pot' at retirement either to buy scheme pension in the LGPS or take tax-free cash.

Read more about your AVC options at **www.wypf.org.uk/payingextra**

Transfer time limits

If you're thinking about leaving the pension scheme and transferring your LGPS pension to another provider, please remember that to be entitled to transfer your pension you must leave this scheme and choose to transfer your pension at least one year before your normal pension age (NPA).

Don't let a scammer enjoy your retirement!

Regulators warn public of pension scammer tactics as victims report losing an average of £91,000 in 2017

The Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) have launched a new **ScamSmart** advertising campaign targeting pension holders aged 45 to 65, the group most at risk of pension scams. This comes as a new poll commissioned by the regulators reveals that almost a third of pension holders aged 45 to 65 would not know how to check whether they are speaking with a legitimate pensions adviser or provider.

The regulators have urged the public to be on their guard when receiving unexpected offers about your pension and to check who you are dealing with. Scammers design attractive offers to persuade you to transfer your pension pot to them or release funds from it. Your money is then often invested in unusual and high-risk investments like overseas property, renewable energy bonds, forestry, storage units – or simply stolen outright.

If you are contacted about your pension, visit ScamSmart before going any further, so that you don't end up becoming the victim of a scammer.

FCA and TPR are part of Project Bloom, a multi-agency taskforce which is working to combat pension scams. The taskforce includes the DWP, HM Treasury, the Serious Fraud Office, City of London Police, the National Fraud Intelligence Bureau, The Pensions Advisory Service, and the National Crime Agency.

Pension scams can cause victims significant harm – both financially and mentally. If you are ever in doubt about a pension offer, visit the ScamSmart website at www.fca.org.uk/scamsmart

www.fca.org.uk/scamsmart

FCA FINANCIAL CONDUCT AUTHORITY

The Pensions Regulator

Fund report 2018

Introduction by Jo Ray, Pension Fund Manager, LPF

At the end of 2017/18, the value of the fund was £2.189 billion – an increase of £74 million from the previous year.

Our Pensions Committee meets quarterly and reviews the asset allocations and the strategic benchmark, based on expected investment returns. It also monitors administration performance and provides governance across all aspects of the Pension Fund. It is now three years since the creation of the Lincolnshire Pension Board, which assists the committee and oversees the governance and administration of the fund. An annual report on the work of the board is included within the full annual report. Our shared-service pensions administration partnership with West Yorkshire Pension Fund continues to develop, improving service for members, while also improving resilience and bringing efficiency savings to the Lincolnshire Fund.

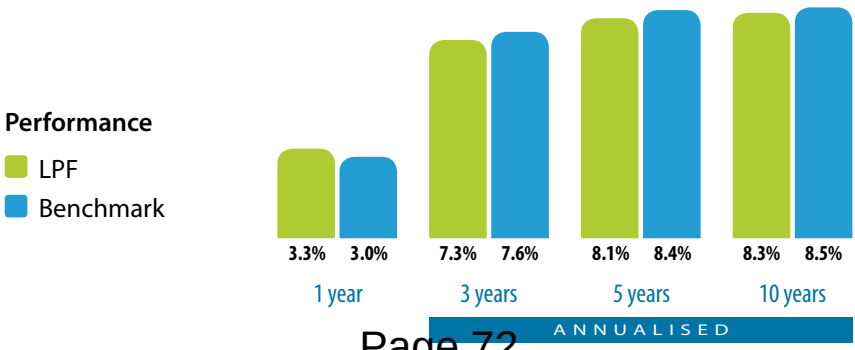
The government's requirement for funds to pool assets has continued to keep us very busy, working with 11 other funds to form the Border to Coast Pensions Partnership. The project is still on track to begin transitioning assets into the new company in July 2018. Assets from the Lincolnshire fund are not expected to begin moving across to Border to Coast until next year.

This summary gives a flavour of our full Annual Report and Accounts, published on our shared website at **www.wypf.org.uk**

Performance

Our investment return was 3.3% in 2017/18, 0.3% above the return for the Fund's strategic benchmark of 3.0%.

Actual investment performance against the Fund's strategic benchmark performance is set out in the table below. Across all periods the returns are positive, and the longer-term return, whilst slightly behind the benchmark, is ahead of the long-term required return set by the fund's actuary of 4.0% (as per the March 2016 triennial valuation).



Fund account

Opening assets of the fund at 1 April 2017	**£2,115.4m**
Investment return and income	
Return on investments	£55.0m
Investment income	£17.8m
Dealing with members	
Benefits paid	(£91.2m)
Contributions (including transfer in £7.1m)	£104.4m
Management expenses (including administration, manager fees and governance)	(£12.0m)
Closing net assets of the fund at 31 March 2018	**£2,189.4m**
Closing net assets made up of	
• Market value of fund investment portfolio	£2,167.9m
• Net current assets (debtors, overdraft and creditors)	£21.5m
Total (closing assets of the fund at 31 March 2018)	**£2,189.4m**

Ten biggest equity holdings at 31 March 2018

	Company	Market value	Percentage of total fund
1	Royal Dutch Shell	33.3	1.5
2	British American Tobacco	31.9	1.5
3	Microsoft	24.7	1.1
4	HSBC	23.6	1.1
5	Reckitt Benckiser	22.5	1.0
6	Unilever	22.5	1.0
7	BP	16.3	0.8
8	JP Morgan	16.1	0.7
9	Apple	15.6	0.7
10	Visa	15.0	0.7
Total		**221.5**	**10.1**

LPF investment management arrangements

The arrangements for segregated management of the fund's assets, in place at 31 March 2018, are set out below. Portfolio values include cash at the balance sheet date.

Segregated investment management mandates

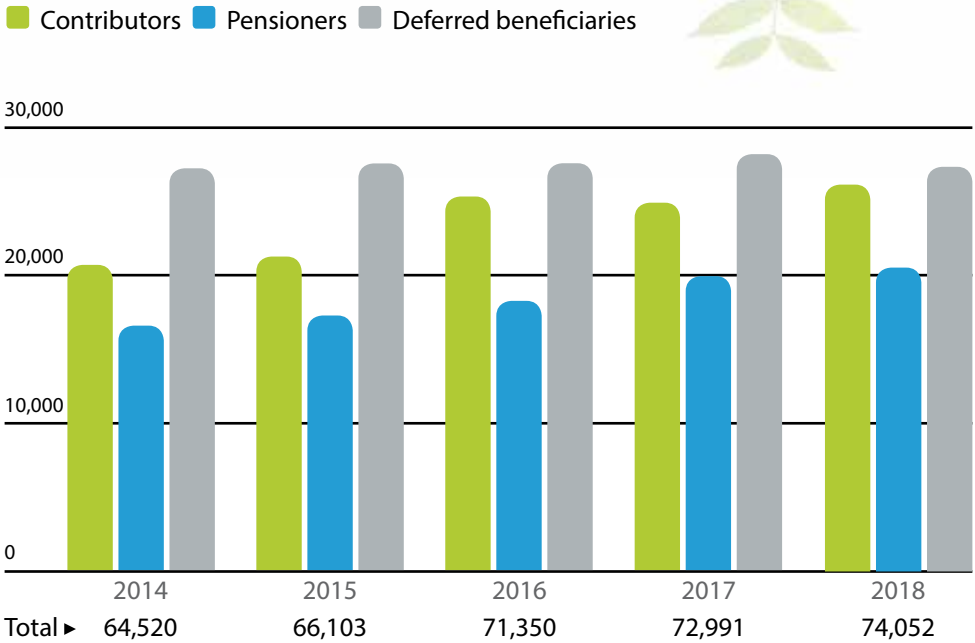
Asset class	Manager	Market value £m	% of the fund
Global equities – (Ex UK)	Invesco	502.3	22.9
Global equities	Schroders	123.9	5.7
Global equities	Columbia Threadneedle	132.6	6.1
	Total segregated equities	**758.8**	**34.7**

Pooled funds – the fund also invests in a number of asset classes by means of collective investment vehicles, also known as pooled funds.

Asset class	Manager	Market value £m	% of the fund
Property and infrastructure	Franklin Templeton	3.9	0.2
	Igloo	2.5	0.1
	Aviva	46.6	2.1
	Royal London	23.5	1.1
	Rreef	0.5	0.0
	Blackrock	41.4	1.9
	Standard Life	76.0	3.5
	Total UK property	**194.4**	**8.9**
Infrastructure	Innisfree	32.5	1.5
	Infracapital	1.5	0.1
	Pantheon	1.5	0.1
	Total UK Property	**35.5**	**1.7**
Alternatives	Morgan Stanley	268.2	12.2
UK Equities	Legal and General	264.1	12.1
Global Equities	Morgan Stanley	178.7	8.2
Fixed Interest	Blackrock	403.8	18.4
Total Pooled Vehicles		**1,374.0**	**62.9**

Local Government Pension Scheme membership

There were 74,052 members and beneficiaries from 219 employers at 31 March 2018. The fund is reasonably mature, with deferred members (those that are no longer in the scheme but will be entitled to a pension at some point in the future) making up 37% of the overall membership and pensioner members 28%.



Moving house?

If you move house, we need to know your new address – not only to keep your records up-to-date but to make sure personal or sensitive information doesn't go to your old address, putting you at risk of identity fraud.

So when you move, please let us know about it as soon as you can.

Please also tell your employer you've moved, and if you're paying AVCs, tell your AVC provider.

Have you checked your statement?

Check your statement carefully every year and if anything looks wrong – especially if it's your pay – tell your employer straightaway. If you're not sure what to look for, watch our short video that shows you at

www.wypf.org.uk/pensionstatement

Contact us

Phone **01274 434999**
Monday to Friday
8.45am to 4.30pm

Email **pensions@wypf.org.uk**

Postal Address **WYPF**
PO Box 67
Bradford BD1 1UP

Visit us in person in Lincoln

County Offices
Newland
Lincoln, LN1 1YL

Open weekdays 8.00am to 5.15pm (4.45pm on Fridays). Ask for the pensions team at reception.

Privacy and your data

We hold information about you ('personal data') which we need to administer the pension fund. How we use your data is set out in our privacy notice at

www.wypf.org.uk/privacy

@WYPF_LGPS
facebook.com/westyorkshirepensionfund

Published autumn 2018 by West Yorkshire Pension Fund

Don't let a scammer enjoy your retirement

Find out how pension scams work, how to avoid them and what to do if you suspect a scam.

Scammers can be articulate and financially knowledgeable, with credible websites, testimonials and materials that are hard to distinguish from the real thing. Scammers design attractive offers to persuade you to transfer your pension pot to them or to release funds from it. It is then invested in unusual and high-risk investments like overseas property, renewable energy bonds, forestry, storage units, or simply stolen outright.

Scam tactics include:

- contact out of the blue
- promises of high / guaranteed returns
- free pension reviews
- access to your pension before age 55
- pressure to act quickly

If you suspect a scam, report it

- **Report to the Financial Conduct Authority (FCA)**
  by contacting their Consumer Helpline on 0800 111 6768 or using the reporting form at www.fca.org.uk
- **Report to Action Fraud**
  on 0300 123 2040 or at www.actionfraud.police.uk
- **If you're in the middle of a transfer,**
  contact your provider immediately and then get in touch with The Pensions Advisory Service (TPAS) at www.thepensionsadvisoryservice.org.uk

www.fca.org.uk/scamsmart

Four simple steps to protect yourself from pension scams

1 Reject unexpected offers

If you're contacted out of the blue about your pension, chances are it's high risk or a scam. Be wary of free pension review offers. A free offer out of the blue from a company you have not dealt with before is probably a scam. Fortunately, research shows that 95% of unexpected pension offers are rejected.*

2 Check who you're dealing with

Check the Financial Services Register (www.register.fca.org.uk) to make sure that anyone offering you advice or other financial services is FCA-authorised.

If you don't use an FCA-authorised firm, you also won't have access to the Financial Ombudsman Service or the Financial Services Compensation Scheme. So you're unlikely to get your money back if things go wrong. If the firm is on the FCA Register, you should call the Consumer Helpline on 0800 111 6768 to check the firm is permitted to give pension advice.

Beware of fraudsters pretending to be from a firm authorised by the FCA, as it could be what we call a 'clone firm'. Use the contact details provided on the FCA Register, not the details they give you.

3 Don't be rushed or pressured

Take your time to make all the checks you need – even if this means turning down an 'amazing deal'. Be wary of promised returns that sound too good to be true and don't be rushed or pressured into making a decision.

4 Get impartial information and advice

The Pensions Advisory Service (www.thepensionsadvisoryservice.org.uk) – Provides free independent and impartial information and guidance.

Pension Wise (www.pensionwise.gov.uk) – If you're over 50 and have a defined contribution (DC) pension, Pension Wise offers pre-booked appointments to talk through your retirement options.

Financial advisers – It's important you make the best decision for your own personal circumstances, so you should seriously consider using the services of a financial adviser. If you do opt for an adviser, be sure to use one that is regulated by the FCA and never take investment advice from the company that contacted you or an adviser they suggest, as this may be part of the scam.

Be ScamSmart with your pension. Check who you are dealing with.

www.fca.org.uk/scamsmart

FCA FINANCIAL CONDUCT AUTHORITY

The Pensions Regulator

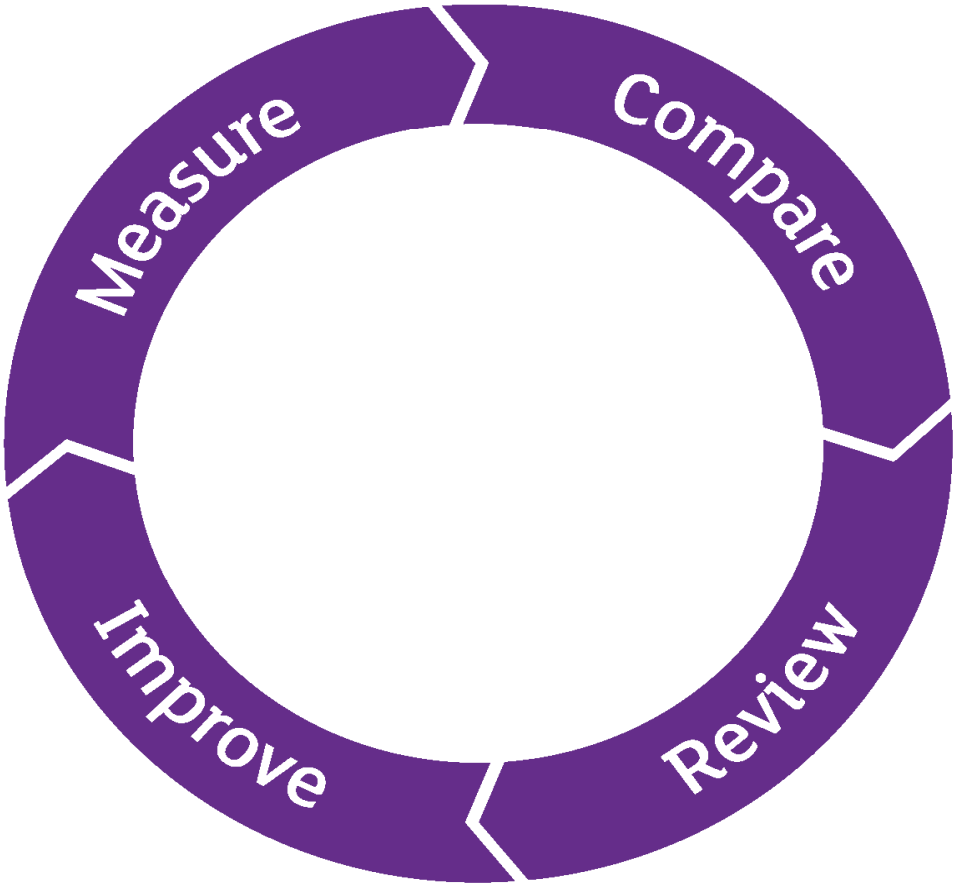
*FCA Financial Lives

CIPFA The Chartered Institute of Public Finance & Accountancy

Analytics & Research

pensions administration benchmarking club

2018 - West Yorkshire Pension Fund Comparator Report



Useful Information

Throughout the report your figures are shown in tables and in graphical form. If you are not familiar with our reports we hope this page will help you to better understand the way we present this data.

Averages

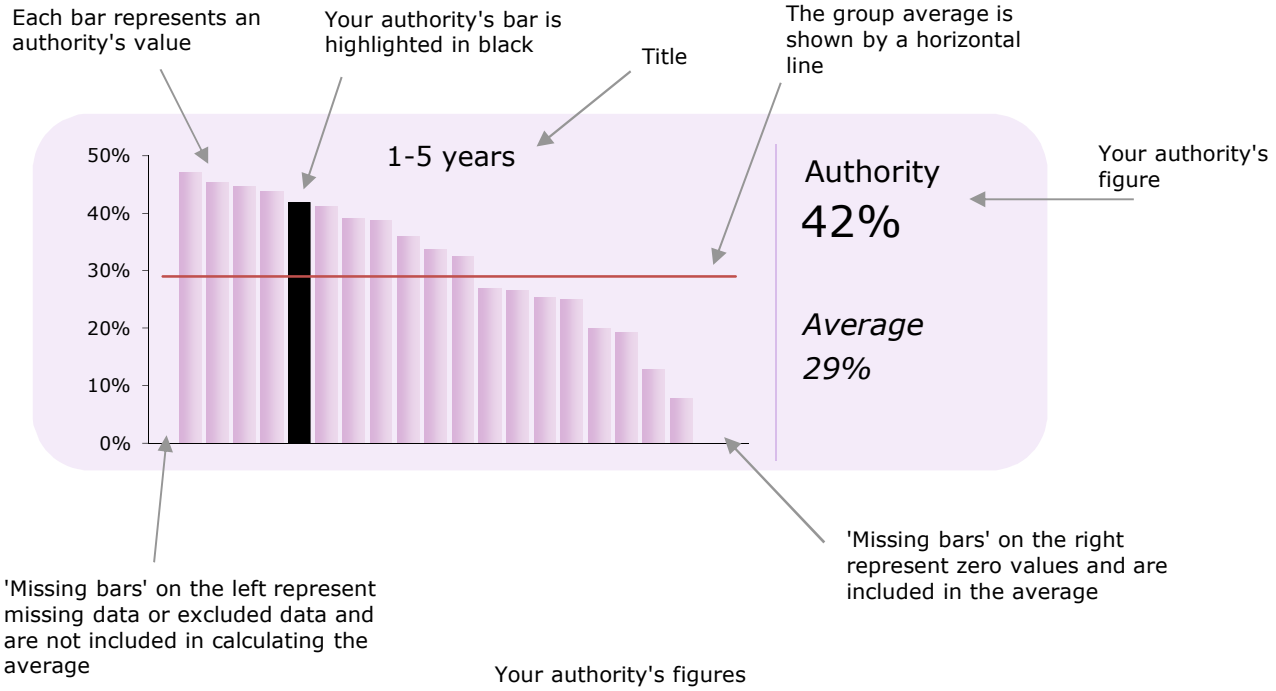
Almost all of our tables and charts compare your figure with a group average. The average is the unweighted mean value for the group. This average value ignores missing data, or data that we have excluded and for this reason sets of averages sometimes do not reconcile precisely.

Charts

We display a large amount of data on charts as this allows us to show the data for the entire group efficiently and gives far more information than a simple average (i.e. range of data, individual authority values etc.). Below we have annotated an example chart to help explain what they are showing.

Bar Charts

These are our standard method of displaying a full set of data



Your authority's figures

Staff experience	FTE	%	*Avg*
< 1 year	1.5	10%	*9%*
1-5 years	6.5	42%	*29%*
5-10 years	3.5	23%	*21%*
> 10 yrs	4.0	26%	*41%*
Total	**15.5**		

Introduction

This report compares your performance with other local authorities who have taken part in the Pensions Administration Benchmarking Club for 2018 and is divided into the following sections.

At the end of the Benchmarking process, your authority will also receive supplemental materials which will provide further depth to this report:

- **Interactive Report:** an Excel spreadsheet containing all the bar charts found in this report. The user can change the charts to show custom comparator groups.
- **Database:** an Excel spreadsheet containing all the data submitted by club members this year. The user can also populate a copy of the questionnaire with the data for any member.
- **Scrapbook:** a report containing an analysis of the responses to the text based parts of the questionnaire.

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Section 1 - Summary

This page provides a brief summary of the most salient aspects of the report.

Section 2 - Cost Measures

This section concentrates on cost/member ratios starting with total cost/member which is then broken down by staff costs, payroll costs, direct costs, overheads and income.

Section 3 - Workload Measures

The first measure of workload is the number of members in the scheme, which is shown along with a breakdown by class of membership. This is followed by an analysis of the number and type of LGPS employers.

Other workload measures include:

- Joiners and leavers with a full analysis of the various types of retirements
- Number of quotations provided and actual events processed
- Additional Voluntary Contributions (AVCs), Additional Regular Contributions/Additional Pension Contributions (ARCs/APCs) and Added years

Section 4 - Staff Related Measures

The measures included here are an analysis of staff numbers by pay band, pensions work experience and staff qualifications.

Section 5 - Industry Standard Performance Indicators

In this section we show how authorities perform against each of the LGPC performance indicators.

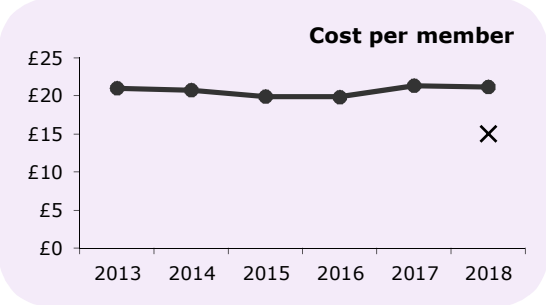
Section 6 - Comparison by Method of Service Delivery (final report only)

This shows members' costs and averages compared for in-house and externally managed pension schemes.

SECTION 1 - SUMMARY

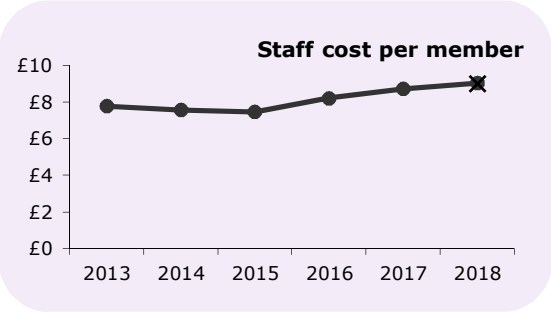
5 Year Trend for Net Cost per Member

Club average X West Yorkshire Pensi



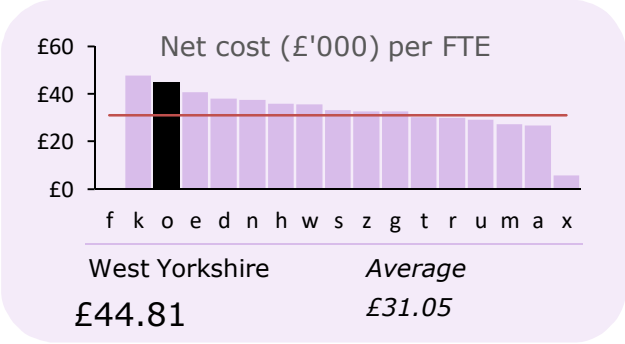
In 2017/18, West Yorkshire Pension Fund had a net cost of £15.1 per member. The average cost per member for all authorities was £21.16. Left is the graph showing the 5 year trend for net cost per member for West Yorkshire Pension Fund and the club average.

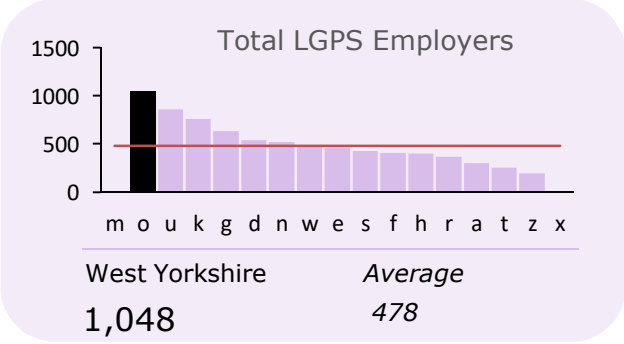
5 Year Trend for Staff Cost per Member

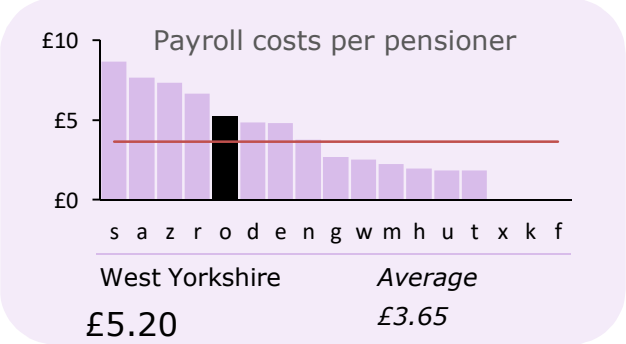


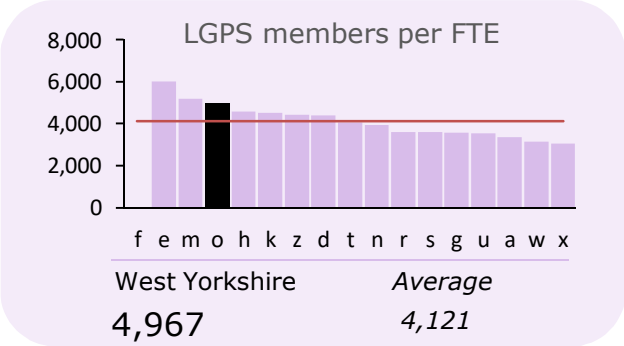
In 2017/18, West Yorkshire Pension Fund had a net staff cost of £10.35 per member. The average staff cost per member for all authorities was £9.04. Left is the graph showing the 5 year trend for staff cost per member for West Yorkshire Pension Fund and the club average.

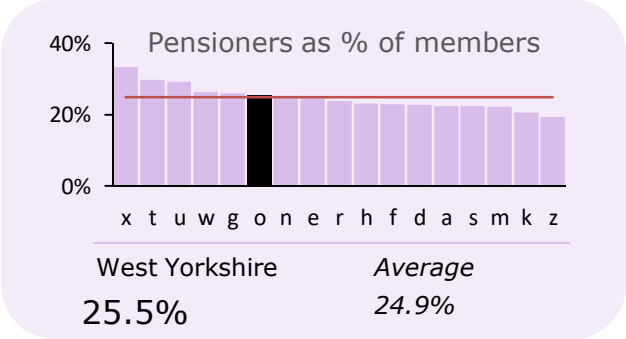
Other Key Findings:

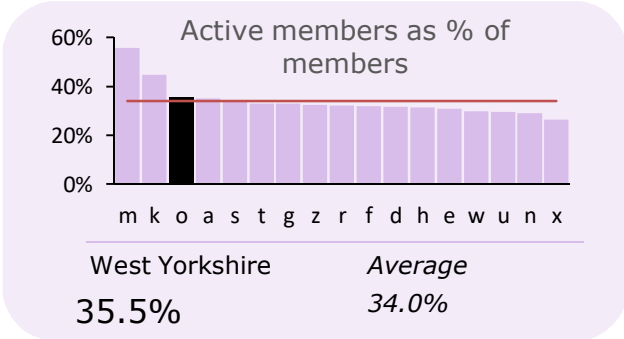










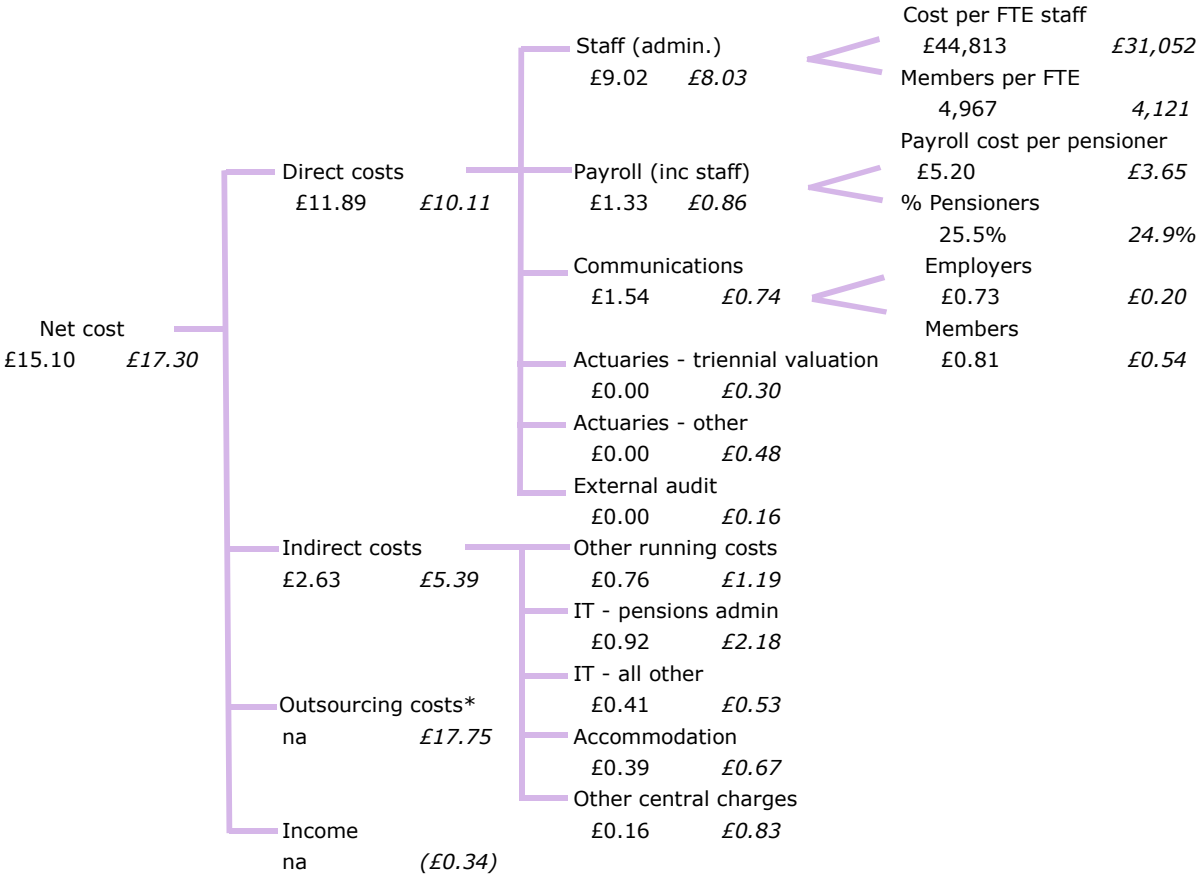


SECTION 2 - COST MEASURES

COST PER MEMBERS 2017/18

This tree diagram analyses the cost per member.

For each benchmark two figures are given, the first being West Yorkshire Pension Fund's cost and the second (in italics) is the group average.



FTE Staff	
Pension Section total	114.9
less	
IT staff	9.5
Payroll staff	16.0
Communications staff	9.8
Employing authority work	-
Work for other schemes	6.9
Other work	0.3
Admin of LGPS	**72.4**

Net Costs £'000	
Pension Section total	5,415
less	
Work for other schemes	(13)
Employing authority work	-
Other work	-
Admin of LGPS	**5,428**

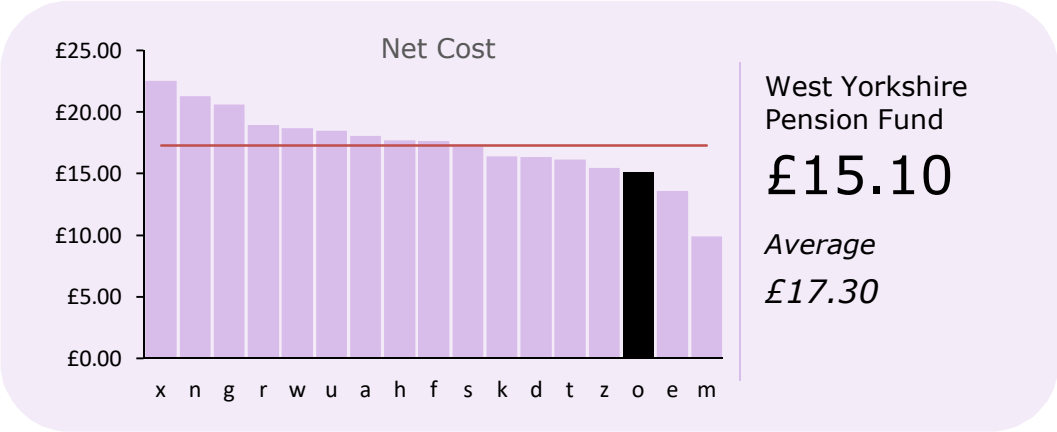
LGPS admin section costs	£'000	£ per member	*Avg.*
Staff - administration	3,244	9.02	*8.03*
Staff - payroll	477	1.33	*0.41*
Payroll	-	-	*0.45*
Communications - employers	263	0.73	*0.20*
Communications - members	291	0.81	*0.54*
Actuaries - triennial valuation	-	-	*0.30*
Actuaries - other	-	-	*0.48*
External audit	-	-	*0.16*
Total Direct Costs	**4,275**	**11.89**	***10.11***
Other running costs	273	0.76	*1.19*
IT - pensions admin.	332	0.92	*2.18*
IT - all other	146	0.41	*0.53*
Accommodation	139	0.39	*0.67*
Other central charges	57	0.16	*0.83*
Total Indirect Costs	**947**	**2.63**	***5.39***
Outsourcing Costs*	**-**	**na**	***17.75***
Gross Cost	**5,222**	**14.52**	***17.59***
Income - members	-	-	*(0.07)*
Income - employers	-	-	*(0.23)*
Income - other	206	na	*(0.02)*
Total Income	**206**	**na**	***(0.34)***
Net Cost	**5,428**	**15.10**	***17.30***

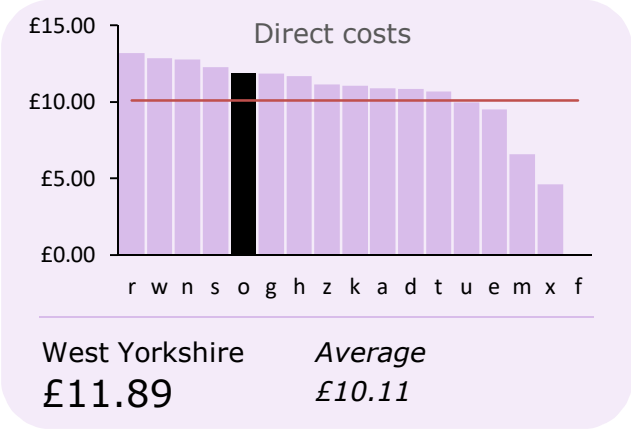
Total Scheme Membership	**359,525**
Pensioners	**91,716**

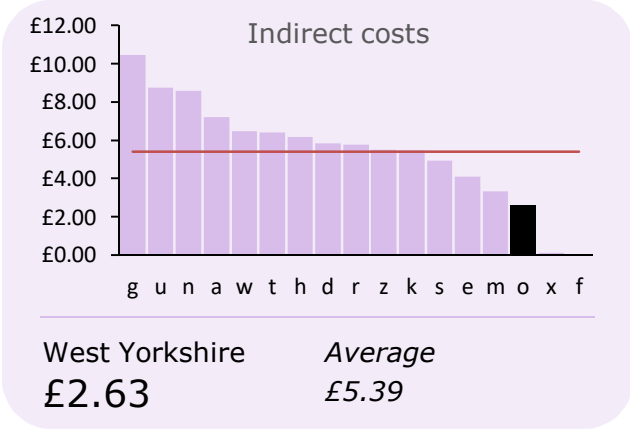
*Outsourcing costs average only includes those members who have outsourcing costs.

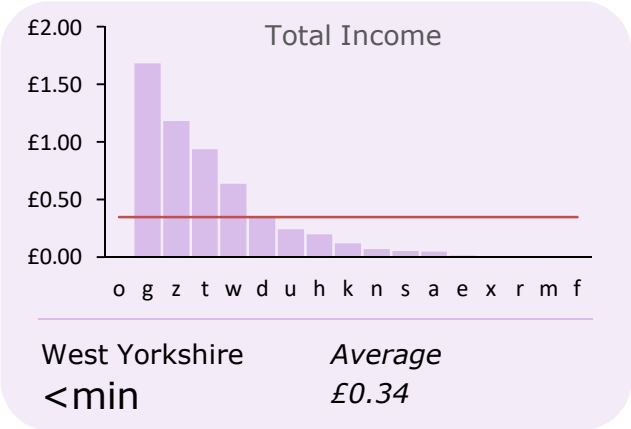
Source: Sections 2 & 3a, 2018 Questionnaire

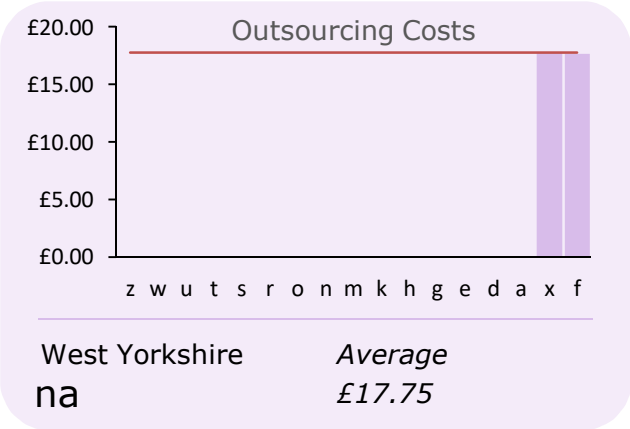
COST PER MEMBER 2017/18 (continued)







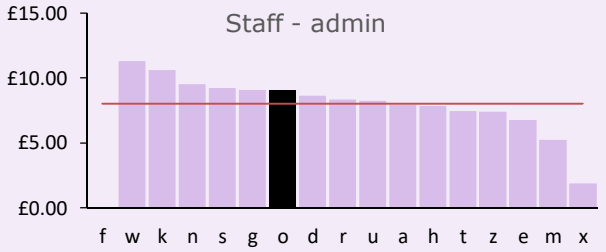




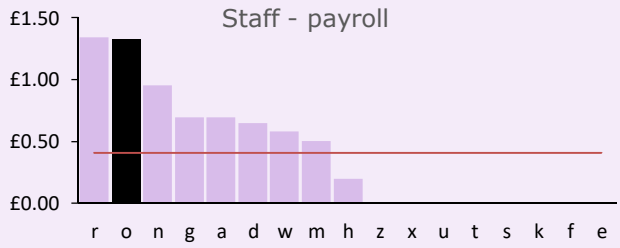
Source: Section 3a, 2018 Questionnaire

COSTS PER MEMBER - Direct Costs 2017/18

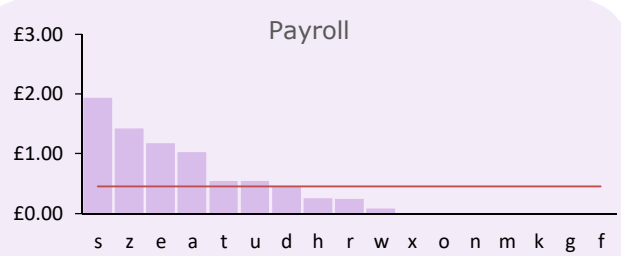
The following graphs are the costs that make up the direct costs that West Yorkshire Pension Fund had during the financial year 2017/18.



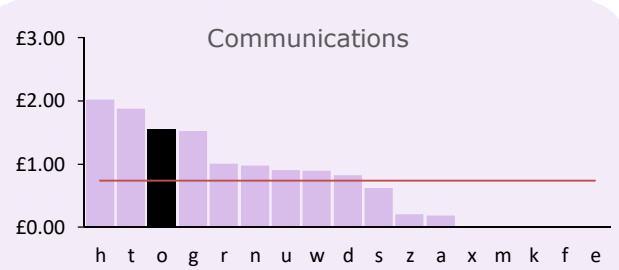
West Yorkshire Pension £9.02 *Average £8.03*



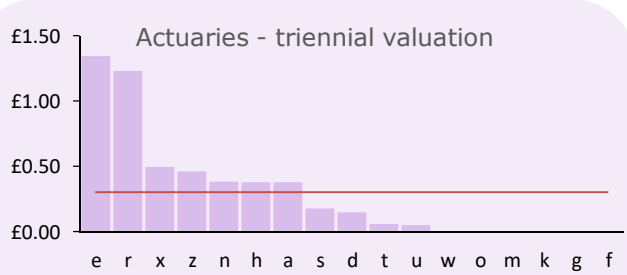
West Yorkshire Pension £1.33 *Average £0.41*



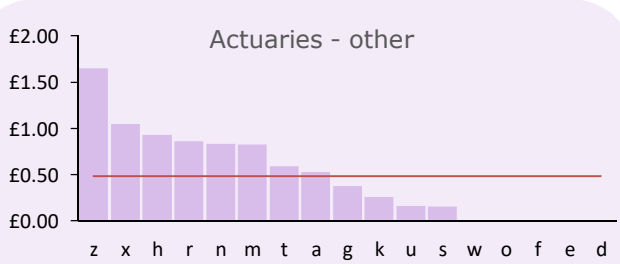
West Yorkshire Pension £0.00 *Average £0.45*



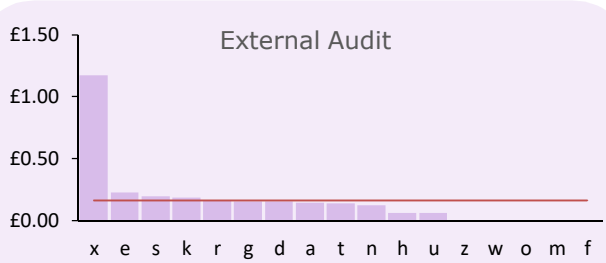
West Yorkshire Pension £1.54 *Average £0.74*



West Yorkshire Pension £0.00 *Average £0.30*



West Yorkshire Pension £0.00 *Average £0.48*

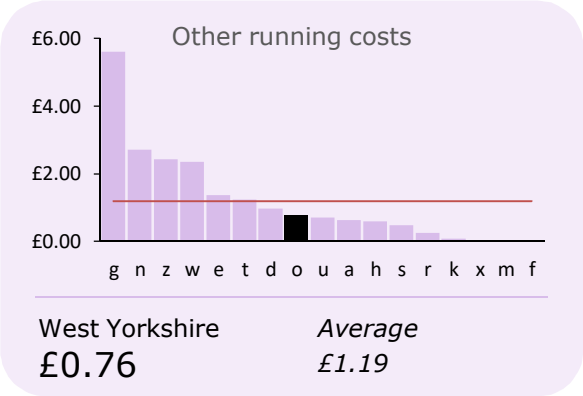


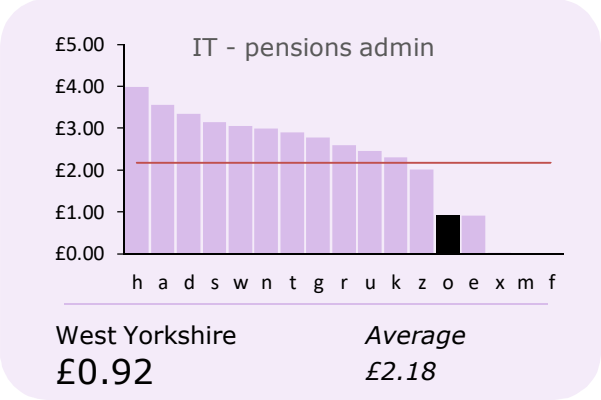
West Yorkshire Pension £0.00 *Average £0.16*

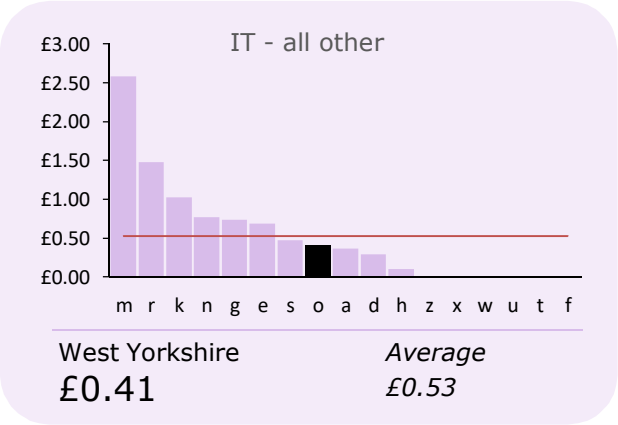
Source: Section 3a, Questionnaire 2018

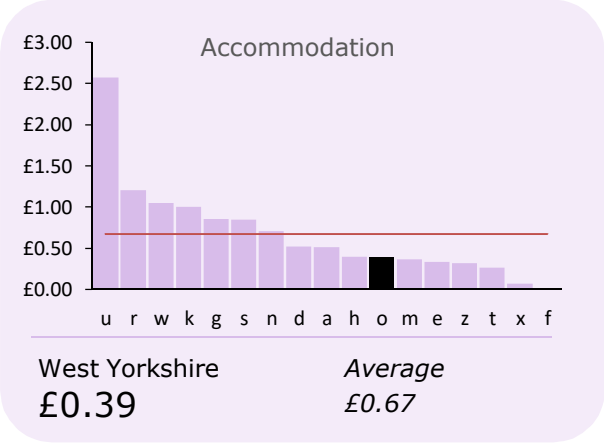
COSTS PER MEMBER - Indirect Costs 2017/18

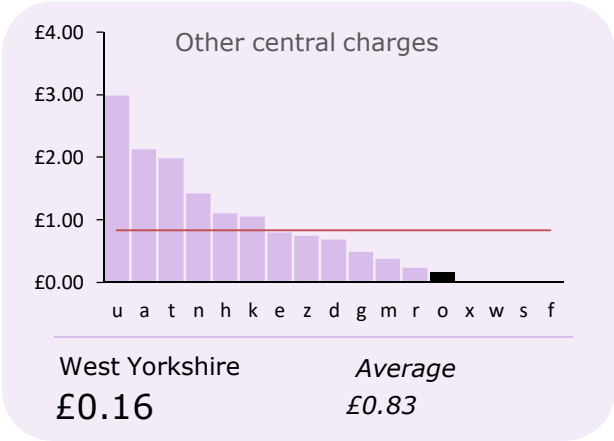
The following graphs are the costs that make up the indirect costs that West Yorkshire Pension Fund had during the financial year 2017/18.





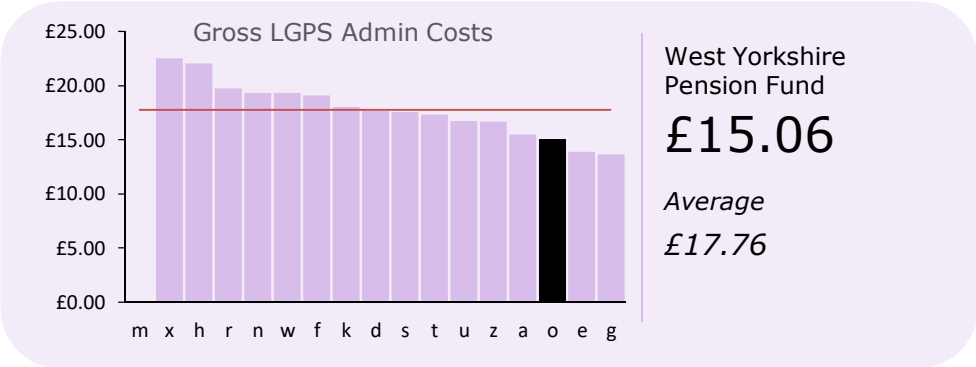


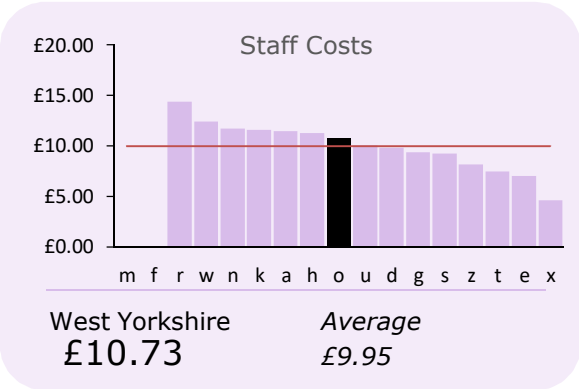


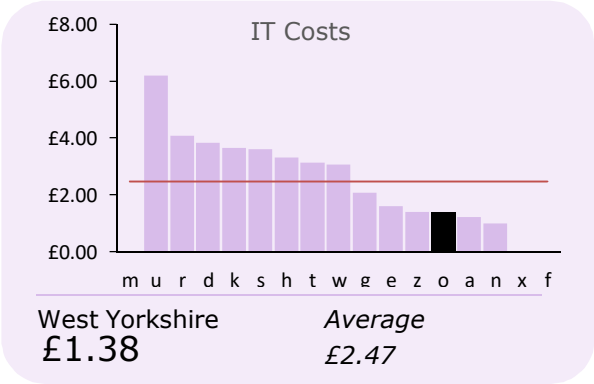


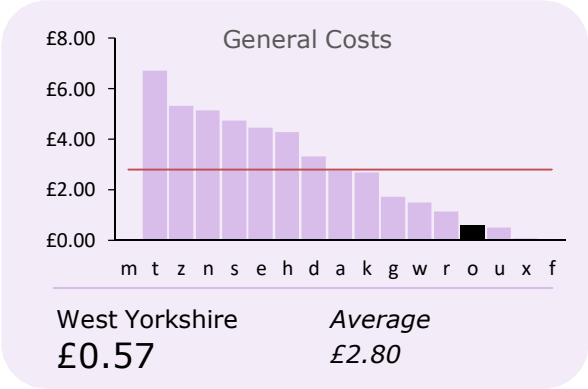
Source: Section 3a, Questionnaire 2018

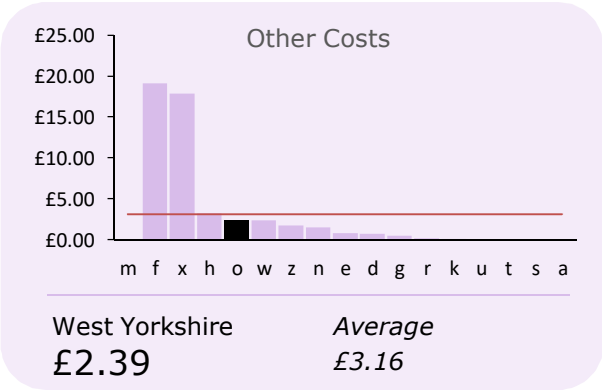
LGPS Management Expenses Analysis - Administration Costs 2017/18









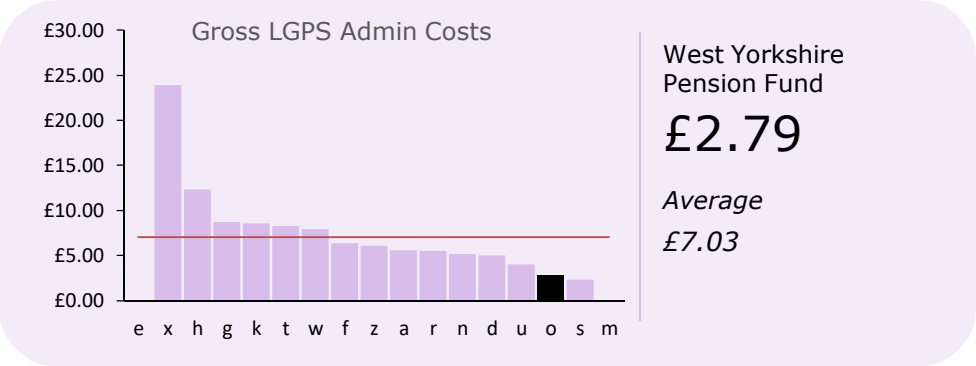


LGPS Administration Expenses	£'000	£ per member	Avg.
Staff Costs	3,859	10.73	*9.95*
IT Costs	495	1.38	*2.47*
General Costs	204	0.57	*2.80*
Other Costs	858	2.39	*3.16*
Gross LGPS Admin Costs	**5,416**	**15.06**	***17.76***
Gross LGPS Income	**1,424**	**3.96**	***1.11***
Net LGPS Admin Costs	**3,992**	**11.10**	***15.67***

Source: Section 4b, Questionnaire 2018

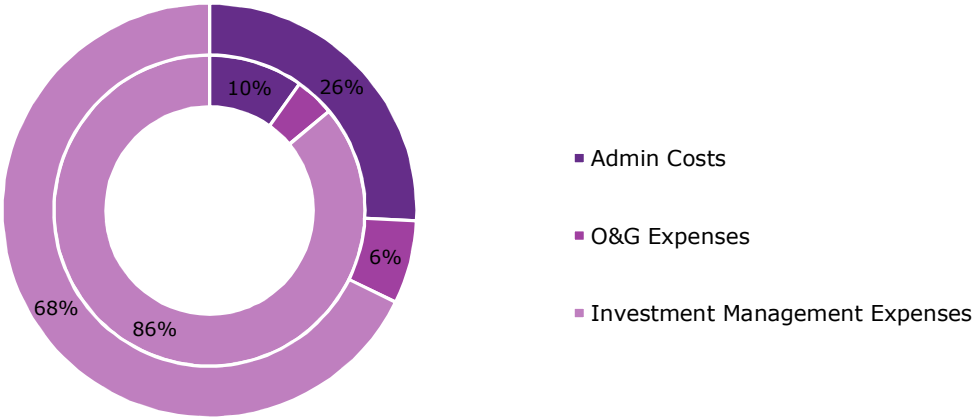
LGPS Management Expenses Analysis - Oversight & Governance Expenses 2017/18

LGPS O&G Expenses	£'000	£ per member	Avg.
Staffing costs	140	0.39	*1.29*
External costs	129	0.36	*0.43*
Investment advisory services costs	17	0.05	*0.82*
Independent advisors to the pension fund costs	73	0.20	*0.16*
Operation and support of the pensions committee costs	43	0.12	*0.57*
Governance and voting services costs	112	0.31	*0.66*
Statutory/non-statutory reporting staff and/or external costs	34	0.09	*0.75*
Legal services connected with investment management costs	52	0.14	*0.36*
Actuarial services costs	158	0.44	*0.95*
Tax advisory services costs	67	0.19	*0.05*
Internal audit costs	64	0.18	*0.09*
External audit costs	71	0.20	*0.28*
Accountancy services costs	-	-	*0.45*
Banking services (non-custody) costs	42	0.12	*0.05*
Transition management services costs	-	-	*0.11*
Total LGPS O&G Expenses	**1,002**	**2.79**	***7.03***



LGPS Management Expenses Summary 2017/18

LGPS Management Expenses	£'000	£ per member	Avg.
LGPS Administration Costs	3,992	11.10	*15.67*
LGPS Oversight and Governance Expenses	1,002	2.79	*6.61*
LGPS Investment Management Expenses	10,476	29.14	*137.14*
Total LGPS Management Expenses	**15,470**	**43.03**	***159.96***



The outer ring of the graph above is the figures for West Yorkshire Pension Fund and the inner ring is the average figures. For local authorities with percentages less than 5%, these will not be shown.

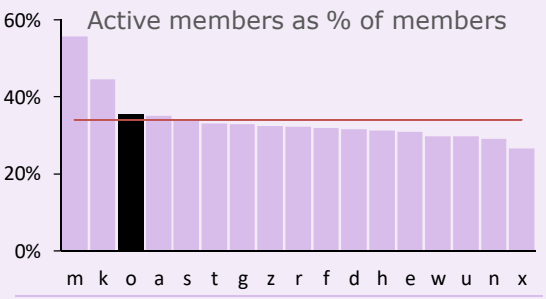
Source: Section 4c, 2018 Questionnaire

SECTION 3 - WORKLOAD MEASURES

COMPOSITION OF MEMBERS AS AT 31/03/2018

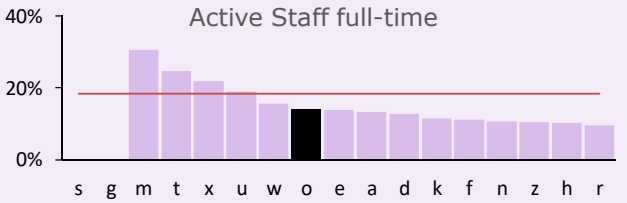
Composition of members	Number	%	Avg.	Avg. %
Active:				
Full-time	50,052	13.9%	*31,317*	*18.3%*
Part-time	77,548	21.6%	*26,822*	*15.7%*
Sub-total	**127,600**	**35.5%**	***58,139***	***34.0%***
Deferred - Staff	113,853	31.7%	*52,915*	*30.9%*
Pensioners	91,716	25.5%	*42,541*	*24.8%*
Dependants	13,766	3.8%	*6,707*	*3.9%*
Frozen refunds	7,549	2.1%	*5,998*	*3.5%*
Leavers unprocessed/in progress	5,041	1.4%	*4,904*	*2.9%*
Total	**359,525**		***171,203***	

Active Members



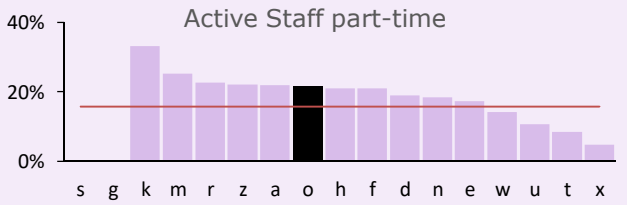
West Yorkshire 35.5%

Average 34.0%



West Yorkshire 13.9%

Average 18.3%

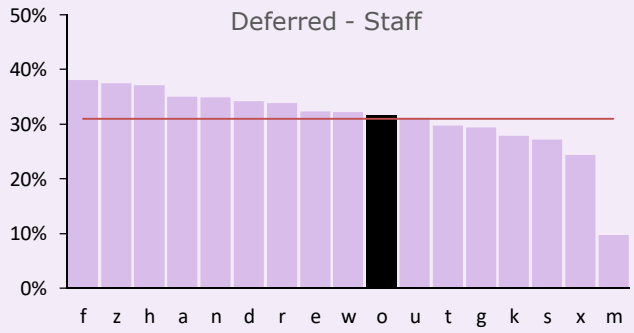


West Yorkshire 21.6%

Average 15.7%

Source: Section 5b, Questionnaire 2018

Non-Active Members

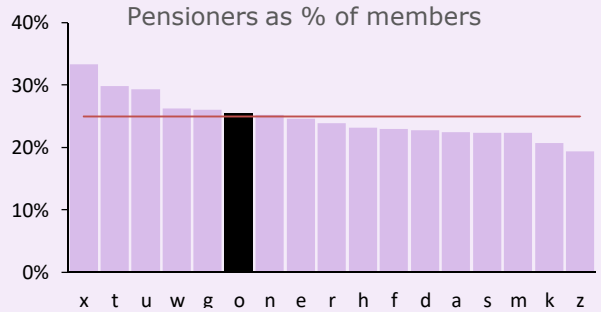


West Yorkshire Pension Fund

31.7%

Average

31.0%

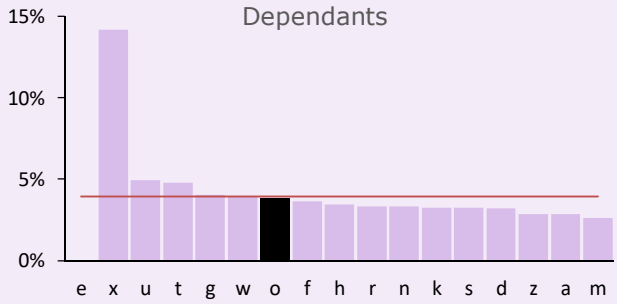


West Yorkshire Pension Fund

25.5%

Average

24.9%

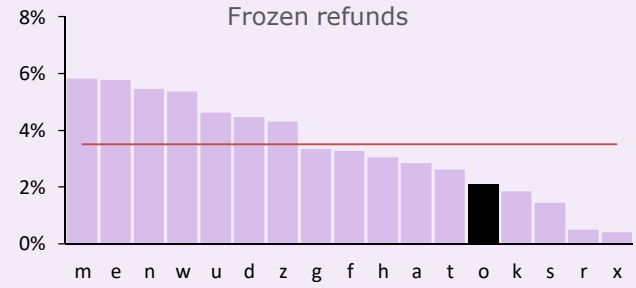


West Yorkshire Pension Fund

3.8%

Average

3.9%

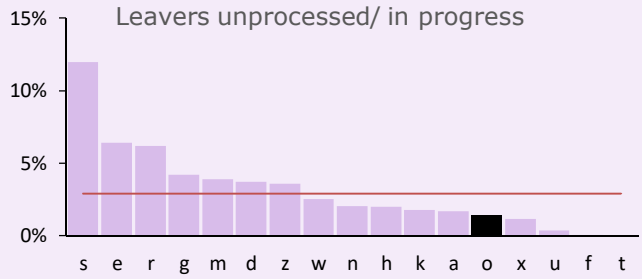


West Yorkshire

2.1%

Average

3.5%



West Yorkshire

1.4%

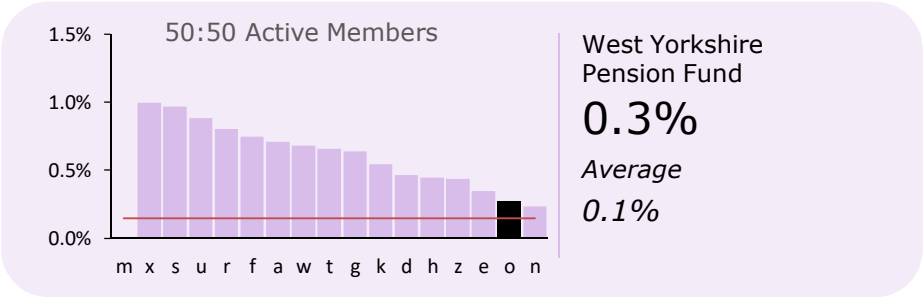
Average

2.9%

Source: Section 5b, Questionnaire 2018

COMPOSITION OF MEMBERS AS AT 31/03/2018

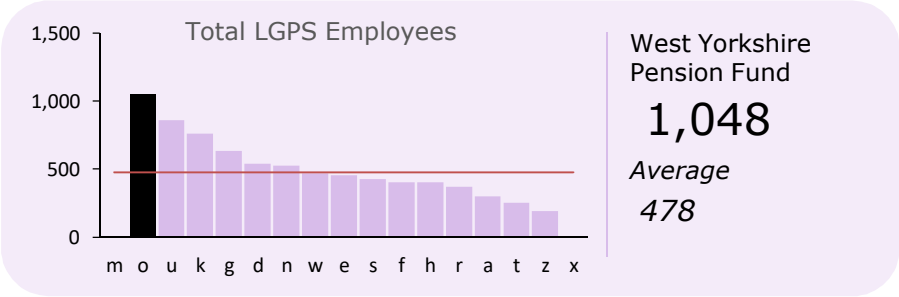
Composition of active members	Number	%	Avg.
50:50	344	0.3%	*0.1%*

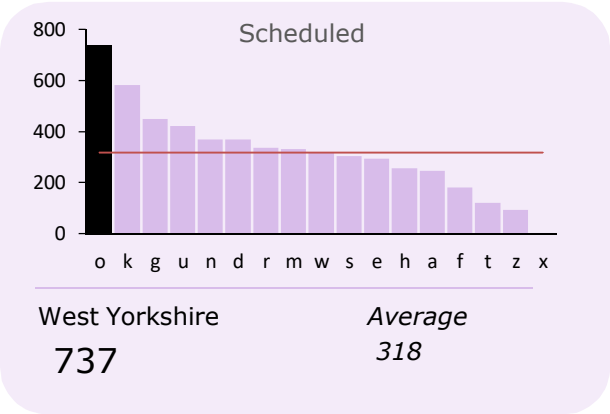


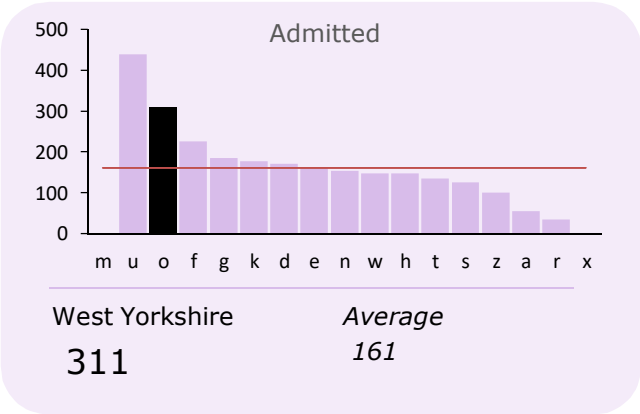
NUMBER OF LGPS EMPLOYERS AS AT 31/03/2018

LGPS employers (31/03/2018)	Number	Avg.
Scheduled	737	*318*
Admitted	311	*161*
Total	**1,048**	***478***

Employer changes 2017/18	+/- Changes		Admitted		Leaving	
	Number	Avg.	Number	Avg.	Number	Avg.
Scheduled	28	*1*	80	*30*	21	*2*
Admitted	26	*3*	32	*15*	15	*8*





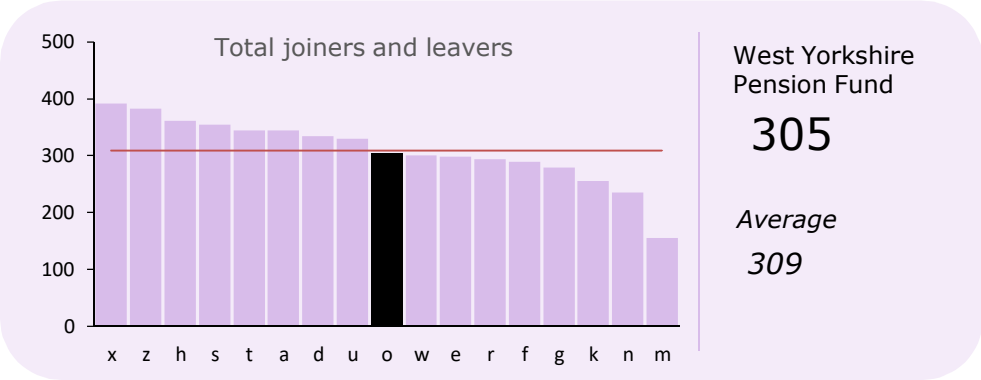


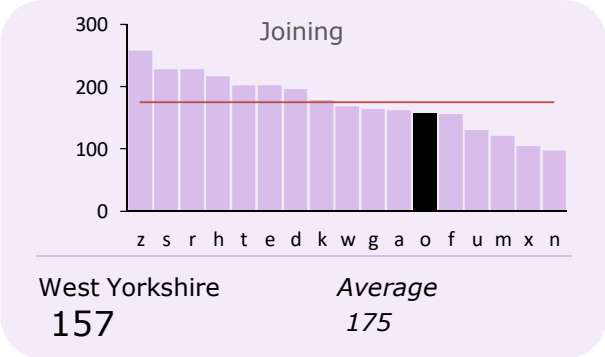
Source: Section 5a & b, Questionnaire 2018

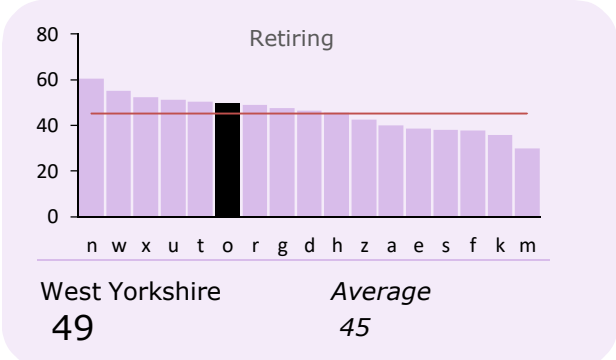
JOINERS & LEAVERS (per '000 active members) 2017/18

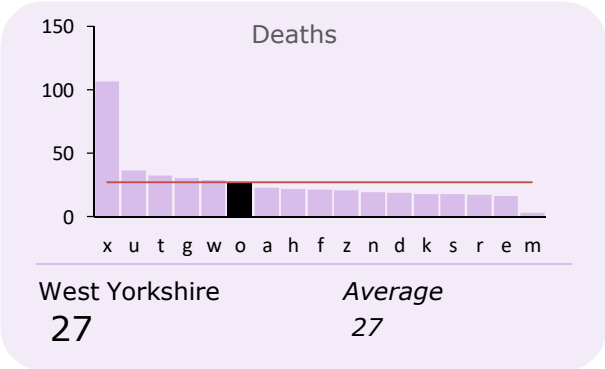
Joiners & Leavers	Number	'000	*Avg.*
Joining	19,995	157	*175*
Retiring	6,311	49	*45*
Deaths	3,414	27	*27*
Transferred out	621	5	*9*
Deferred	7,085	56	*46*
Opted out	1,468	12	*14*
Total	**38,894**	**305**	***309***

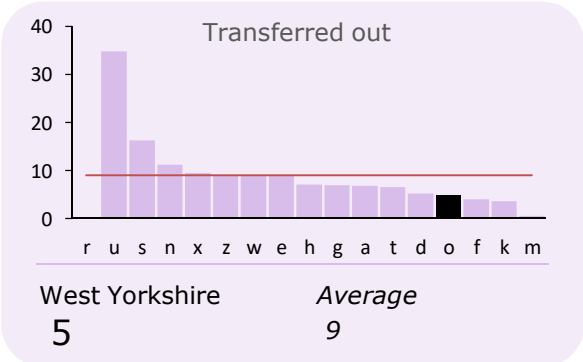
Active members	127,600

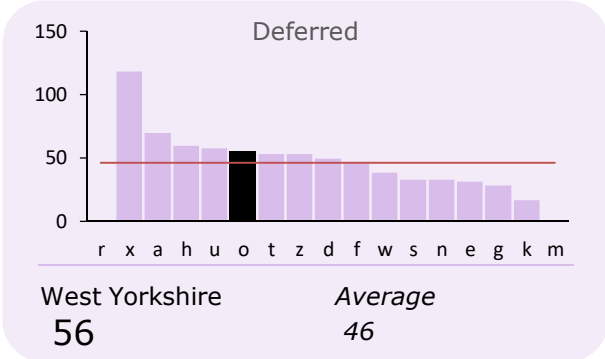


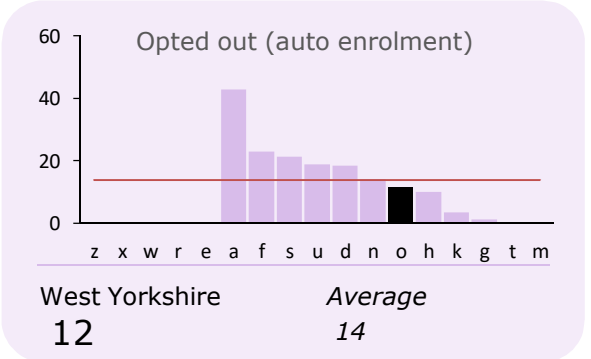










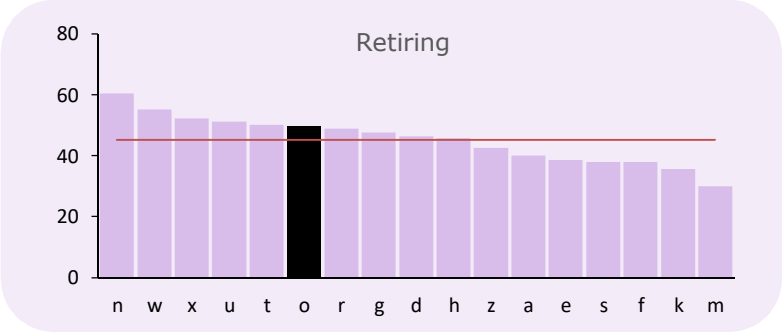


Source: Section 5c, Questionnaire 2018

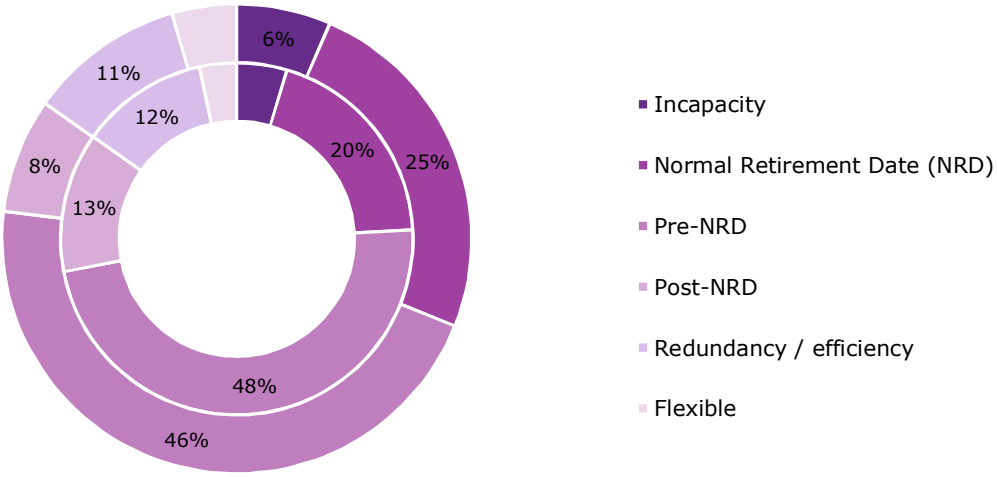
RETIRING 2017/18 (per '000 active members)

	Total number	per active members	*Average (per '000)*
Total LGPS members retiring	6,311	49	*45*

Active members 127,600



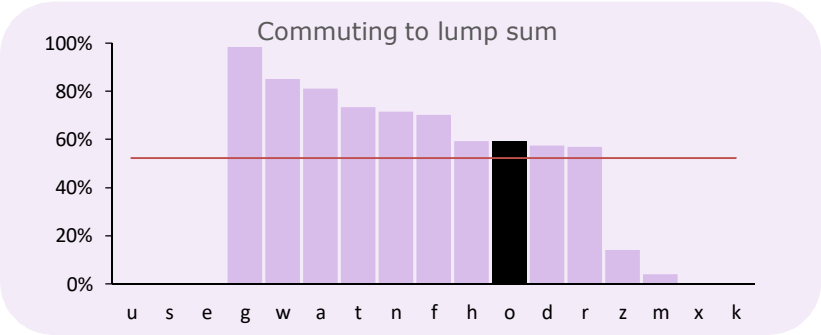
Retirements



The outer ring of the graph above is the figures for West Yorkshire Pension Fund and the inner ring is the average figures. For local authorities with percentages less than 5%, these will not be shown.

Retirements commuting to lump sum

Number	% total	*Avg.*
3,743	59%	*52%*



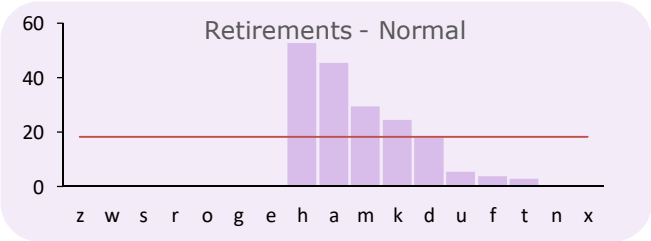
Source: Section 5d, Questionnaire 2018

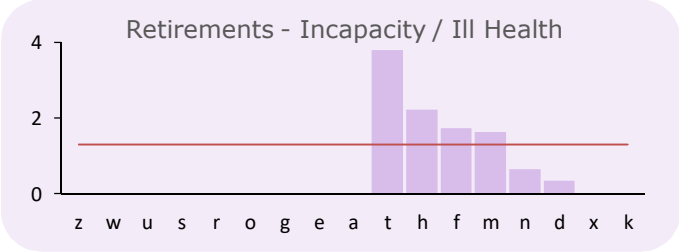
NUMBER OF QUOTATIONS PROVIDED IN 2017/18 (per '000 active members)

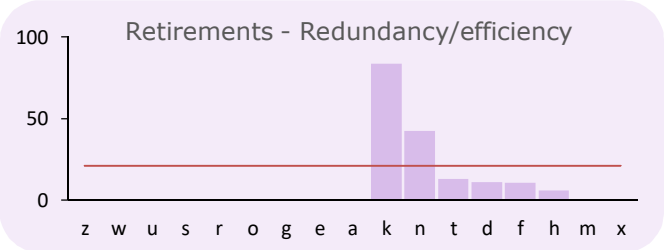
Number of bulk transfers	Number	'000	'000 Avg.
TUPE - in	-	-	*1.4*
TUPE - out	-	-	*1.5*
Academies	10	0.1	*0.4*

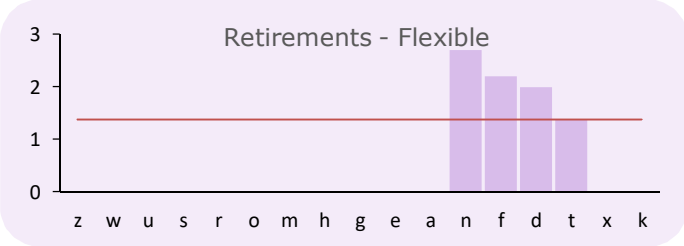
Quotations provided	Number	'000	Avg.
TUPE - in	-	-	-
TUPE - out	-	-	-
Academies	-	-	-
Transfers in	6,256	49.0	*10.6*
Transfers out	3,360	26.3	*12.8*
Transfers intra	na	na	*8.7*
Retirements:			
- Normal	na	na	*18.3*
- Incapacity/ill-health	na	na	*1.3*
- Redundancy/efficiency	na	na	*21.0*
- Flexible	na	na	*1.4*
- All other	na	na	*29.1*
Link ups	9,410	73.7	*26.7*
Concurrent employments	-	-	*8.6*
Divorce cases	763	6.0	*5.2*
Deaths in service	-	-	*0.1*
Deaths of pensioners	-	-	*0.2*

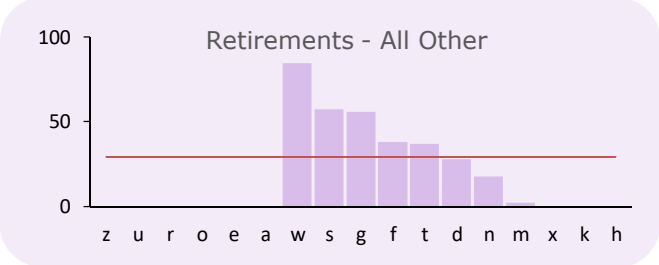
Active members
127,600

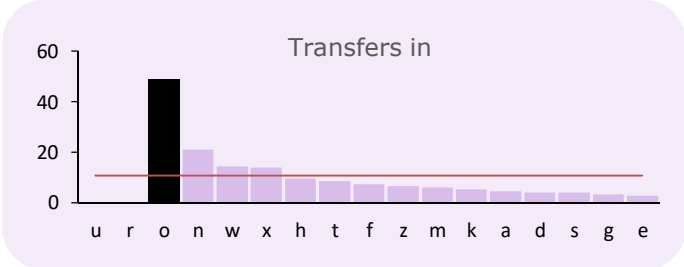


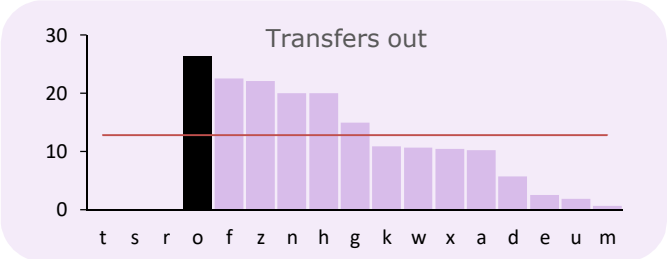


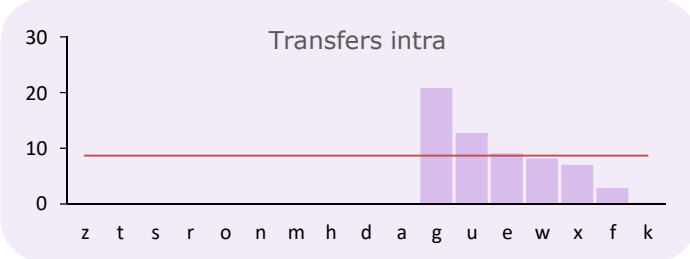






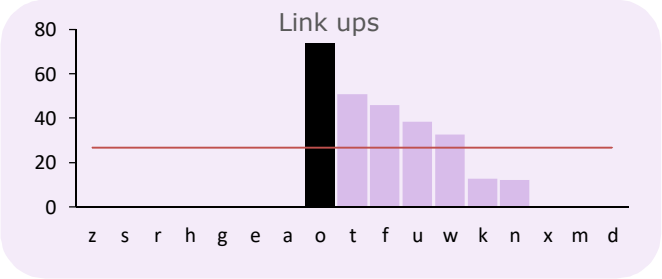


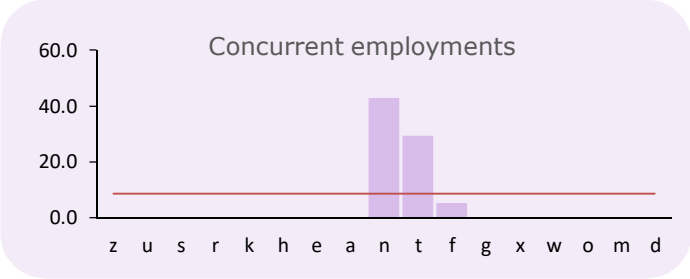


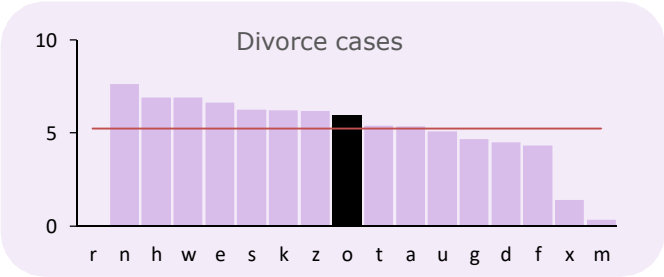


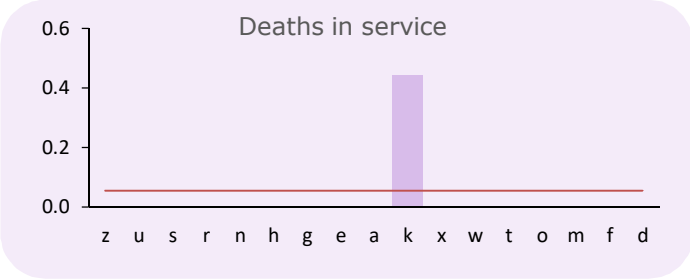
Source: Section 5f, Questionnaire 2018

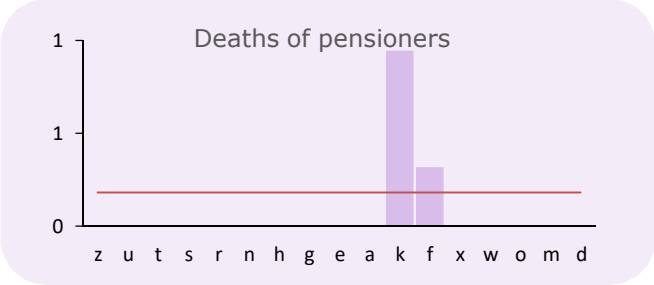
NUMBER OF QUOTATIONS PROVIDED IN 2017/18 (continued)









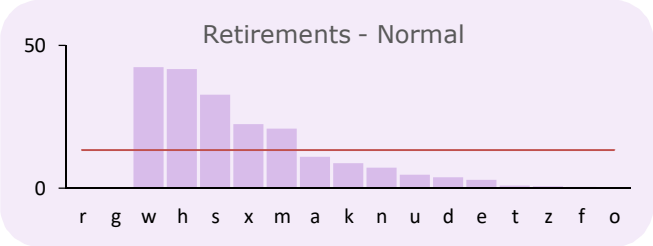


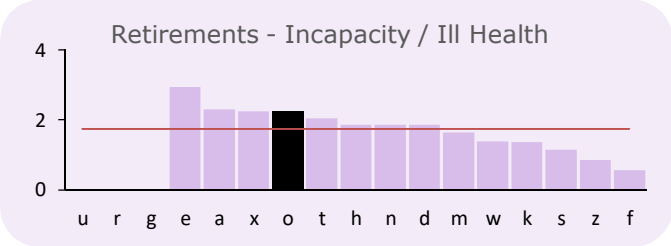
Source: Section 5f, Questionnaire 2018

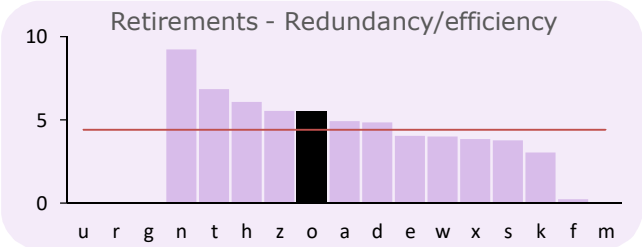
NUMBER OF ACTUAL EVENTS PROCESSED IN 2017/18 (per '000 active members)

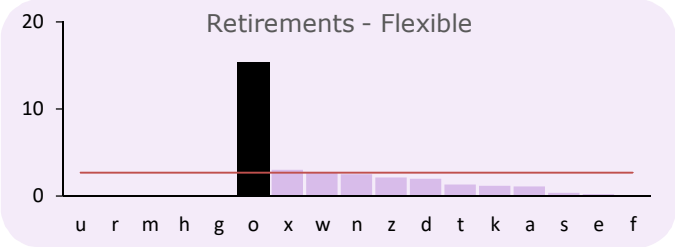
Actual events	Number	'000	*'000 Avg.*
TUPE - in	-	na	*na*
TUPE - out	-	na	*83.4*
Academies	-	na	*21.9*
Transfers in	677	5.3	*6.1*
Transfers out	324	2.5	*5.7*
Transfers intra	-	na	*15.9*
Retirements:			
- Normal	27	0.2	*13.3*
- Incapacity/ill-health	287	2.2	*1.7*
- Redundancy/efficiency	704	5.5	*4.4*
- Flexible	1,956	15.3	*2.6*
- All other	527	4.1	*19.9*
Link ups	7,837	61.4	*27.5*
Concurrent employments	-	na	*17.6*
Divorce cases	41	0.3	*0.3*
Refunds	3,335	26.1	*22.3*
Deaths in service	111	0.9	*0.9*
Death of pensioners	3,386	26.5	*25.4*
Frozen refunds	-	na	*16.2*
Preserved benefits	13,844	108.5	*74.5*
Single Status / Job Evaluation	-	na	*na*
Members Estimates	6,317	49.5	*31.4*

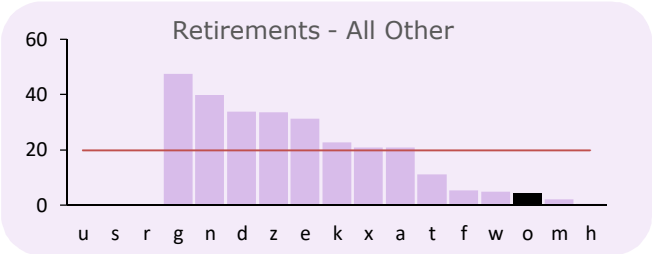
Active members
127,600

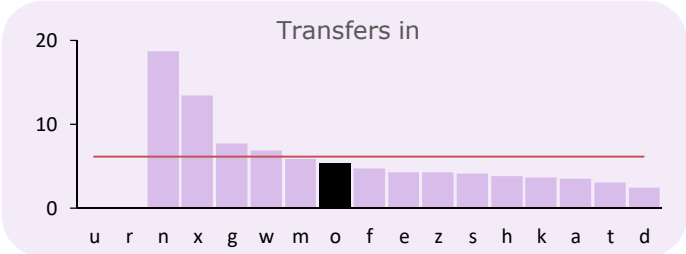


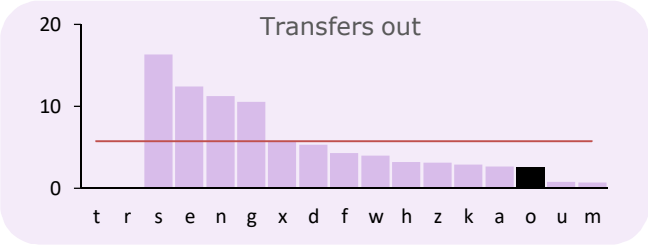


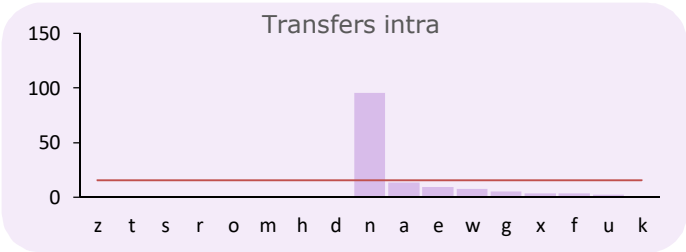






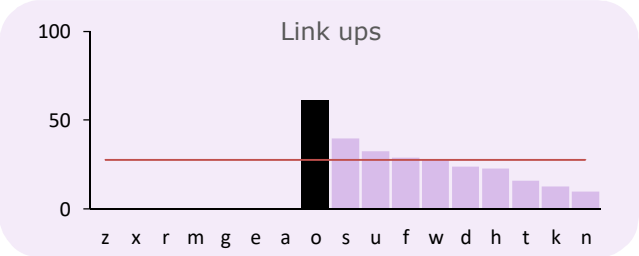


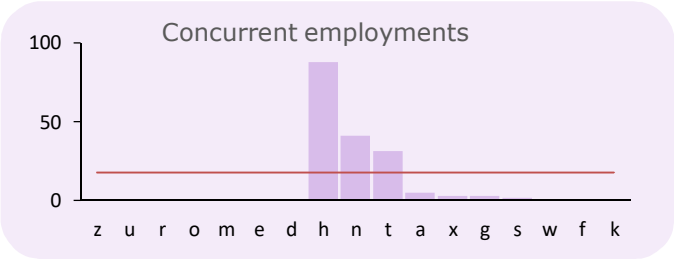


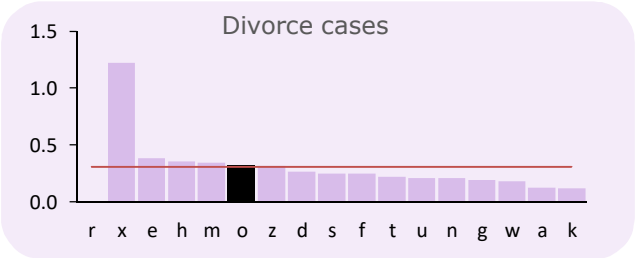


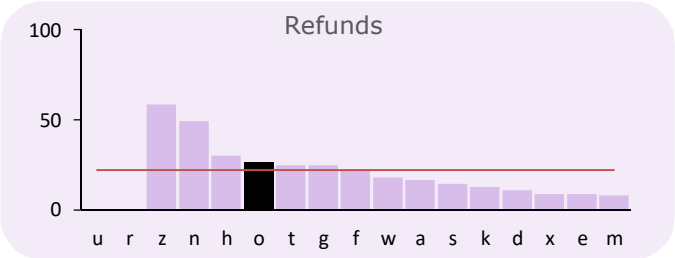
Source: Section 5f, Questionnaire 2018

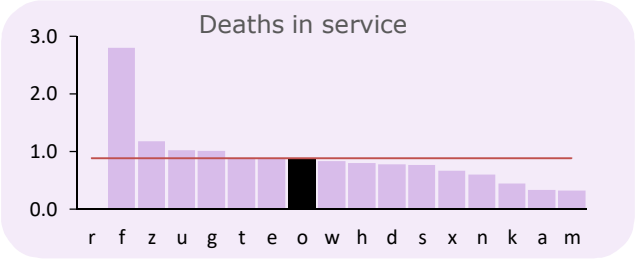
NUMBER OF ACTUAL EVENTS (continued)

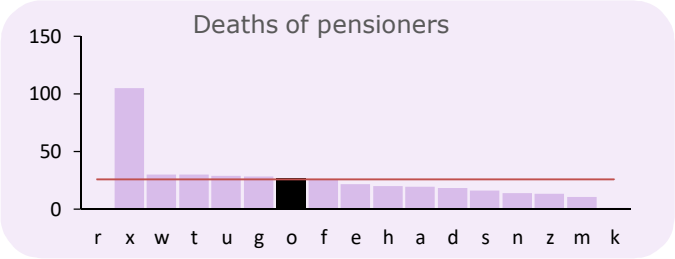


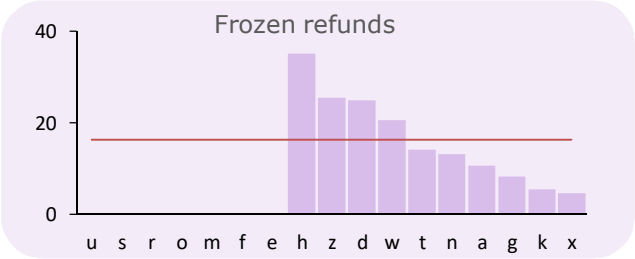


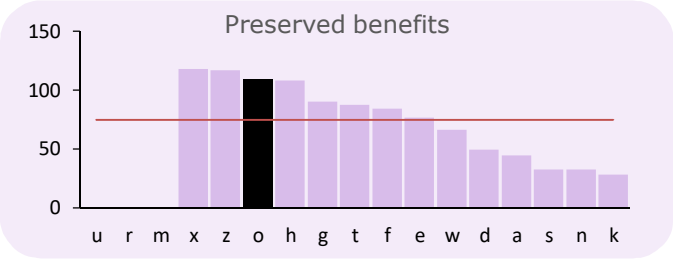


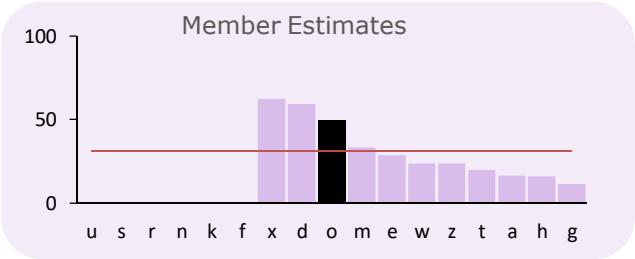








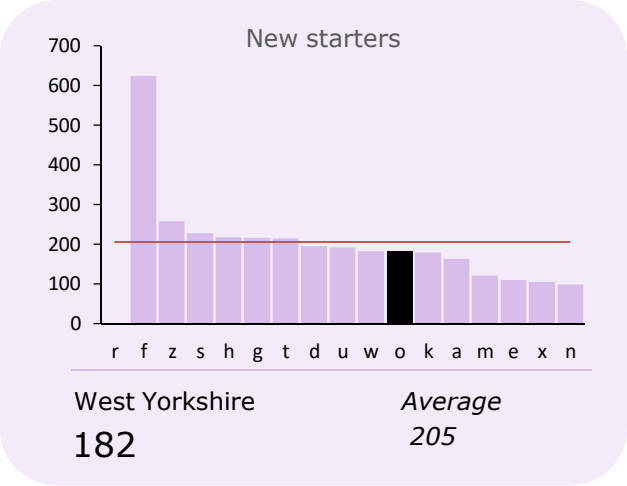


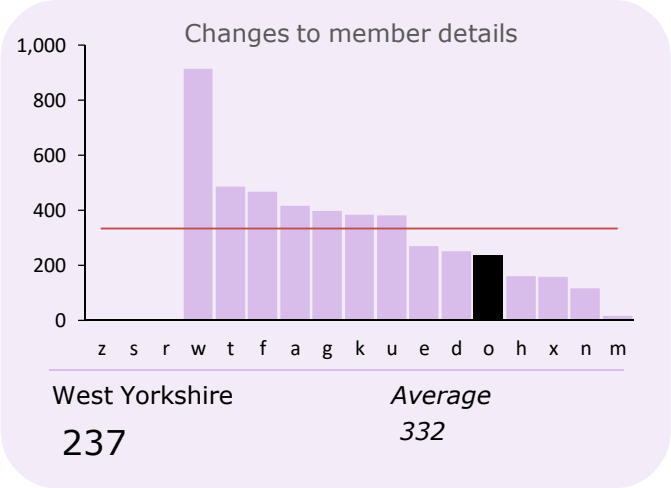


Source: Section 5f, Questionnaire 2018

ACTUAL CALCULATIONS 2017/18 (per '000 active members)

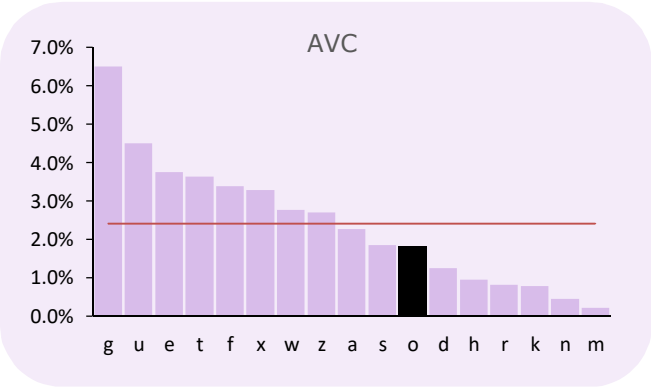
Actual calculations	Number	per '000	*Avg.*	Active members
New starters	23,172	182	*205*	127,600
Changes to member details	30,180	237	*332*	

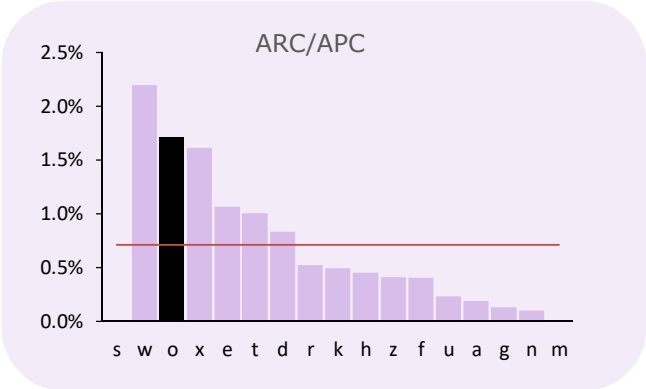


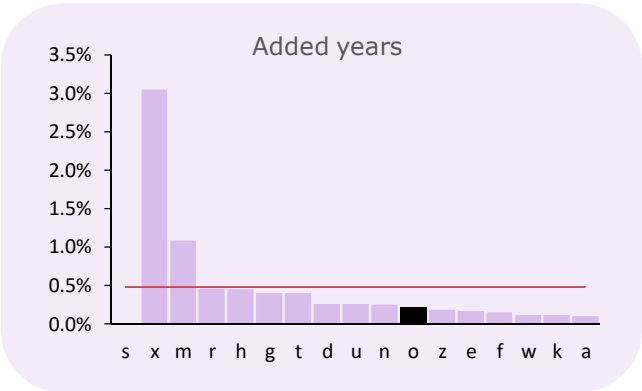


AVCs, ARCs and added years 2017/18 (as a % of active members)

Contributors to AVCs and ARCs	Number	%	*Avg.*	Active members
Currently contributing				127,600
- AVC	2,320	1.8%	*2.4%*	
- ARC/APC	2,188	1.7%	*0.7%*	
- Added years	270	0.2%	*0.5%*	
Total	**4,778**	**3.7%**	***3.5%***	







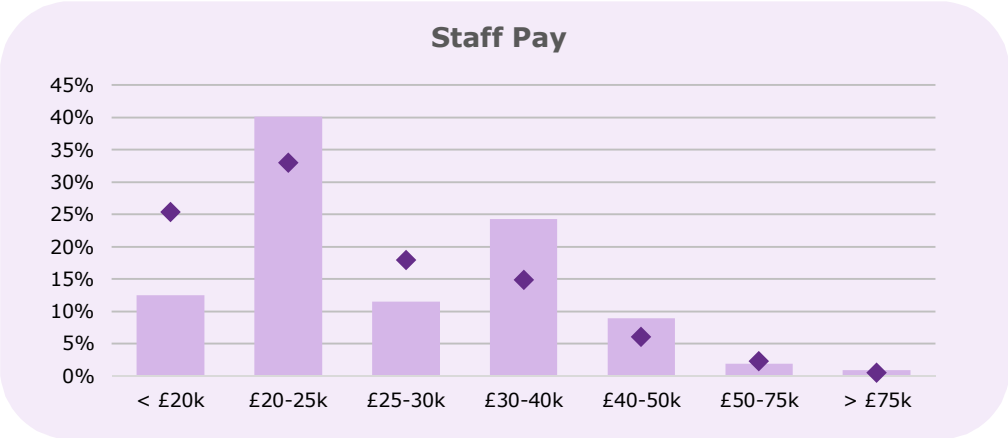
Source: Section 5e & f, Questionnaire 2018

SECTION 4 - STAFF RELATED MEASURES

as at 31 March 2018

Staff Pay	FTE	%	*Avg.*
> £75k	1.0	0.9%	*0.5%*
£50-75k	2.2	1.9%	*2.3%*
£40-50k	10.2	8.9%	*6.0%*
£30-40k	27.9	24.3%	*14.9%*
£25-30k	13.2	11.5%	*17.9%*
£20-25k	46.1	40.1%	*33.0%*
< £20k	14.3	12.4%	*25.4%*
Total	**114.9**		

Staff Experience	FTE	%	*Avg.*
< 1 year	7.4	6%	*10%*
1-5 years	27.6	24%	*21%*
5-10 years	8.8	8%	*18%*
10-15 years	26.1	23%	*15%*
> 15 years	45.0	39%	*35%*
Total	**114.9**		



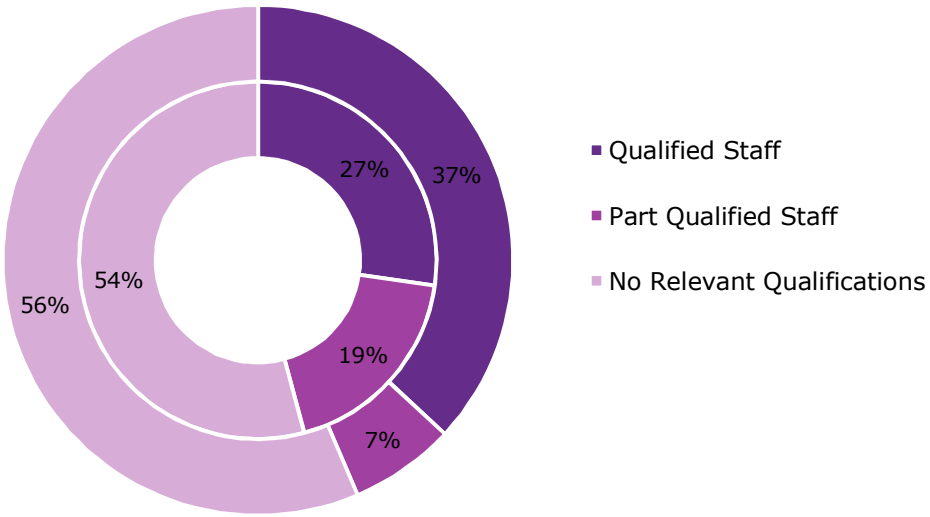
The dark purple markers in the graphs above show the average of all respondents achieving each performance indicator.

Source: Section 6a & b, Questionnaire 2018

STAFF QUALIFICATIONS

as at 31 March 2018

Staff Qualifications	FTE	%	*Avg.*
Qualified Staff	42.4	37%	*27%*
Part Qualified Staff	7.7	7%	*19%*
No Relevant Qualifications	64.8	56%	*54%*
Total	**114.9**		
Number in Training	11.0	10%	*4%*

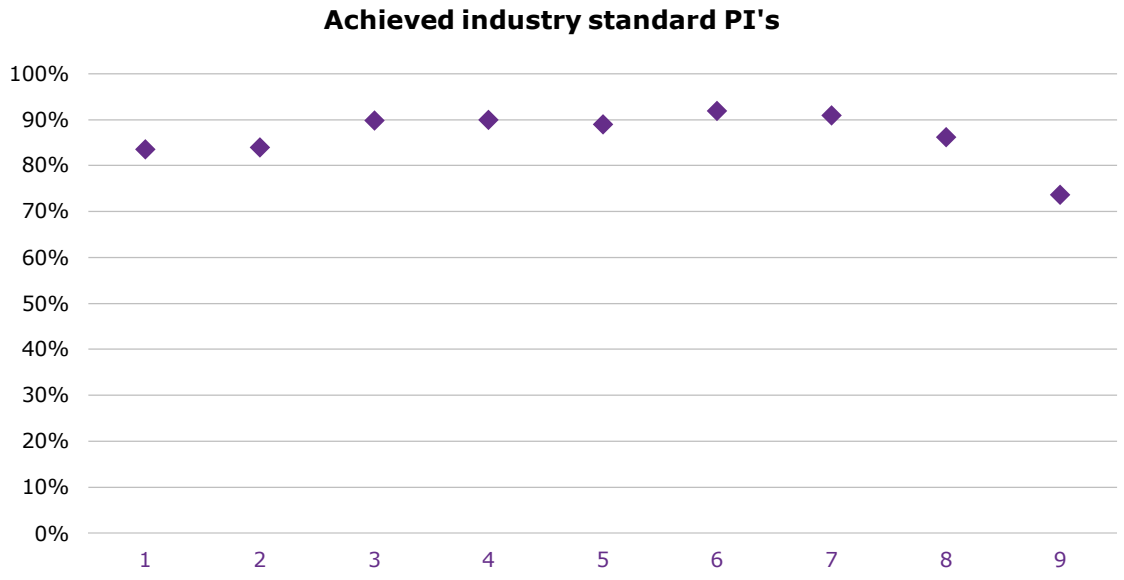


The outer ring of the graph above is the figures for West Yorkshire Pension Fund and the inner ring is the average figures. For local authorities with percentages less than 5%, these will not be shown.

Source: Section 6c, Questionnaire 2018

SECTION 5 - INDUSTRY STANDARD PI'S

	Industry Standard PI's	Target	Achieved	*Avg.*
1	Letter detailing transfer in quote	10 days	na	*83.6%*
2	Letter detailing transfer out quote	10 days	na	*84.0%*
3	Process and pay refund	5 days	na	*90.0%*
4	Letter notifying **estimate** of retirement benefit	10 days	na	*90.0%*
5	Letter notifying **actual** retirement benefit	5 days	na	*89.1%*
6	Process and pay lump sum retirement grant	5 days	na	*92.1%*
7	Letter acknowledging death of member	5 days	na	*91.1%*
8	Letter notifying amount of dependant's benefits	5 days	na	*86.2%*
9	Calculate and notify deferred benefits	10 days	na	*73.8%*



The dark purple markers in the graph above show the average of all respondents achieving each performance indicator.

Source: Section 9, Questionnaire 2018

COMPARATOR REPORT SUMMARY DATA 2018 - West Yorkshire Pension Fund

		Members							
		Full-time	Part-time	Deferred	Pensioners	Dependants	Frozen refunds	Leavers unprocessed/in progress	Total
h	Bath	11,973	24,408	43,148	26,847	4,005	3,539	2,297	116,217
m	Business Services Organisation	44,393	36,498	14,097	32,392	3,800	8,446	5,647	145,273
d	Devon	24,356	36,007	65,278	43,294	6,121	8,527	7,030	190,613
a	East Riding	15,073	24,970	39,989	25,595	3,239	3,239	1,922	114,027
x	Environment Agency	8,777	1,879	9,792	13,365	5,693	158	464	40,128
k	Essex	19,359	55,741	46,846	34,765	5,455	3,111	2,957	168,234
s	Kent	52,775	na	42,376	34,780	5,033	2,232	18,650	155,846
f	Lancashire	19,782	37,094	67,753	40,793	6,497	5,818	4	177,741
r	Norfolk	8,512	20,254	30,281	21,328	2,964	449	5,527	89,315
z	North Yorkshire	10,115	21,522	36,568	18,805	2,779	4,192	3,466	97,447
e	Nottinghamshire	19,780	24,656	46,448	35,245	na	8,275	9,202	143,606
t	South Tyneside	33,883	11,582	40,950	40,931	6,556	3,584	-	137,486
w	South Yorkshire Pensions Authority	25,940	23,404	53,427	43,518	6,464	8,884	4,127	165,764
n	Staffordshire	12,400	21,311	40,559	29,296	3,843	6,333	2,349	116,091
u	Tameside	70,174	39,094	114,548	107,741	18,223	16,981	1,288	368,049
g	West Midlands Pension Fund	105,047	na	93,634	82,792	12,872	10,653	13,398	318,396
o	West Yorkshire Pension Fund	50,052	77,548	113,853	91,716	13,766	7,549	5,041	359,525

COMPARATOR REPORT SUMMARY DATA 2018 - West Yorkshire Pension Fund

		LGPS costs £'000									
		Staff	Payroll	Central charges	IT - Pensions admin	Other costs	Income - Members	Income - Employers	Income - Other	Net cost	Cost per member
h	Bath	914	53	128	463	521	(6)	(17)	-	2,056	£17.69
m	Business Services Organisation	763	73	55	-	548	-	-	-	1,439	£9.91
d	Devon	1,647	210	130	638	555	-	(65)	-	3,115	£16.34
a	East Riding	907	196	242	406	314	(5)	-	-	2,060	£18.07
x	Environment Agency	76	-	-	1	828	-	-	-	905	£22.54
k	Essex	1,783	-	177	388	432	-	-	(20)	2,760	£16.41
s	Kent	1,436	302	-	489	458	(8)	-	-	2,677	£17.18
f	Lancashire	-	-	-	-	3,137	-	-	-	3,137	£17.65
r	Norfolk	746	142	21	232	553	-	-	-	1,694	£18.97
z	North Yorkshire	721	138	73	196	494	(4)	(111)	-	1,507	£15.46
e	Nottinghamshire	971	169	114	131	569	(2)	-	-	1,952	£13.59
t	South Tyneside	1,025	75	273	398	574	(128)	-	(1)	2,216	£16.12
w	South Yorkshire Pensions Authority	1,871	110	-	507	712	(8)	(60)	(37)	3,095	£18.67
n	Staffordshire	1,104	111	165	347	754	(5)	-	(3)	2,473	£21.30
u	Tameside	3,037	198	1,100	906	1,642	(14)	(75)	-	6,794	£18.46
g	West Midlands Pension Fund	2,896	221	155	885	2,944	-	(536)	-	6,565	£20.62
o	West Yorkshire Pension Fund	3,244	477	57	332	1,112	-	-	206	5,428	£15.10

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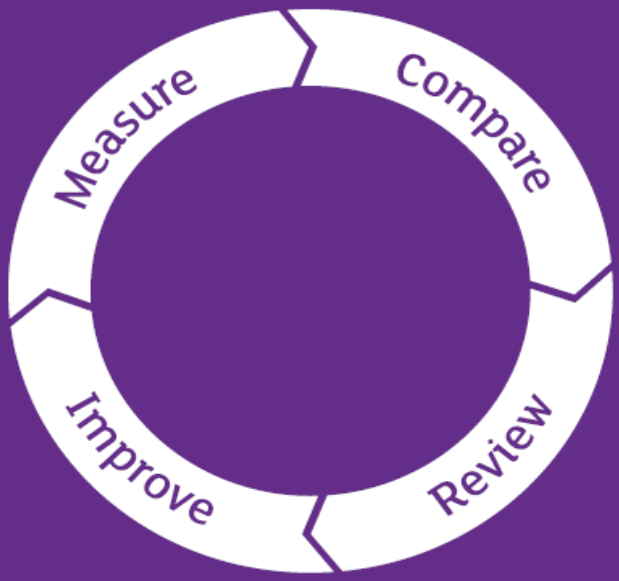

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**10 January 2019**
Subject:	**Employer Monthly Submissions Update**

Summary:

This paper provides the Pensions Committee with up to date information on Employer Monthly Submissions for the financial year 2018/19.

Recommendation(s):

That the Pensions Committee note the report and consider if there are any further actions they wish to take against employers submitting late or inaccurate payments or data.

Background

1 At their meeting in July 2018 the Pensions Board received information on the employer monthly returns for the financial year 2017/18. In considering the report, the Board were concerned about the number of late contributions or late data submissions during the financial year 2017/18. In light of this the Board has requested this information is presented to them quarterly so they can consider if any action is required against employers submitting late or inaccurate payments or data. This information will also be presented to the Pensions Committee on a quarterly basis for the Committee to consider if they want to take any further action.

2 There are just over 250 employers within the Lincolnshire Pension Fund. All employers have a statutory responsibility, as set out within the Pensions Act 1995, to ensure that they pay over any contributions due to the Fund by the 19th of the month following their payroll. The Fund considers an employer a 'late payer' if either the cash and/or the data is received after this date.

3 The Fund has in place robust processes for monitoring the receipt of payments and data from employers. Within the Pensions Team, the Finance Technician post is responsible for employer contributions monitoring. Additional checks are also undertaken by the West Yorkshire Finance Team on the detail within the data submissions, and the pensions system itself identifies errors, queries, or where further information is required from the employer (e.g. additional leavers' information).

4 After any late payment (including data submission) an email is sent to the employer reminding them of their responsibilities. In addition to emailing employers, the Lincolnshire Pension Fund Finance Technician is in regular contact with employers and their payroll providers to prompt payments/data submissions and clarify any queries. Much work has been put into building a good relationship with the employers and payroll providers, to assist in understanding the process and the data required.

5 A summary of all late contributions or data submissions since April 2018 is set out in table one below and details of the individual employers for quarter two can be found at **Appendix A**.

Table One: Late contributions and data submissions to September 2018

Month	Payment of Contributions		Submission of Data	
April	6	2.4%	15	6.0%
May	2	0.8%	23	9.1%
June	5	2.0%	7	2.8%
July	4	1.6%	9	3.6%
August	5	2.0%	6	2.4%
September	2	0.8%	2	0.8%
Total for 2018/19	**24**		**62**	

6 The analysis shows the number of employers making late contributions is a relatively small percentage of the overall number of employers. The high number of late data submissions at the beginning of the financial year arose as a result of changes to a number of payroll providers payroll systems. These problems have now been resolved by payroll providers and late submission of data has decreased, with just two employers being determined as late with their September data.

7 None of these breaches individually have been material and therefore have not been reported to the Pensions Regulator; however, they have been included en masse in the breaches register.

8 If any employer makes contribution payments or submits data late in three out of six months on a rolling basis, they will receive a fine, unless they are able to offer extenuating circumstances. Fines are currently set at a minimum of £96. Details of fines issued since April 2018 are set out in table two below.

Table Two: Late contributions fines to September 2018

April	May	June	July	August	September
No fines	3	2	4	3	2

Conclusion

9 This report provides monitoring information on the timeliness and accuracy of employer monthly submissions to help the Pensions Committee understand if there are any issues arising from late payments or data and if there are any further actions which are required to address employers not meeting their statutory responsibilities.

10 Employer submissions have increased in prominence as the number of employers within the scheme has increased. The Fund has responded to this by having a dedicated resource to monitor employer submissions and working closely with West Yorkshire and employers to reduce the numbers of late payers.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	List of Late Contributions Payments or Late Data Submissions Quarter Two (July – September 2018)

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 Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

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APPENDIX A

Late Contributions Payments or Late Data Submissions

April 2018

Employer	Late Contributions	Date received	Late Data Submissions	Date submitted
Aspens (Monks Dyke Tennyson)	No		Yes	23/05/2018
Charles Read Academy	No		Yes	23/05/2018
Easy Clean Contractors Ltd	No		Yes	23/05/2018
Edwards and Blake	No		Yes	23/05/2018
Gainsborough Town Council	No		Yes	22/05/2018
Giles Academy Old Leake	Yes	21/05/2018	Yes	23/05/2018
Greenwich Leisure Limited (GLL)	No		Yes	23/05/2018
Gosberton House	No		Yes	23/05/2018
Hillcrest Early Years	No		Yes	23/05/2018
Holbeach Primary Academy	No		Yes	23/05/2018
Lincoln Carlton Academy	Yes	23/05/2018	No	
Lincolnshire Housing Partnership	Yes	23/05/2018	Yes	23/05/2018
Lindsey Marsh Internal Drainage Board	Yes	24/05/2018	Yes	22/05/2018
Magna Vitae Leisure Trust	Yes	21/05/2018	No	
Pinchbeck Parish Council	Yes	23/05/2018	No	
Skegness Grammar Academy	No		Yes	24/05/2018
The Thomas Cowley Academy	No		Yes	23/05/2018
University Academy, Holbeach	No		Yes	23/05/2018
	Total = 6		Total = 15	

May 2018

Employer	Late Contributions	Date received	Late Data Submissions	Date submitted
Aspens (Monks Dyke Tennyson)	Yes	20/06/2018	Yes	22/06/2018
Benjamin Adlard Academy Gainsborough	No		Yes	25/06/2018
Bourne Academy	No		Yes	21/06/2018
Bourne Town Council	No		Yes	19/07/2018
Cherry Willingham Parish Council	No		Yes	25/06/2018
Greenwich Leisure Limited (GLL)	No		Yes	20/06/2018
Gosberton House School	No		Yes	17/07/2018
Grantham Gonerby Hill Foot CofE Primary School	No		Yes	28/06/2018
Heighington Millfield Primary Academy	No		Yes	20/06/2018
Hillcrest Early Years Academy	No		Yes	20/06/2018
Holbeach Primary Academy	No		Yes	17/07/2018
Lincoln Carlton Academy	No		Yes	22/06/2018
Ling Moor Primary Academy (Priory)	No		Yes	20/06/2018
Manor Farm Academy	No		Yes	20/06/2018
Mount St Academy	No		Yes	25/06/2018
Pinchbeck Parish Council	Yes	17/08/2018	No	
South Kesteven District Council	No		Yes	21/06/2018
The Kings School	No		Yes	21/06/2018
The Priory Federation Of Academies	No		Yes	20/06/2018
The Priory Pembroke Academy	No		Yes	20/06/2018
The Thomas Cowley Academy Donington	No		Yes	17/07/2018
University Academy Holbeach	No		Yes	17/07/2018
Waddington All Saints Primary Academy	No		Yes	21/06/2018
Witham St Hugh's Academy	No		Yes	20/06/2018
	Total = 2		Total = 23	

June 2018

Employer	Late Contributions	Date received	Late Data Submissions	Date submitted
Active Lincolnshire	Yes	28/08/2018	Yes	07/08/2018
City of Lincoln Council	Yes	06/08/2018	No	
Compass Group	Yes	Paid to WYPF	Yes	Paid to WYPF
Greenwich Leisure Limited (GLL)	No		Yes	11/09/2018
Grantham Gonerby Hill Foot CofE Primary School	No		Yes	20/07/2018
Holbeach Bank Primary Academy	No		Yes	24/07/2018
Lincoln BIG	No		Yes	07/08/2018
Lindsey Marsh Internal Drainage Board	Yes	20/07/2018	Yes	25/07/2018
Pinchbeck Parish Council	Yes	17/08/2018	No	
	Total = 5		Total = 7	

July 2018

Employer	Late Contributions	Date received	Late Data Submissions	Date submitted
Active Lincolnshire	Yes	28/08/2018	No	
Bracebridge Infant And Nursery School	No		Yes	26/09/2018
Compass Group	Yes	Paid to WYPF	Yes	Paid to WYPF
Greenwich Leisure Limited (GLL)	Yes	20/08/2018	Yes	12/09/2018
Grantham College	No		Yes	20/08/2018
Lindsey Marsh Internal Drainage Board	No		Yes	28/08/2018
Skegness Grammar Academy	No		Yes	31/08/2018
South Holland District Council	Yes	20/08/2018	No	
South Kesteven District Council	No		Yes	17/09/2018
The Kings School	No		Yes	20/08/2018
Washingborough Parish Council	No		Yes	18/09/2018
	Total = 4		Total = 9	

August 2018

Employer	Late Contributions	Date received	Late Data Submissions	Date submitted
Acorn Free School Ltd	No		Yes	01/10/2018
Active Lincolnshire	Yes	21/09/2018	No	
Aspens (Monks Dyke Tennyson)	Yes	05/10/2018	Yes	21/09/2018
Caistor Yarborough Academy	Yes	21/09/2018	No	
Compass Group	Yes	Paid to WYPF	Yes	Paid to WYPF
Gainsborough Town Council	No		Yes	28/09/2018
Greenwich Leisure Limited (GLL)	No		Yes	26/09/2018
Grantham Gonerby Hill Foot CofE Primary School	No		Yes	21/09/2018
Springwell Lincoln City Academy (Lincs Teaching & Learning Centre)	Yes	05/10/2018	No	
	Total = 5		Total = 6	

September 2018

Employer	Late Contributions	Date received	Late Data Submissions	Date submitted
Aspens	Yes	12/11/2018	Yes	22/10/2018
North Somercotes CofE Primary	No		Yes	06/11/2018
Ermine Primary School	Yes	Data and payment do not match	Yes	Data and payment do not match
	Total = 2		Total = 2	

Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection	
Report to:	**Pensions Committee**
Date:	**10 January 2019**
Subject:	**Investment Management Report**

Summary:

This report covers the management of the Lincolnshire Pension Fund assets over the period from 1st July 2018 to 30th September 2018.

Recommendation(s):

That the Committee note this report.

Background

This report is split into four areas:

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

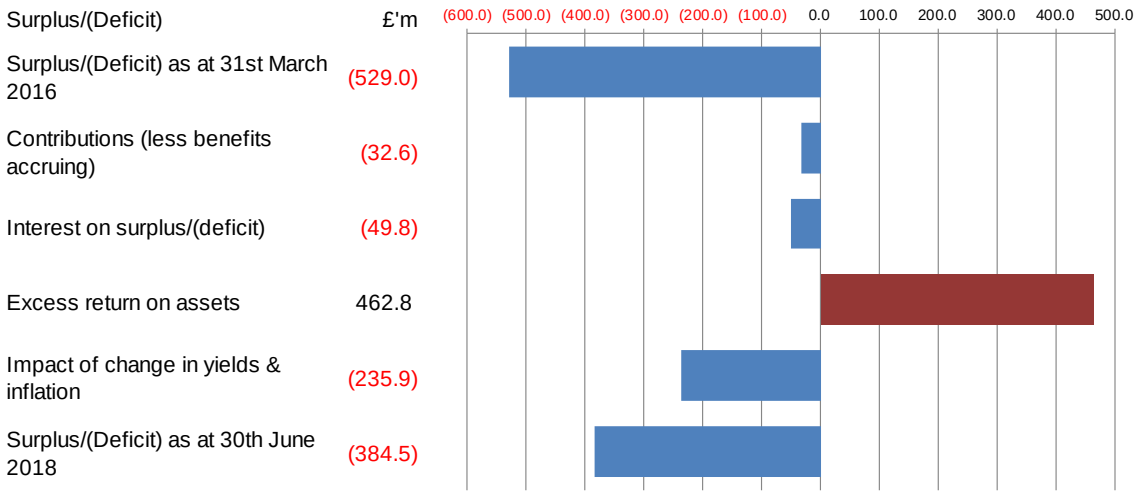
1. Funding Level Update

1.1 The funding update is provided to illustrate the estimated development of the funding position of the Lincolnshire Pension Fund from the latest formal valuation, 31st March 2016, to the current quarter end, 30th September 2018. 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 over page shows the funding level at the latest formal valuation, at 76.9%, and its movement to 30th September 2018, where the funding level has increased to 86.3%.

Change in funding level since last valuation

1.3 Over the period 31st March 2016 to 30th September 2018 the deficit, in real money, has decreased from £529.0m to £384.5m. The chart below shows the main impactors on the deficit. The excess return on assets has more than offset the negative changes in yields and inflation seen over this period.



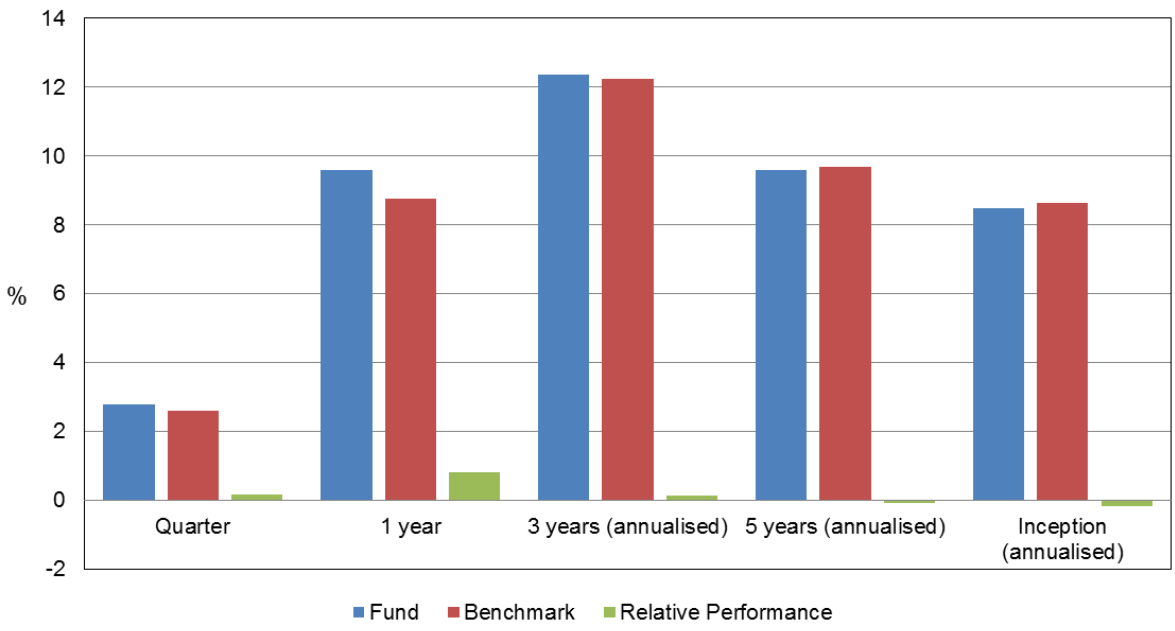
1.4 On a shorter term time horizon, looking at the last quarter, the funding level increased from 83.5% to 86.3% between 30th June 2018 and 30th September 2018, and the deficit reduced from £467.7m to £384.5m.

2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £62.8 during the quarter from £2,300.5m to £2,363.3m, as the table below shows. The most significant movement in the quarter were seen on Global Equities which increased in value by 6.0% or £60.9m. There is also a significant reduction in cash balances. This is due to the portfolio rebalancing undertaken in July, where £5.0m from unallocated cash and £5.0m from property cash was reinvested in fixed income, to address its relative underweight position.

Asset Class	Q3 2018 £m	Q2 2018 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	437.4	441.1	18.5	20.0	(1.5)
Global Equities	1,076.4	1,015.5	45.5	40.0	5.5
Alternatives	323.9	318.5	13.7	15.0	(1.3)
Property	205.6	207.6	8.7	9.0	(0.3)
Infrastructure	38.5	39.2	1.6	2.5	(0.9)
Fixed Interest	273.0	264.2	11.5	13.5	(2.0)
Cash	8.6	14.4	0.4	0.0	0.4
Total	**2,363.3**	**2,300.5**		**100.0**	

2.2 The graph below and table over the page 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	2.77	2.59	0.18
1 year	9.58	8.76	0.82
3 years*	12.38	12.24	0.14
5 years*	9.6	9.67	(0.07)
Inception**	8.47	8.63	(0.16)

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

2.3 Over the quarter, the Fund produced a positive return of 2.77% (as measured by JPMorgan), outperforming the benchmark by 0.18%. The Fund was also ahead of the benchmark over the one and three year periods, but marginally behind its benchmark over five years and since inception.

3. Hymans Robertson Manager Ratings

3.1 Hymans Robertson, as the Fund's Investment Consultant, regularly meets 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 nineteen managers. During the quarter there have not been any changes in the manager ratings. Officers continue to monitor managers closely and arrange meetings to discuss any potential issues.

Manager	Rating				
	Replace		Retain – suitable	Retain – positive	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	
Igloo Regeneration Partnership				X	
Aviva Pooled Property Fund				X	
Royal London PAIF				X	
Standard Life Pooled Property Fund				X	
Blackrock Property				X	
Infracapital Greenfield Partners I				X	
Pantheon Global Infrastructure				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 Over the quarter, only one manager showed a positive return relative to their benchmark, that was Schroders. Three managers achieved the benchmark, they were: Legal and General and both Blackrock fixed interest investments. Over the 12 month period, all but two managers have matched or outperformed their benchmark. The two managers who have not achieved their benchmark over the previous twelve month period are: Invesco and Schroder's.

	3 months ended 30th September 2018			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %*	Manager Return %	Index Return %	Relative Variance %*	Target p.a. %
Legal & General (UK Equities)	(0.9)	(0.9)	0.0	5.9	5.9	0.0	Match Index
Invesco (Global Equities (ex UK))	6.2	6.8	(0.5)	14.7	15.0	(0.3)	+1.0
Columbia Threadneedle (Global Equities)	5.6	5.7	0.0	16.7	13.5	2.8	+2.0
Schroders (Global Equities)	5.9	5.6	0.4	12.6	12.9	(0.3)	+3.0
Morgan Stanley Global Brands	5.7	6.3	(0.5)	19.5	14.5	4.4	n/a
Blackrock (Fixed Interest)	(0.9)	(0.9)	0.0	0.7	0.7	0.0	Match Index
Blackrock Interim (Fixed Interest)	0.1	0.1	0.0	0.6	0.6	0.0	Match Index
Morgan Stanley (Alternative Investments)	1.0	1.2	(0.2)	5.4	4.8	0.6	3M LIBOR + 4%

**Note: Relative Variance is the scale of the performance achieved. This measures the proportional out/under performance of a portfolio relative to the benchmark.*

Lincolnshire Pension Fund
Global Equities – Invesco (Global Ex UK Enhanced)
Quarterly Report September 2018

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 Expectations, Market Sentiment, Management & Quality and Value.

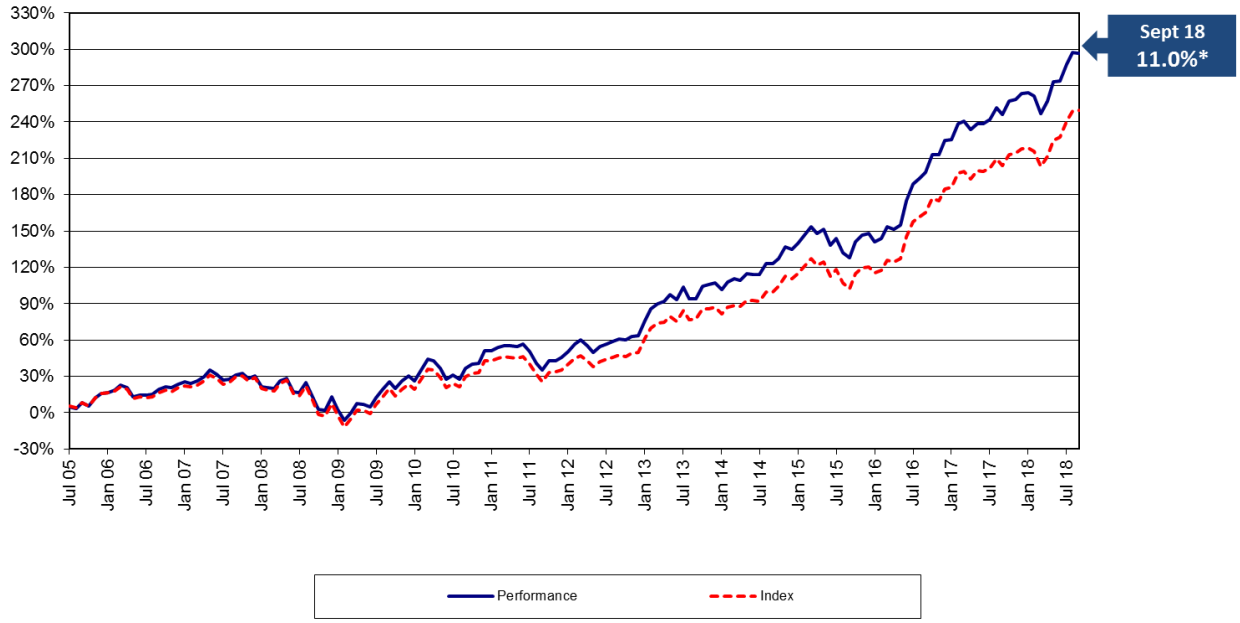
Portfolio Valuation

Value at 30.06.18	Value at 30.09.18
£540,403,488	£573,876,747

Performance

Overall during the quarter Invesco's strategy underperformed its benchmark. On a monthly basis it underperformed its benchmark in July and September and outperformed the benchmark in August. Stock selection had either a negative or flat impact over the quarter, Price and Earnings Momentum were negative too. This was partly offset by Value and Quality factors which contributed positively to relative performance.

Invesco Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Invesco	6.2	14.7	20.3	15.4	11.0
MSCI World ex UK	6.8	15.0	19.9	14.5	9.9
Relative Performance	(0.5)	(0.3)	0.3	0.7	1.0

* annualised, inception date 01/07/2005

Turnover

Holdings at 30.06.18	Holdings at 30.09.18	Turnover in Qtr %	Turnover in Previous Qtr %
455	476	8.9	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 Automatic Data Process and increasing the positions in: Mitsui, Occidental Petroleum and Park Hotels & Resorts. Top sales over the quarter came from selling out of positions in Estee Lauder and decreasing positions in Boeing, Japan Post and Nestle.

Largest Overweights

Mitsui	0.89%
JPMorgan Chase	0.76%
Conocophillips	0.69%
L'Oreal	0.68%
Peugeot	0.66%

Largest Underweights

Alphabet	(0.62%)
Netflix	(0.42%)
Nvidia	(0.41%)
DowDuPont	(0.38%)
Medtronic	(0.34%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple	£18,192,720
2	Microsoft	£13,036,442
3	Amazon	£10,431,596
4	JPMorgan Chase	£9,869,045
5	Citigroup	£5,980,276
6	Alphabet	£5,943,501
7	Bank of America	£5,853,640
8	Pfizer	£5,662,575
9	Mitsui	£5,595,293
10	Cisco	£5,540,796

Hymans Robertson View

We rate Invesco's Global Ex-UK Enhanced strategy at 'Positive'. 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 decreased to 1.05%, compared to a target of 1%, with 94% of the active risk associated with Stock Selection Factors.

Lincolnshire Pension Fund
Global Equities – Schroders
Quarterly Report September 2018

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.

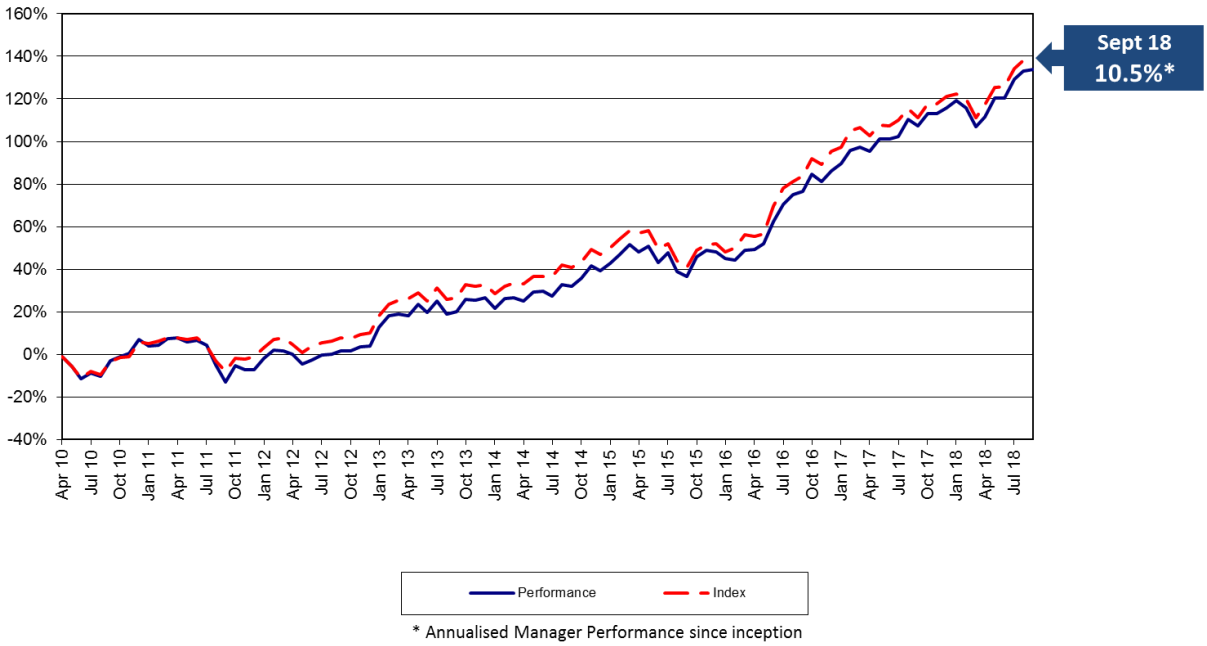
Portfolio Valuation

Value at 30.06.18	Value at 30.09.18
£131,834,349	£139,637,448

Performance

The portfolio generated a positive absolute return in the quarter and outperformed the benchmark. Stock selection was additive in the consumer sectors, but weaker in industrials. Zero-weight in real estate and utilities also added value. By region, UK holdings supported returns, but Japanese and European names detracted overall.

Schroders Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Schroders	5.9	12.6	19.6	14.2	10.5
MSCI ACWI (Net)	5.6	12.9	19.2	13.5	10.8
Relative Performance	0.4	(0.3)	0.4	0.6	(0.2)

*annualised, Inception date April 2010

Turnover

Holdings at 30.06.18	Holdings at 30.09.18	Turnover in Qtr %	Turnover in Previous Qtr %
89	91	7.5	9.0

Purchases and Sales

Trades enacted over the quarter focused on capturing stock specific opportunities or reducing positions in which conviction has faded or the investment thesis has played out. The position in Intesa Sanpaolo was sold out. Although the bank continues to have robust fundamentals uncertainty in Italy, including the country's budget deficit and fiscal agenda, increases the risk profile of the bank. A position has been added in Baxter International. Their management has established a strong record of execution and accelerating revenue growth through new product introductions, cost control has also been exemplary.

Top 5 Contributions to Return

T-Mobile US	0.2%
Amazon.com	0.2%
ThermoFisher Scientific	0.2%
Visa	0.2%
Union Pacific	0.2%

Bottom 5 Contributions to Return

Las Vegas Sands	(0.2%)
Continental Aktiemgesellschaft	(0.2%)
Microsoft	(0.2%)
HDFC Bank	(0.2%)
Owens Corning	(0.2%)

Top 10 Holdings

1	Amazon	£5,167,425
2	Alphabet	£4,567,579
3	Visa	£4,114,826
4	Bank of America	£3,924,717
5	Apple	£3,765,754
6	United Health Group	£3,725,885
7	JPMorgan Chase	£3,668,652
8	Comcast	£3,191,014
9	Union Pacific	£3,149,966
10	Total	£3,106,267

Hymans Robertson View

We rate Schroders Global Alpha at ‘Positive’. The Schroders 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. Although 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, a more consistent performance record has now been established and we support the broad philosophy of the team. However, Schroders do need to demonstrate more consistent stock selection.

There were no significant changes over the quarter.

Risk Control

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

Lincolnshire Pension Fund
Global Equities – Columbia Threadneedle
Quarterly Report September 2018

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.

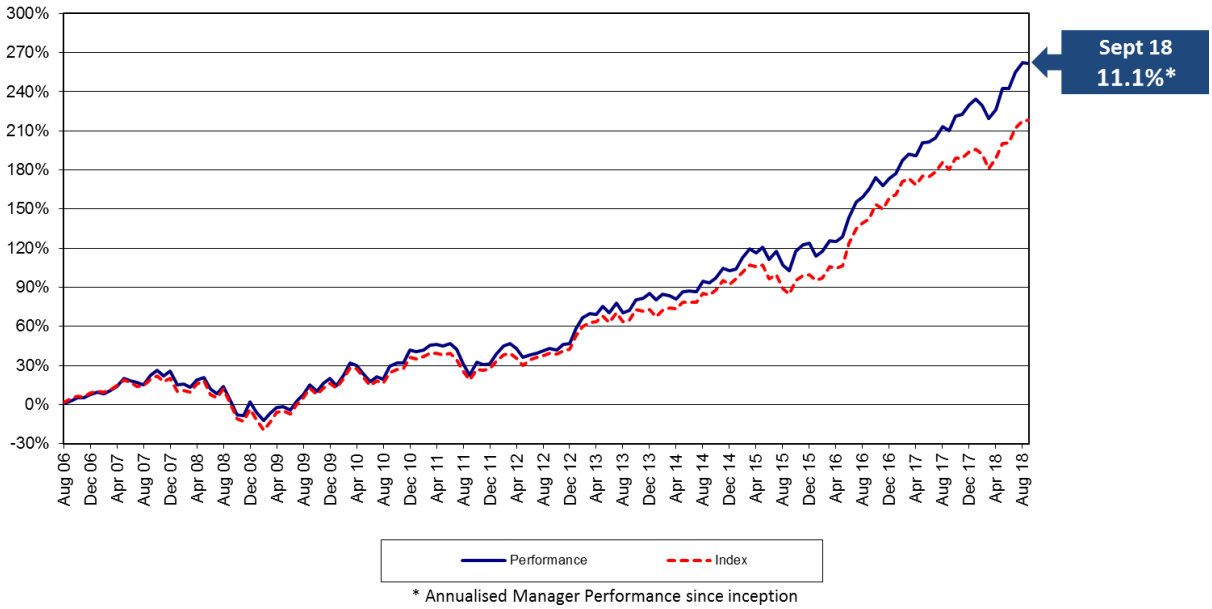
Portfolio Valuation

Value at 30.06.18	Value at 30.09.18
£142,627,006	£150,700,695

Performance

Gross of fees, the fund marginally underperformed its index over the quarter, but monthly only in one of the three months (performing to benchmark in one month and outperforming in the other month). Stock selection detracted due to consumer staples and financials, through this was offset in part by materials. Stock allocation was neutral. Gains came from overweight energy holdings. Top contributors included: Diamondback Energy, an independent oil and natural gas company, gene sequencing company Illumina, and Amazon which had a sustained strong run through August. Detractors included: Lam Research, a semiconductor equipment manufacturer, Facebook and Halliburton.

Columbia Threadneedle Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Columbia Threadneedle	5.6	16.7	21.3	16.0	11.1
MSCI ACWI	5.7	13.5	19.8	14.1	10.0
Relative Performance	0.0	2.8	1.2	1.7	1.1

* annualised, inception date 01/08/2006

Turnover

Holdings at 30.06.18	Holdings at 30.09.18	Turnover in Qtr %	Turnover in Previous Qtr %
76	77	3.3	12.8

Purchases and Sales

New positions were initiated in: Tencent, an internet service provider. Positions were extended in Ping An Insurance, Keyence, Alibaba and the investment bank Goldman Sachs. This was funded by profit-taking from Centene, a multi-line managed care organisation, Amazon, and the commercial services company Ecolab.

Top 5 Contributions to Return

Amazon.com	0.64%
Illlumina Inc	0.61%
Microsoft	0.50%
Centene Corporation	0.45%
Mastercard	0.36%

Bottom 5 Contributions to Return

Facebook	(0.26%)
Alibaba Group	(0.25%)
HDFC Bank	(0.20%)
Halliburton Company	(0.16%)
Lam Research	(0.15%)

Top 10 Holdings

1	Alphabet	£5,862,945
2	Amazon	£5,339,417
3	Microsoft	£4,744,466
4	JPMorgan Chase	£4,245,672
5	Mastercard	£3,949,114
6	Visa	£3,712,790
7	Alibaba Group	£3,608,763
8	Illumina	£3,564,041
9	Centene	£3,465,133
10	Diamondback Energy	£3,392,268

Hymans Robertson View

We rate Columbia Threadneedle Global Equity at ‘Positive.' 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 September 2018

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.

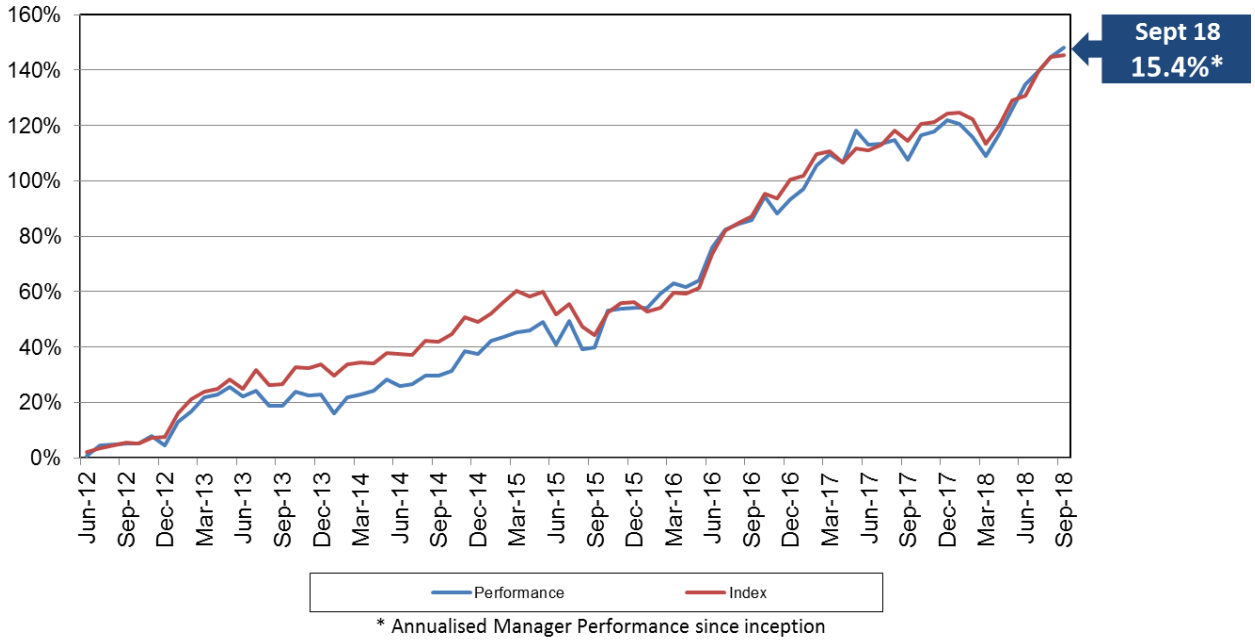
Portfolio Valuation

Value at 30.06.18	Value at 30.09.18
£200,632,953	£212,166,714

Performance

The portfolio underperformed in relative terms over the quarter, returning 5.7% versus 6.3% for the index (and underperformed in two out of the three months). Underperformance was mainly due to stock selection with consumer discretionary causing a drag, and to a lesser extent consumer staples, industrials and healthcare. The largest contributors in absolute performance in the quarter were: Microsoft, Reckitt Benckiser and Visa. The largest detractors were: Twenty-First Century Fox, British American Tobacco and Phillip Morris International.

Morgan Stanley Global Brands Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley Global Brands	5.7	19.5	21.0	15.9	15.4
MSCI World Index	6.3	14.5	19.4	14.1	15.2
Relative Performance	(0.5)	4.4	1.4	1.5	0.2

*annualised, inception date 18/06/2012

Purchases and Sales

During the quarter modest positions were initiated in Clorox, Church & Dwight and Becton Dickinson. The first two are both rare cases of well-run and reasonably priced U.S. consumer staples companies. Holdings were also significantly increased in Reckitt Benckiser, following management's decision not to try to acquire Pfizer's consumer health business. The main source of funds for the buys during the quarter was from positions that had performed very strongly, notably Accenture, Nike, L'Oréal and Campari.

Top Contributors to Return

Microsoft	1.22%
Reckitt Benckiser	1.12%
Visa	0.68%

Bottom Contributors to Return

Twenty-First Century Fox	(0.43%)
British American Tobacco	(0.26%)
Heineken	(0.12%)

Top Ten Holdings

Company	Industry	% Weighting
Reckitt Benckiser	Household Products	9.13
Microsoft	Software	7.46
Twenty-First Century Fox	Media	6.31
Unilever	Personal Products	5.10
Visa	IT Services	4.97
Accenture	IT Services	4.59
SAP	Software	4.50
Philip Morris	Tobacco	4.27
British American Tobacco	Tobacco	3.95
Zoetis	Pharmaceuticals	3.69

Hymans Robertson View

We rate Morgan Stanley Global Franchise (Brands) strategy at 'Suitable'. 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.

There were no significant changes over the quarter.

Lincolnshire Pension Fund

UK Equities – Legal & General (LGIM)

Quarterly Report September 2018

Investment Process

This pooled fund employs a tracking strategy, aiming to replicate the performance of the FTSE All-Share Index to within +/-0.25% p.a. for two years out of three. The fund follows a pragmatic approach to managing an index fund, either investing directly in the securities of that index or indirectly through other LGIM funds. The fund may also hold index and single stock futures for efficient portfolio management.

Portfolio Valuation

Value at 30.06.18	Value at 30.09.18
£440,924,723	£437,235,675

Performance

Over all periods the portfolio has performed as expected.

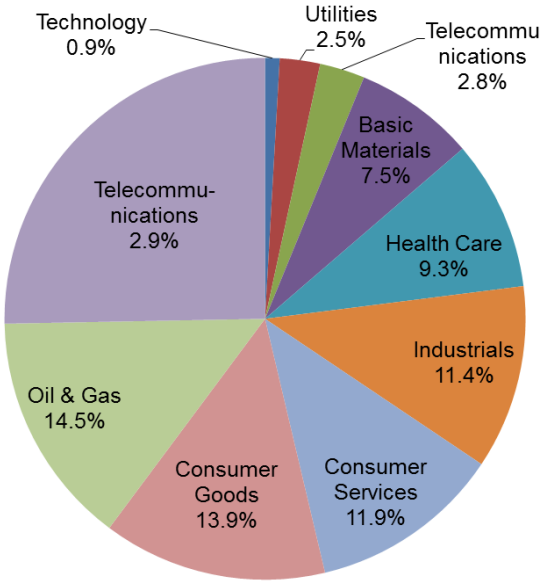
	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
LGIM	(0.9)	5.9	N/A	N/A	7.0
Benchmark	(0.9)	5.9	N/A	N/A	6.8
Relative Performance	0.0	0.0	N/A	N/A	0.2

*annualised, inception date February 2017

Top Ten Holdings

Company	% Weighting
Royal Dutch Shell	9.2
HSBC Holdings	5.5
BP	4.7
British American Tobacco	3.4
AstraZeneca	3.1
Glaxosmithkline	3.1
Diageo	2.7
Unilever	1.9
Prudential	1.9
Rio Tinto	1.8
Total	**37.3**

Whole Fund Sector Breakdown



Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report September 2018

Investment Process

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

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

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

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

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

Portfolio Valuation

Portfolio	**30.06.18 £**	**30.09.18 £**
Corporate Bond All Stocks Index Fund	67,998,449	67,750,334
Over 5 Years UK Index-Linked Gilt Index Fund	41,744,814	41,190,052
All Stocks UK Gilts*	27,539,092	27,068,271
Cash (residual)	1	1
Total	**137,282,356**	**136,008,658**

*Switched from Overseas Bond Index Fund in February 17

Performance

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Blackrock	(0.9)	0.7	6.1	6.4	6.6
Composite Benchmark	(0.9)	0.7	6.0	6.2	6.5
Relative Performance	0.0	0.0	0.1	0.1	0.1

*annualised since inception 28/07/10

Hymans Robertson View

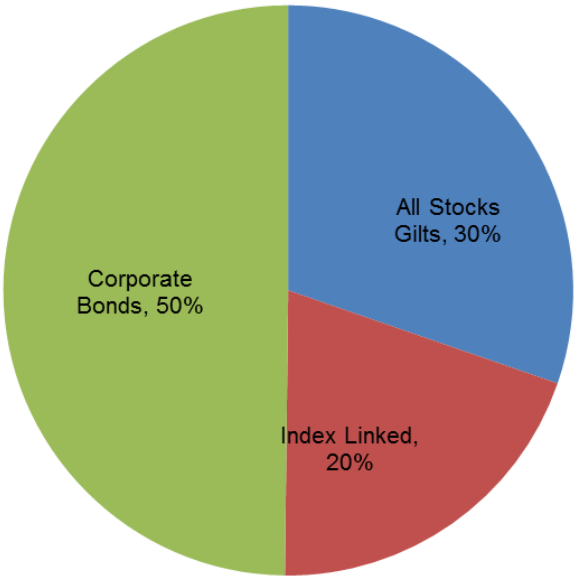
We rate BlackRock's index-tracking equity capability at 'Preferred'. There were no significant developments over the quarter.

Allocation

The target allocation between the three funds is:

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

The pie chart below shows the allocation as at 30th September 2018.



Lincolnshire Pension Fund
Passive Bonds – Blackrock interim
Quarterly Report September 2018

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 30.06.18	Value at 30.09.18
£126,875,984	£136,948,000

Note: An additional £10m was invested in July 2018

Performance

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock Interim	0.1	0.6	n/a	n/a	0.9
Benchmark	0.1	0.6	n/a	n/a	0.9
Relative Performance	0.0	0.0	n/a	n/a	0.1

*annualised since inception 14/09/16

Hymans Robertson View

We rate BlackRock's index-tracking equity capability at ‘Preferred’. There were no significant developments over the quarter.

Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report September 2018

Investment Process

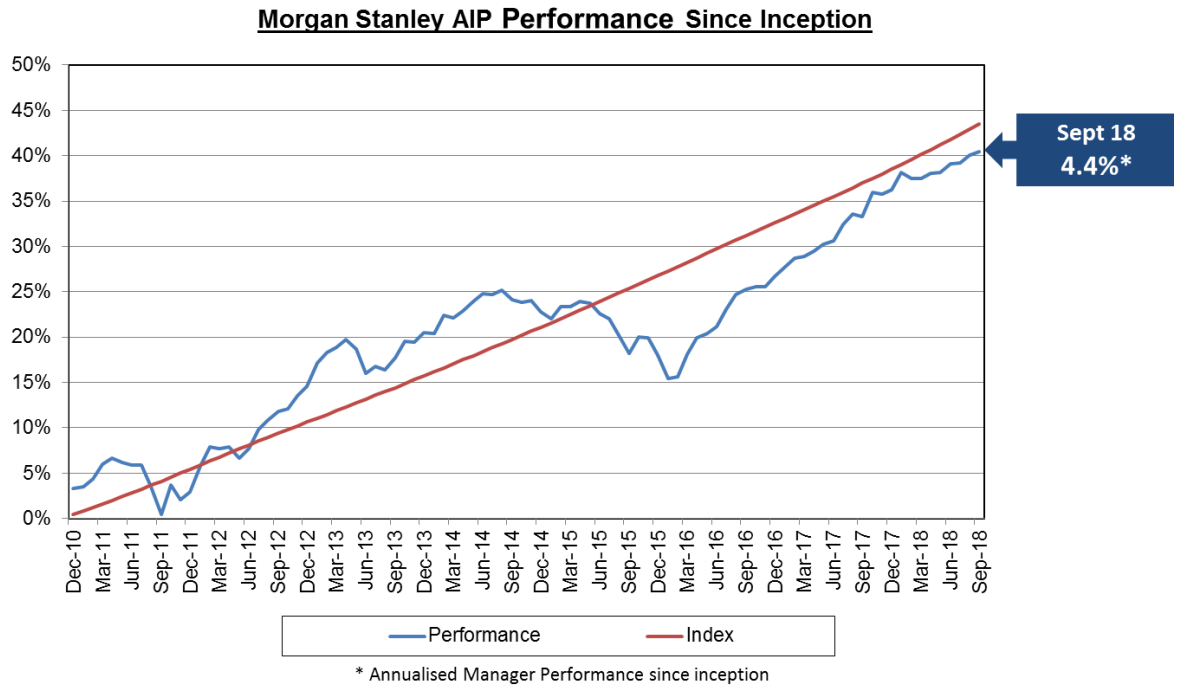
Morgan Stanley manages a bespoke absolute return alternative investment mandate for the Fund. The portfolio is invested in alternatives only, with no exposure to traditional equities or bonds. Investments are made to complement the existing Fund allocation. The manager has a target to beat the return 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 30.06.18	Value at 30.09.18
£288,073,606	£293,974,628

Performance

The total alternatives portfolio (including the legacy assets) returned +1.48% during the third quarter. Positive contributions came from private markets led returns, offsetting declines across frontier equity and more liquid real assets (commodities, inflationlinked assets and real estate securities). Tactical decisions and manager selection modestly added to returns. Within manager selection, hedge funds and catastrophe risk particularly outperformed.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley	1.0	5.4	5.9	3.6	4.4
3 Month LIBOR + 4%	1.2	4.8	4.6	4.6	4.7
Relative Performance	(0.2)	0.6	1.2	(1.0)	(0.3)

* annualised since inception date 24/11/2010 (excludes legacy PE portfolio assets)

Allocation

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

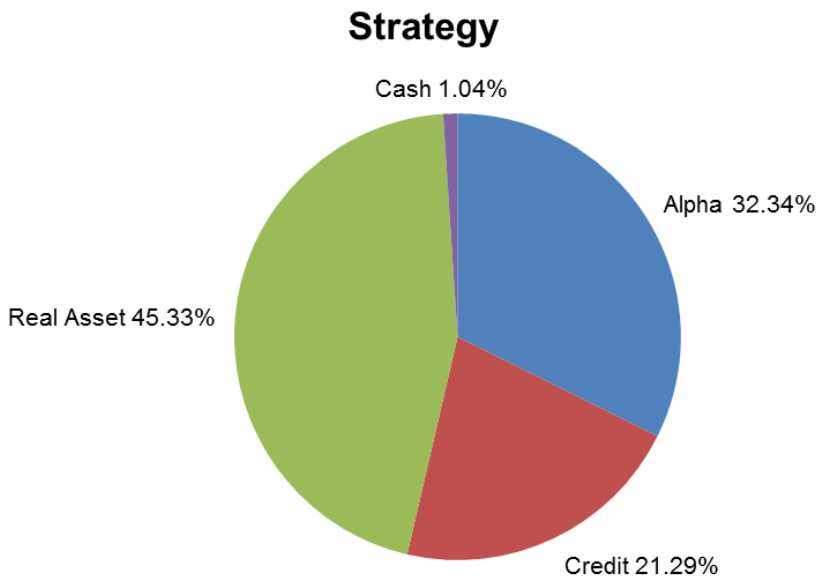
- **Alpha** These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.

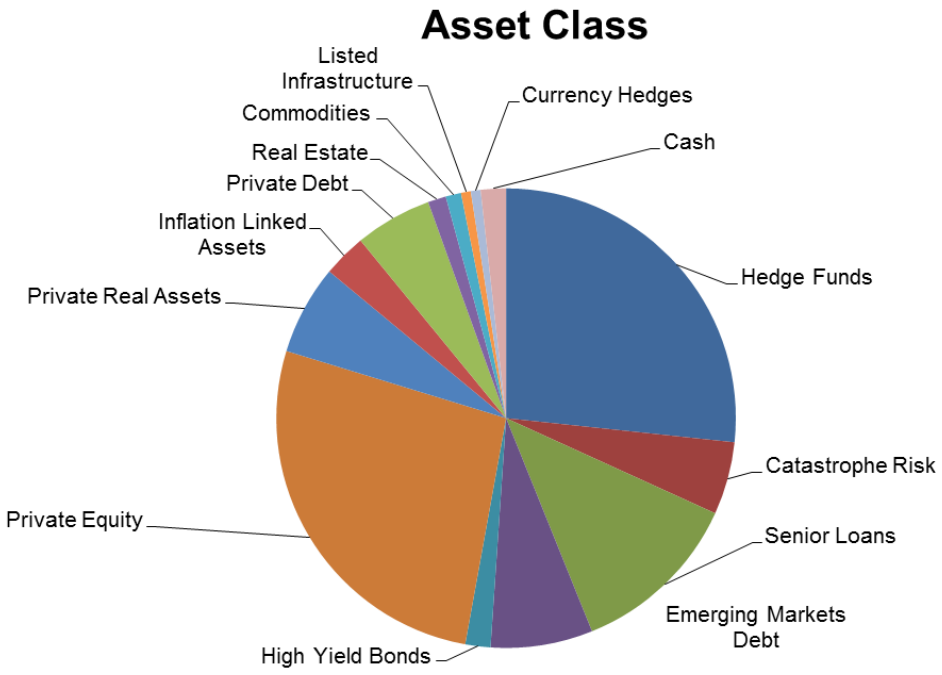
- **Long Term Real Asset** These are long term investments that seek to access illiquidity premium. Investments include Private Equity, Infrastructure, Real Estate, Commodities and Inflation – linked strategies.

- **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 show the strategy and asset class positions of the Morgan Stanley portfolio as at 30th September 2018.





Portfolio Outlook

With the economic and earnings cycle approaching late stage, paying attention to the risks is increasingly important. The expectation is that the divergence between the U.S. and the rest of the world will hit an inflection point, this is making the manager wary of overexposure to the U.S. Going into the fourth quarter, there is expected to be continued rising inflation in the U.S. and tighter monetary policy given the strong economic growth. Volatility is likely to continue so long as trade tensions remain and financial conditions gradually tighten, this should bode well for hedge funds.

The portfolio continues to be positioned cautiously and will rely on value creation from hedge funds and private markets. During the quarter, within private debt a commitment focused on structured credit investments with European banks was added. This replaces a successful commitment that is expected to distribute the majority of capital in the near term. The manager is also exploring an opportunity to allocate to the royalties sector, which is viewed as very compelling late in the economic cycle due to its uncorrelated income component. In private real assets, at the end of the quarter a commitment focused on the fragmented and underfunded U.S. water sector was finalised, but a long-running pursuit of a renewable energy opportunity in the UK was terminated due to concerns regarding alignment of interests. Lastly, in private equity a complex restructuring transaction to provide exposure to a company that provides specialty services to the aviation industry was completed. The manager is currently exploring a logistics investment with similar structural features that is expected to offer very attractive entry pricing.

Hymans Robertson View

We rate Morgan Stanley a ‘Positive – On Watch’ for Diversified Alternatives. 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.

Morgan Stanley announced that Joe McDonnell, one of the three portfolio managers on the strategy, was leaving the firm. McDonnell was the most senior member of the team in Europe and while Morgan Stanley does not plan to appoint another portfolio manager to replace McDonnell, we believe London-based Steve Turner will effectively shoulder a lot of McDonnell's responsibilities. As a result of this change, we have placed the strategy 'on watch' and will be reviewing our 'Positive' rating over the next few months.

Risk Control

Portfolio volatility since inception is 3.54%, within the guidelines specified by the mandate.

Conclusion

Over the quarter, the Fund produced a positive return of 2.77%, outperforming the benchmark which returned 2.59%.

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 Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**10 January 2019**
Subject:	**Border to Coast Responsible Investment Policy and Corporate Governance Voting Guidelines Review**

Summary:

Border to Coast Pensions Partnership (Border to Coast) review their Responsible Investment (RI) Policy and Corporate Governance and Voting Guidelines annually. This report highlights the changes from the last version for the Committee to consider, and to approve the alignment of the new version to the current Lincolnshire policy and guidelines.

Recommendation(s):

That the Committee:

1) Considers the proposed Border to Coast Responsible Investment Policy and Corporate Governance and Voting Guidelines;
2) Agrees to align the Lincolnshire RI Policy and Voting Guidelines to Border to Coast's; and
3) Notes the report.

Background

1. The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship, day-to-day administration and implementation have been delegated to Border to Coast once assets transition, with appropriate monitoring and challenge to ensure this continues to be in line with Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed an RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach.

2. The October 2017 meeting of this Committee considered the RI policy and Corporate Governance and Voting Guidelines drafted by Border to Coast, and approved the recommendation to create a Lincolnshire Pension Fund RI Policy and Voting Guidelines aligned to the Border to Coast documents. Both Border to Coast policies are reviewed annually, or whenever revisions

are proposed, and are taken through the appropriate governance channels. This includes the Joint Committee (held 21st November 2018) and then through all of the Partner Funds, to ensure that Border to Coast is able to represent a strong, unified voice.

3. The proposed revised Border to Coast policies (attached at appendix A and B) do not contain any changes to underlying principles. They have been updated following feedback from Border to Coast's voting and engagement partner, Robeco, to enable clearer implementation of the policies. They also reflect the changes required to facilitate Border to Coast becoming a signatory to the UNPRI (United Nations-supported Principles for Responsible Investment).

4. The PRI is the world's leading independent proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole. The PRI encourages investors to use responsible investment to enhance returns and better manage risks; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

5. Responsible Investment and sustainability are central to Border to Coast's corporate and investment ethos and a key part of delivering the partner funds' objectives. There may be reputational risk if Border to Coast is perceived to be failing in their commitment of this objective.

Key changes to the RI Policy

6. The **RI policy** has undergone a more substantial rewrite; this however has not changed the underlying principles. The policy reflects changes required to be able to satisfy PRI reporting requirements in the future. The governance and implementation section has been expanded; additional detail has been included regarding integrating RI into the investment process for each asset class; and the section on engagement includes greater detail on the different approaches taken.

RI Policy

7. The introduction sets out the basis of the RI Policy:

Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement.
As a long-term investor and representative of asset owners, we will therefore, hold companies and asset managers to account regarding environmental,

societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.

8. The **RI policy** covers the areas below:

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

9. It should be noted that Border to Coast believe the best way to influence companies is through engagement; therefore Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern. This is a concept that the Lincolnshire Pension Fund has also agreed.

10. There may be occasions when an individual fund wishes Border to Coast to vote its pro-rata holding contrary to an agreed policy; there is a process in place to facilitate this. However this is expected to be an exception, rather than the norm.

11. The policy is very closely aligned to how the Lincolnshire Fund considers it should act as a responsible investor, with no contentious issues.

Key changes to the Corporate Governance and Voting Guidelines

12. The **Corporate Governance and Voting Guidelines** were UK centric and therefore have been expanded to reflect global corporate governance trends, not just UK best practice. The revised UK Corporate Governance Code was also considered when making any revisions. The key changes to this policy are the inclusion of sections referring to board evaluation, stakeholder engagement, virtual shareholder meetings, shareholder proposals and share blocking.

13. Other amendments to the policy have been made to reflect global variations in best practice and cover board composition, diversity and remuneration.

14. The **Corporate Governance and Voting Guidelines** sets out the framework within which Border to Coast would administer and assess company and shareholder resolutions, on a case-by-case basis, to ensure that all votes are cast in accordance with the RI Policy. The introduction sets out the principles behind the voting guidelines:

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

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

15. The Corporate Governance and Voting Guidelines cover the areas below:

    - Company boards
      - Composition and independence
      - Leadership
      - Non-executive directors
      - Diversity
      - Succession planning
      - Directors' availability and attendance

    - Re-election
    - Board evaluation
    - Stakeholder engagement
    - Directors' remuneration
        - Annual bonus
        - Long-term incentives
    - Director's contracts
- Corporate reporting
- Audit
    - Non-audit fees
- Political donations
- Lobbying
- Shareholder rights
    - Dividends
    - Voting rights
    - Authority to issue shares
    - Disapplication of pre-emption rights
- Share repurchase
- Memorandum and Articles of Association
- Mergers and acquisitions
- Articles of Association and adopting of report and accounts
- Virtual shareholder general meetings
- Shareholder proposals
- Investment Trusts

16. The guidelines reflect best global practice and there are no contentious issues.

17. The Committee may be interested to note the RI Policy comparison that Responsible Investor.com produced across the eight LGPS asset pools, and shown at Appendix C. Responsible Investor.com is a dedicated news and events service covering responsible investment, ESG and sustainable finance for institutional investors globally. The checklist provides a summary of Environmental, Social and Governance (ESG) considerations in the RI Policies of LGPS pools.

18. Officers recommend that the Committee considers the proposed Border to Coast RI Policy and Corporate Governance and Voting Guidelines, and approves the realignment of the Lincolnshire Fund's current RI Policy and Corporate Governance and Voting Guidelines.

Conclusion

19. The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation will be delegated to Border to Coast by the Partner Funds, once assets are transitioned. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed an RI

Policy and accompanying Corporate Governance and Voting Guidelines to ensure clarity of approach on behalf of Partner Funds. Border to Coast reviews these policies at least annually, and any changes are brought back to the underlying Pension Committees for consideration.

20. The Committee are recommended to consider the draft documents and approve the realignment of the Lincolnshire Pension Fund's current documents.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Border to Coast Responsible Investment Policy
Appendix B	Border to Coast Corporate Governance and Voting Guidelines
Appendix C	Responsible Investor.com RI Policy Checklist

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.

Responsible Investment Policy

Border to Coast Pensions Partnership

November 2018

Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to our Partner Funds in their delegation of responsible investment (RI) and stewardship responsibilities.

1. Introduction

Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its twelve shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Border to Coast believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and representative of asset owners, we will therefore, hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.

2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines. Border to Coast has a dedicated staff resource for managing RI within the organisational structure.

The RI Policy is jointly owned and created after collaboration and engagement with our twelve Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed and updated as necessary.

4. Skills and competency

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

5. Integrating RI into investment decisions

Border to Coast will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

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

5.1. Listed Equities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research when considering portfolio construction, sector analysis and stock selection. The Head of RI will work with colleagues to raise awareness of ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase knowledge, and portfolio managers will be involved in the voting process.

5.2. Private Markets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast will take the following approach to integrating ESG into the private market investment process:

- ESG issues will be considered as part of the due diligence process for all private market investments.
- A manager's ESG strategy will be assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers will be requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring will include identifying any possible ESG breaches and following up with the managers concerned.

5.3. Fixed Income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis will therefore be incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.

The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data will be used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis will be used to determine a bond's credit quality. Information will be shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. External Manager Selection

RI will be incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP will include specific reference to the integration of ESG by managers into the investment process and to their approach to engagement.

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI policy.

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. Managers will be required to report to Border to Coast on their RI activities quarterly.

5.5. Climate change

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

- Assess its portfolios in relation to climate change risk where practicable.
- Incorporate climate considerations into the investment decision making process.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)[1] recommendations.
- Encourage companies to adapt their business strategy in alignment with a low carbon economy.
- Support climate related resolutions at company meetings which we consider reflect our RI policy.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Co-file shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitor and review its fund managers in relation to climate change approach and policies.
- Participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engage with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

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

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, we will become a signatory to the UK Stewardship Code[2] and the UN Principles of Responsible Investment[3].

6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed here xxxxxxx.

A specialist proxy voting advisor will be employed to provide analysis of voting and governance issues. A set of detailed voting guidelines will be implemented on behalf of Border to Coast by the proxy voting advisor to ensure that votes are executed in accordance with policies. The voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances.

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

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted, when:

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

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies depositing their shares shortly before the date of the meeting (usually one week) with a designated depositary.

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

[3] The Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

During this blocking period, shares cannot be sold until after the meeting has taken place; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may abstain from voting those shares.

Where appropriate Border to Coast will consider co-filing shareholder resolutions and will notify Partner Funds in advance. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

6.2. Engagement

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

Border to Coast has several approaches to engaging with investee holdings. Meeting and engaging with companies is an integral part of the investment process. As part of our stewardship duties we regularly monitor investee companies and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible. Border to Coast and all twelve Partner Funds are members of the Local Authority Pension Fund Forum (LAPFF). Engagement takes place with companies on behalf of members of the Forum.

We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and compliment other engagement approaches, an external voting and engagement service provider will be appointed. Engagement will take place with companies in the internally managed portfolios across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[4] breaches.

We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

We will engage with regulators, public policy makers, and other financial market participants as and when required. We will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

[4]UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

6.3. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We will work with industry professionals to facilitate this.

7. Communication and reporting

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

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

8. Training and assistance

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

9. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest.

Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

November 2018

1. Introduction

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

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

2. Voting procedure

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

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

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

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

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

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.

- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.

- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

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

The board of large companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, they must be able to demonstrate their independence. Non-executive directors who have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than ten years will be assessed on a case-by-case basis.

The company should therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

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

- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

Leadership

The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in communicating with shareholders and the media. However, the Chairman should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director must be appointed if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance.

Non-executive Directors

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

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company and be disclosed in the Annual Report.

We will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board.

Succession planning

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

Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with the issues of stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis is key for companies; being a way to discuss governance, strategy, and other significant issues.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that the link between executive pay and company performance is negligible. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

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

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided.

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event.

• **Long-term incentives**

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

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

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should not be excessive, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts.As well as reporting financial performance, business strategy and the key risks facing the business, companies

should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

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

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures.

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

Non-Audit Fees

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

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and where there are differing views on issues.

Shareholder rights

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

- **Dividends**

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

- **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

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

- **Disapplication of Pre-emption Rights**

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

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

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

Mergers and acquisitions

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

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

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

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. Any amendment to a company's Articles to allow virtual only meetings will not be supported.

Shareholder Proposals

We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

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

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

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responsible-investor.com
ESG and sustainable finance

Local Government Pension Scheme (LGPS) RI Policy Checklist

A summary of Environmental, Social and Governance (ESG) considerations in the RI Policies of LGPS pools. Refer to the following pages for an in-depth breakdown.

	BCPP (Border to Coast Pensions Partnership) - £43.7bn	LGPS Central - £41.9bn	London CIV - £34.5bn	Brunel Pensions Partnership - £27.4bn	LPP (Local Pensions Partnership) - £14.5bn	Northern Pool - £42.1bn	ACCESS - £40.8bn	Wales Pensions Partnership - £16bn
RI Policy	●	●	● *	●	●	●	●	●
RI policy governance	●	●	●	●	●	●	●	●
Manager selection	●	●	●	●	●	●	●	●
Conflict of interest	●	●	●	●	●	●	●	●
Climate change	●	●	●	●	●	●	●	●
Internal reporting against TCFD	●	●	●	●	●	●	●	●
Divestment	●	●	●	●	●	●	●	●
Stock lending	●	●	●	●	●	●	●	●
Engagement	●	●	●	●	●	●	●	●
Voting	●	●	●	●	●	●	●	●
Engagament disclosure	●	●	●	●	●	●	●	●
Tax transparency	●	●	●	●	●	●	●	●
ESG training and capacity building	●	●	●	●	●	●	●	●
Participation in securities litigation	●	●	●	●	●	●	●	●
Signatory to LGPS Advisory Board Transparency Code	●	●	●	●	●	●	●	●
Member of Local Authority Pension Fund Forum (LAPF)	●	●	●	●	●	●	●	●

* Has a "Stewardship Code Statement" in place of an RI policy

Legend: ● Present ● Absent ● Non-applicable

LGPS RI Policy Breakdown

1. **BCPP (Border to Coast Pensions Partnership)**
    - The Pool's RI policy references the 2014 Law Commission's report on Fiduciary Duty which affirms the materiality of ESG factors
    - The CIO has oversight of the Policy, with regular reports to the CIO, Board, Joint Committee and Partner Funds. The Policy will be reviewed annually at the minimum
        - Relevant personnel will maintain the relevant skills through "continuing professional development" and take expert advice on policy formation
    - Material ESG factors those which "cause financial and reputational risk"
        - A non-exhaustive list of ESG issues considered material including climate change, child labour, board independence, auditor rotation, tax transparency is included in the policy
    - Extensive climate change policy including engaging investee companies to disclose in line with TCFD recommendations, supporting climate related resolutions at AGMs, engaging with with policy makers
    - Effective stewardship will be discharged through "voting, monitoring companies, engagement and litigation"
    - ESG and RI will be "specifically referenced" in selection of fund managers
    - BCPP "aims to voted in every market in which it invests" to "promote and support good governance"
        - A collaborative voting policy on behalf of partner funds has been developed "to leverage scale and for practical purposes"
        - A specialist proxy advisor will be employed to provide analysis of voting and governance issues, and to vote in accordance with BCPP policies
        - A process is in place to allow individual fund to vote its pro rata holding contrary to an agreed policy
        - Stock will be recalled prior to a shareholder vote "if the benefits of voting outweigh the benefit of stock lending" e.g. when the resolution is contentious, the holding is of a size which can influence outcome, approval for an M&A etc
    - BCPP "will not divest from companies principally on social, ethical and environmental reasons", preferring instead to influence policies through engagement and the use of voting
    - To maximise influence, BCPP will work collaboratively with other investors and external groups e.g. the Local Authority Pension Fund Forum (LAPFF)
    - If holdings are subject to individual or class action securities litigation, BCPP will participate on a case-by-case basis
    - RI, voting, engagement activities will be reported to Partner Funds and in Annual Report
    - According to the policy, "consideration will also be given to voluntarily reporting in line with the TCFD recommendations."

- Partner funds will be offered training on RI and ESG, and development of individual funds policies and investment principles
- The Pool's Conflicts of Interest policy will regulate conflicts of interest between BCPP and partner funds
- Signatory to the Transparency Code, a voluntary code promoting fee transparency among LGPS asset managers

2. LGPS Central

- The Pool's RI policy was developed in the context of "regulations, statutory guidance and the advice of the Law Commission"
- RI policy ownership lies with the Director of Responsible Investment & Engagement, implementation is by the Investment Team, ultimate responsibility lies with the Executive Committee. The policy is reviewed annually by the Board.
- RI is defined as a "core part of our fiduciary duty", and is contrasted against ethical investment, in which morality "take primacy" over investment outcomes
- Inclusion of a glossary of relevant ESG terms within the RI policy
- The Pool's approach to voting and compliance with the Stewardship Code are provided separate to the RI policy
- Engagement is considered to be "more compatible with fiduciary duty" and RI than exclusions
- RI is included in mandates and in the investment process documentation
- A Conflict of Interest Policy will be used to manage all conflicts of interest
- RI is embedded within investment manager selection and due diligence process. Only managers with satisfactory "approach to climate change risk" will be appointed
- The Pool will engage directly with investee companies on RI issues and in partnership, to maximise scale and effectiveness of engagement. Prioritisation of engagement depends on "economic significance, resourcing and likely significance for the majority of stakeholders". Stocks will be recalled to facilitate voting on significant issues.
- Engagements will be used as a basis of voting decisions and may be used "as an escalation step in an engagement process". For externally managed funds, due diligence will include an assessment of the manager's voting policy.
- Industry participation through working groups, consultations, dialogue with regulators, conferences are a feature of scheme stewardship approach
- The Pool will report annually against the TCFD reccommendations, and has publicly supported the TCFD. Engagement with investee companies will aim to "improve the disclosure, governance and management of the risks associated with climate change and climate policy response"
- RI and engagement activities will be reported to stakeholders on a quarterly basis

- Signatory to the Transparency Code

3. London CIV

- The Pool does not have an RI policy but recognises the UK's Stewardship Code as best practice and sets out implementation in a "Stewardship Code Statement"
- The Statement emphasises the accountability of fund managers for the "delivery of stewardship" as it is the most "effective and efficient" approach, and ESG integration & stewardship activity is said to be part of the selection process. Managers are expected to
  - be signatories to the Stewardship Code and publicly disclose how they will discharge stewardship
  - conduct "extensive dialogue" with investee companies throughout the year and vote, both will be regularly reviewed by the CIV including whether stock is recalled for key votes. Managers are expected to take note of Local Authority Pension Fund Forum (LAPFF) voting alerts and justify non-compliance
  - document any conflicts of interest, which will be annually reviewed by the CIV
  - monitor investee companies and ensure that "the spirit of the UK Corporate Governance Code" is adhered to
  - recall stock for key votes
- The CIV has a Conflict of Interest policy in relation to stewardship which is reviewed by the board on a "regular basis" and maintains a register
- The Pool will work with other investors such as other LGPS pools to enhance impact of engagement activities
- A voting and engagement record will be available in quarterly reports to investors and on the Pool website

4. Brunel Pensions Partnership

- According to their RI policy, the Pool considers ESG factors "in relation to investment risk and return objectives" and is not an ethical or purpose-driven investor
- Engagement objectives are linked to 6 priority themes including climate change, cost & tax transparency, human capital & diversity – with quarterly enagagement updates for clients and summary information for the public
- Brunel has a single voting policy for assets in segregated accounts. Voting policy and records will be published twice a year at the minimum.
- RI is "fully integrated into manager selection" process
- The Pool will support policy makers in "the development of a robust framework that promotes sustainable economic growth" such as the MHCLG, The Pensions Regulator, PRI

- The Pool is not in favour of divestment but "is committed to decarbonising listed portfolios, providing carbon footprinting to assist in reducing unrewarded carbon risk"
- Brunel will disclose in line with TCFD recommendations
- The Pool is a signatory to the voluntary Transparency Code and requires all managers to be signatories.
- Brunel believes in "the potential for financial consequences for companies whose tax practices are deemed inappropriate by policy makers, regulators and wider society" will engage companies to improve disclosure
- Selection and monitoring of managers will take into account the 6Ps: Philosophy, Policies, People, Processes, Participation, Partnership
- The Pool will publish an annual engagagement plan, voting records, angagement activity updates. An annual RI progress report will be published 2019 onward.
    - While stock lending is not referenced in the RI policy, Brunel maintains a separate stock lending policy. A request to review the policy was denied due to its "sensitive" nature
- Brunel will make use of frameworks and benchmarks to report the positive impacts of their investments such as the SDGs and Future Fit
- Operational accountability of the Pool's RI policy lies with the pool's Chief Responsible Investment Officer. The board approves and is collectively accountable for the policy, which is reviewed annually.

5. LPP (Local Pensions Partnership)

- According to the Pool's RI policy, the primary focus of RI is "effective management of investment risks and opportunities" to achieve optimum returns, while the "attainment of broader social outcomes is secondary"
- The Pool uses a long-term investment horizon to evaluate individual investment risks, including those surrounding controversial business sectors, and their contribution to the investment strategy as an "effective alternative to exclusionary screening"
- Due diligence for external managers include "commitment to responsible investment practices"
- Engagement activities include "direct representation on company boards, shareholder voting and engagement, representation on investor & advisory committees and participation in partnerships and collaborations with other investors"

- The Pool "votes at every shareholder meeting it is entitled to participate in globally" according to a separate Shareholder Voting Policy. The aforementioned Policy "seeks a consistent stance on a number of core themes" including: board diversity, executive remuneration, a long-term business model
- The Pool's Stewardship Committee, chaired by the CIO, has oversight of the RI policy and meets quarterly to review RI matters
- The Pool hopes to "achieve more through co-ordinated collective effort" and lists a range of affiliated representative organisations such as LAPFF and the PLSA

6. Northern Pool

- The Pool is currently working its RI policy.
- According to a spokesperson, the £42.1bn pool had "nobody available" to respond to enquiries
- The Pool pools only alternative assets and not listed assets
- A member of LAPFF

7. ACCESS

- The Pool does not have an RI policy. Member funds apply in-house RI policies when making investment decisions
- A member of LAPFF

8. Wales Pensions Partnership

- The Pool's RI policy is currently being drafted while it "brings together views/ideas from its 8 member pension funds"

Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**10 January 2019**
Subject:	**Mazars External Audit Presentation**

Summary:

This report introduces a report and presentation from the Fund's new external auditor, Mazars.

Recommendation(s):

That the Committee note the report and presentation.

Background

1 Lincolnshire Pension Fund's external audit services will be provided by Mazars starting from the audit of the 2018/19 financial accounts and annual report.

2 **Appendix A** to this report is an Introduction to Mazars. It provides background information on:

- The company;
- The personnel who will work on the Pension Fund Audit; and
- Mazars audit responsibilities and approach.

Conclusion

3 This is an opportunity for the Committee to meet the Lincolnshire Pension Fund's new external auditor.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Introduction to Mazars

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 Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

Introduction to Mazars

Year ending 31 March 2019

Strictly private and confidential

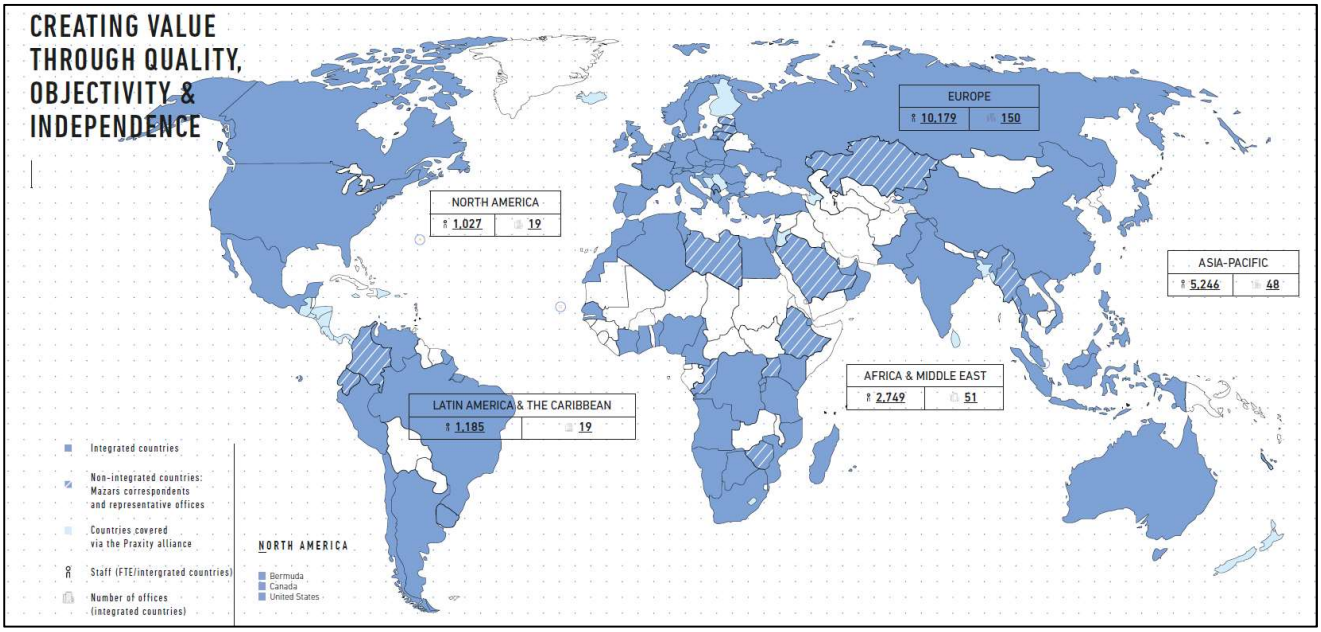
MAZARS

1. MAZARS AT A GLANCE

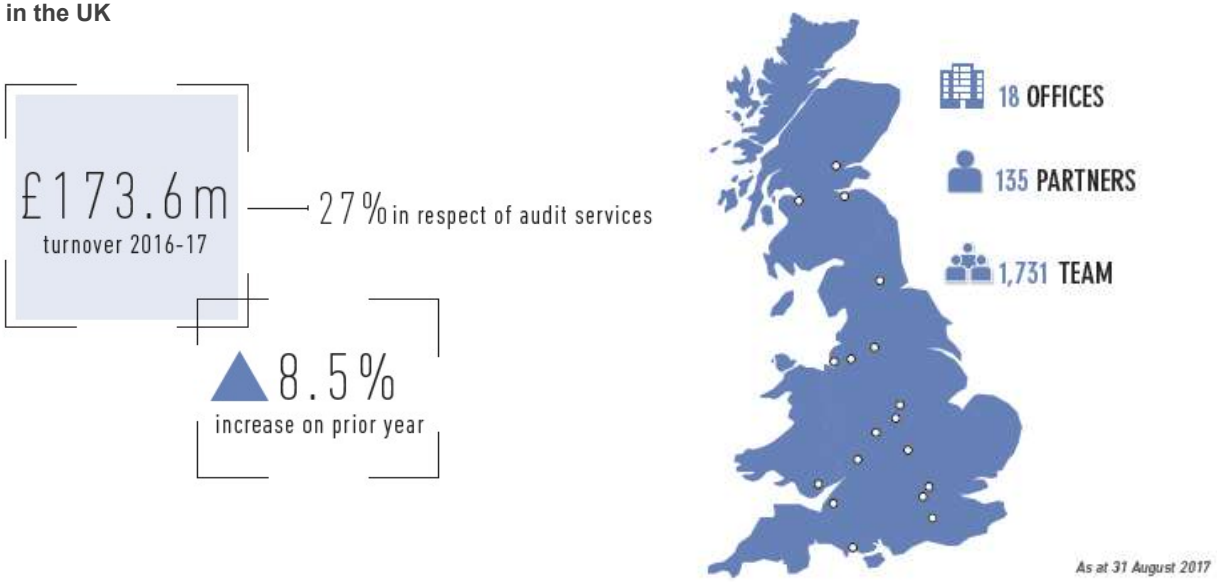
Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

Mazars Internationally



Mazars in the UK



MAZARS

2. MAZARS IN THE PUBLIC SECTOR

Public Sector Audit Appointments Ltd

- PSAA audit supplier since 2011
- Provide 100 public audits in the North East and parts of Yorkshire, North West, East Midlands and North/West London
- Councils, Police Authorities, Fire Authorities, LG Pension Funds, Police and Crime Commissioners, Combined Authorities
- Other suppliers are Deloitte, BDO, EY, and GT
- Consistently met PSAA and other Regulators expectations of the public sector audit work since the original contract began

Other areas (External and Internal Audit, Advisory)

- National Audit Office and Audit Scotland
- NHS
- Advisory
- Academies and commercial audit
- Social Housing

Mazars LGPS Audits 2018/19	Border to Coast	WYPF
Derbyshire CC Pension Fund		
Durham CC Pension Fund		
East Riding Pension Fund		
Lincolnshire Pension Fund		
West Yorkshire Pension Fund		
Greater Manchester Pension Fund		
LB Camden Pension Fund		
LB Hackney Pension Fund		
LB Harrow Pension Fund		
LB Hounslow Pension Fund		
LB Lambeth Pension Fund		

3. THE LOCAL AUDIT TEAM

Mark Surridge - FCCA, CPFA

Role

- Mark will be the key contact for the County Council's Management and the Audit Committee. He will have overall responsibility for delivering a high quality audit and will attend Audit Committee meetings.

Relevant experience

- Mark has over 15 years audit, assurance and advisory experience in local government, healthcare, social housing and higher education sectors. His current clients include Derbyshire County Council and Lincolnshire County Council and other local authorities in Lincolnshire, Nottinghamshire and Derbyshire.

Lucy Nutley - ICAS

Role

- Lucy is the Engagement Lead for the separate Pension Fund audit and willl have overall responsibility for delivering a high quality audit. Lucy will liaise with the Mazars Engagement Quality Reviewer for this audit, and ensure our approach is co-ordinated with that for the County Council.

Relevant experience

- Lucy has over 14 years experience providing external audit, internal audit and other business assurance and advisory services to the public and private sectors. Lucy is licenced to carry out Marzars pension fund audits and is also the Engagement Lead on six other LGPS audits.

Mike Norman - CPFA

Role

- Mike will be responsible for the work performed on-site and be your regular contact throughout the audit year.

Relevant experience

- Mike has significant public sector audit experience including Lincolnshire local government bodies, Pension Funds, NHS Trusts and CCGs as well as other central government and non profit organisations. Mike joined Mazars in September 2017, is licensed to carry out Mazars pension fund audits and was the engagement manager under your previous auditors. Mike is therefore familiar to the Audit Committee, the Pension Committee and Board, has well established relationships with your managers and has a good understanding of the Council's and the Pension Fund's issues.

4. AUDIT RESPONSIBILITIES AND APPROACH

Audit Responsibilities

- Framework for the Audit:
  - Local Audit and Accountability Act
  - Accounts and Audit (England) Regulations 2015
  - NAO Code of Audit Practice and Guidance Notes
  - International Standards on Auditing
- Audit Opinion on the PF Accounts:
  - part of joint audit report covering LCC and LPF
  - 'true and fair view' of the LPF transactions and its assets/liabilities
- Consistency opinion on the audited accounts in the PF Annual Report
- Other statutory reporting responsibilities:
  - Public Interest Report
  - Statutory Recommendations
  - Application to the court for a declaration that an item of account is unlawful
  - Advisory notice
  - Application for judicial review
- Rights of the public

Audit Approach – key points

Timetable

- Planning – November to January
- Interim Audit – February to March
- Final Accounts Audit – May to July
- Closure – July – Audit Cttee 22 July, opinion deadline 31 July

- Reporting to other auditors under the IAS19 protocol - July

4. AUDIT RESPONSIBILITIES AND APPROACH (CONT.)

Audit Approach (continued)

Materiality – set at Planning stage and updated/revised during the year

- Benchmark = net assets - £2,167.9m (31/3/18)
- Overall (up to 1% of the Benchmark) - £21.7m
- Performance materiality (up to 70% of OM) - £15.2m
- 'trivial' threshold (up to 3% of OM) - £0.6m

Largely year-end substantive testing and focused on investments/cash

Contributions and Benefits – lower risk of material misstatement

Reliance on information from Service Organisations

- Custodian
- Fund Managers
- WYP

Reliance on the LPF Experts – Hymans Robertson

5. KEY ISSUES FOR 2018/19 AND BEYOND

Managing the transition between auditors and first year audit work

Accounting/reporting requirements – few significant new issues

IAS19 Protocol – communicating with Mazars, EY and GT auditors

Logistics and managing the workload
- Early deadline
- 3rd party verifications
- Assurances over Service Organisations

Change of Custodian

Making the most of the opportunities
- WYP
- Border to Coast

Pooling

Brexit and post Brexit

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**10 January 2019**
Subject:	**CEM Benchmarking Presentation**

Summary:

This report introduces a presentation from the Fund's cost benchmarking provider, CEM.

Recommendation(s):

That the Committee note the report and presentation.

Background

1 The cost of managing assets within the LGPS has been a key driver in the asset pooling agenda set by MHCLG. The submissions made to MHCLG during the initial creation of the asset pools required expected savings to be identified. Regular updates and progress reports have since been provided. Transparency of costs has been a key element in the reporting, both to MHCLG, Scheme Advisory Board (SAB) and in the annual report and accounts Consistency of measurement of costs has previously been an issue, however much work has been done by LGA, CIPFA and industry bodies to improve this, culminating in the publication of the Code of Transparency.

2 In order to assist the Fund in measuring these costs consistently, and to compare them against other similar funds and across Border to Coast as a whole, all Partner Funds within Border to Coast have subscribed to the cost benchmarking service provided by CEM.

3 CEM is a unique and rapidly growing global benchmarking company located in Toronto, Canada. They are an independent provider of objective and actionable benchmarking information for large pools of capital including pension funds, endowments/foundations and sovereign wealth funds.

4 John Simmonds, a Principal at CEM with responsibility for business development and client service in the UK and Ireland, will provide background to the work CEM has done and present the investment

benchmarking results for the Lincolnshire Pension Fund to the Committee (attached at Appendix A).

5 The report will assist the Committee in its oversight responsibilities.

Conclusion

6 Cost transparency is high on the Government's agenda, Funds and asset pools need to be able to measure costs in order to evidence savings as a result of asset pooling. CEM provide a useful benchmarking service to enable the Lincolnshire Pension Fund and Border to Coast to provide consistent and transparent information on costs.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	CEM Draft Benchmarking 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.

Lincolnshire Pension Fund
Investment Benchmarking Results

For the 5 year period ending March 31, 2018

Interim Report

This is an interim and draft report that will be updated when more data has been submitted by other LGPS funds. The headlines and conclusions may change as a result of the inclusion of more LGPS funds.

1 Change Alley
London, EC3V 3ND
+44 203 887 9289
www.cembenchmarking.com

This report will help you to satisfy your oversight responsibilities by:

- Comparing your investment performance with other funds.
- Highlighting returns that come from:
  - The local Pension Committee's strategic asset allocation decisions, and
  - The implementation of the Committee's strategy (typically the responsibility of management).
- Comparing the level of risk inherent in your portfolio and relative to your liabilities and your funding position.
- Comparing your investment costs and explaining why your costs compare as they do.
- Considering how and why your costs have changed over time.
- Looking at value-for-money – 'did paying more get you more'?

The report is based on standardised data submitted to CEM by your fund, by other LGPS funds and a wider universe of funds from around the world. Care is taken to validate the data contained in the report. This includes automated validations on outlying or unusual data as it is submitted, and an additional manual data 'clean' where our analysts interact with fund personnel to ensure the data is fit for purpose. The information in this report is confidential and should not be disclosed to third parties without the express written consent of CEM. CEM will not disclose any of the information in the report without your express written consent.

We compare your returns to other LGPS funds and a wider global universe.

CEM's LGPS Universe

Pool / Group	# of Participant Funds	Total Assets (£bns)	% of CEM's LGPS Universe	Funds
Access Pool	4	£15.6	9%	Essex, Isle of Wight, Kent County Council, Suffolk.
BCPP	11	£41.1	23%	Bedford, Durham, East Riding, Lincolnshire, NYPF, Northumberland, SYPF, Surrey, Teesside Pension Fund, Tyne and Wear, Warwickshire.
Brunel Pool	1	£4.8	3%	Avon.
Central Pool	3	£12.7	7%	Cheshire, Staffordshire, Worcestershire.
LPP Pool	2	£13.5	8%	Lancashire, LPFA.
Northern Pool	3	£44.3	25%	GMPF, Merseyside, West Yorkshire.
Scotish Pool	4	£30.2	17%	Falkirk, Lothian, Shetland Islands, Strathclyde.
Welsh Pool	8	£15.9	9%	Swansea, Dyfed, Flintshire - The Clwyd Pension Fund, Torfaen, Gwynedd, Powys, Rhondda Cynon TAF, Cardiff.
Total	36	£178.1	100%	

The main performance comparisons are with the LGPS universe comprising 36 funds with total assets of £178 billion (average £5 billion, median £3 billion).

We also compare your returns (and LGPS returns generally) with a wider global universe comprising 337 funds with total assets of £7.2 trillion (average £21bn, median £5bn). The global universe includes half of the world's top 300 funds.

Your 5-year net total return of 8.3% was below the LGPS median of 8.7% and above the Global median of 7.9%.

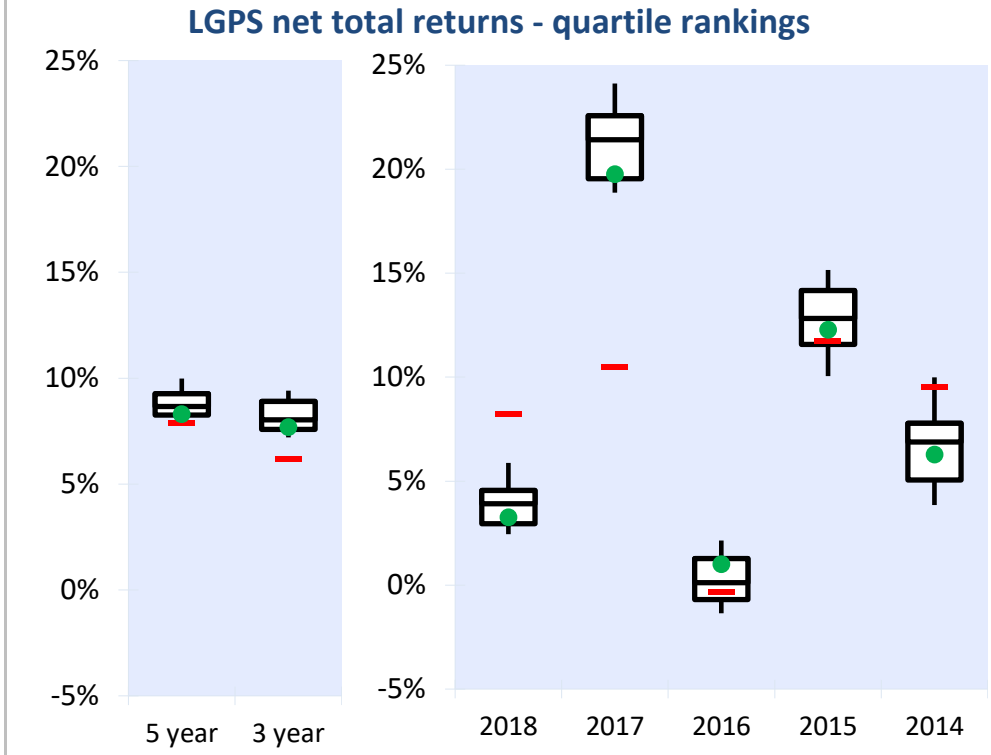
Total returns, by themselves, provide little insight into the reasons behind relative performance. Therefore, we separate total return into its more meaningful components:

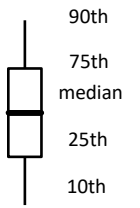
- Strategic asset mix return: The return from strategic asset allocation decisions. These decisions are typically made by the local Pensions Committee.

- Value added: A function of active management decisions, including tactical asset allocation, manager selection, stock selection, etc. These 'implementation' decisions tend to be made by management (increasingly within pools in England and Wales).

These are discussed on the pages that follow.

Global return comparisons have been particularly influenced by the relative strength of the $US over the period covered by this report and by the depreciation of the £ in 2016/17, i.e. there is some currency 'noise' in the global comparison.





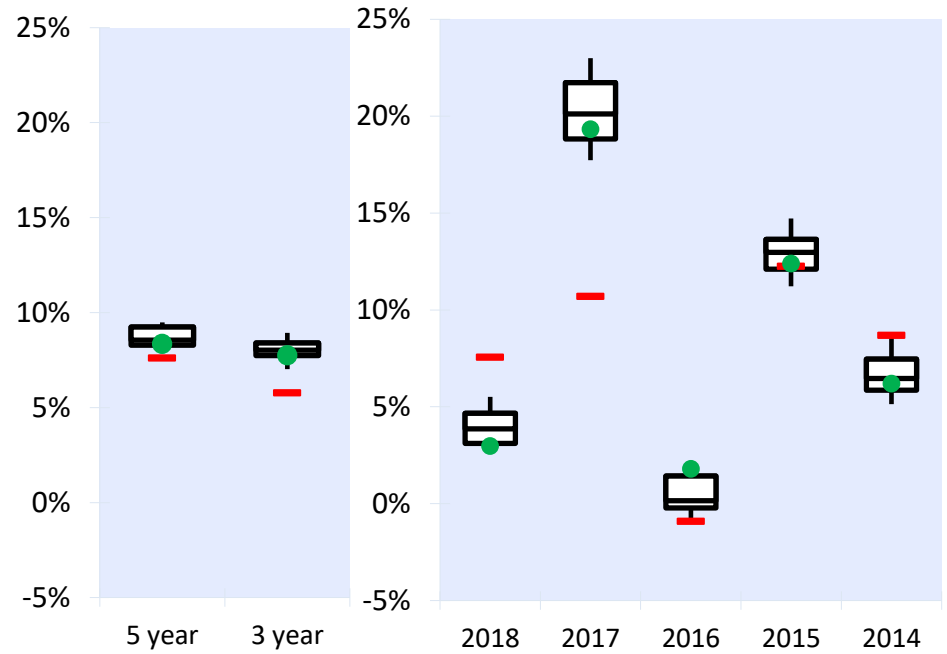
	5 year	3 year	2018	2017	2016	2015	2014
LGPS							
90th	10.0	9.4	5.9	24.1	2.1	15.2	10.0
Q3	9.3	8.9	4.6	22.6	1.3	14.2	7.8
Median	8.7	8.0	3.9	21.4	0.1	12.8	6.9
Q1	8.3	7.6	2.9	19.5	-0.7	11.6	5.1
10th	7.9	7.2	2.4	18.9	-1.4	10.0	3.9
Average	8.8	8.2	4.0	21.3	0.4	12.6	6.8
Global Median	7.9	6.2	8.2	10.5	-0.3	11.7	9.6
Your fund	8.3	7.7	3.2	19.8	1.0	12.3	6.3
LGPS %ile	27%	33%	29%	30%	71%	43%	43%

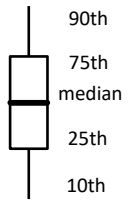
Your 5-year strategic asset mix return of 8.4% was slightly below the LGPS median of 8.6% and above the Global median of 7.6%.

Your strategic asset mix return is the return you could have earned passively by indexing your investments according to your strategic asset mix. The strategic asset mix return is typically the most significant driver of total returns.

Having a higher or lower relative strategic asset mix return is not necessarily good or bad. Your strategic asset mix return reflects your asset mix which in turn reflects your funding position, long-term capital market expectations, liabilities, employer covenant and appetite for risk.

Each of these factors is different across funds. Therefore, it is not surprising that strategic asset mix returns often vary widely between funds. In the following page we explore how your asset mix impacts your strategic asset mix returns relative to peers.





	5 year	3 year	2018	2017	2016	2015	2014
LGPS							
90th	9.5	8.9	5.5	23.0	2.1	14.7	8.7
Q3	9.2	8.4	4.7	21.7	1.4	13.6	7.5
Median	8.6	8.0	3.9	20.1	0.2	13.0	6.5
Q1	8.3	7.7	3.1	18.8	-0.2	12.1	5.9
10th	8.0	7.0	2.7	17.7	-0.9	11.2	5.1
Average	8.7	8.0	4.0	20.3	0.5	12.8	6.9
Global Median	7.6	5.8	7.6	10.7	-0.9	12.3	8.7
Your fund	8.4	7.8	3.0	19.3	1.8	12.4	6.2
LGPS %ile	33%	30%	20%	32%	86%	36%	40%

Differences in strategic asset mix return are caused by differences in benchmarks and asset mix.

Your 5-year policy return of 8.4% was slightly below the LGPS median. There are two notable areas where you are different to your peers:

- Your allocation towards fixed income was lower than the other participating LGPS funds (your 13% 5-year average weight versus a LGPS average of 19%).
- You had a higher allocation towards your alternative asset portfolio*.

These two factors were 'cancelled out' by your choice of benchmark for your Morgan Stanley Alternatives portfolio.

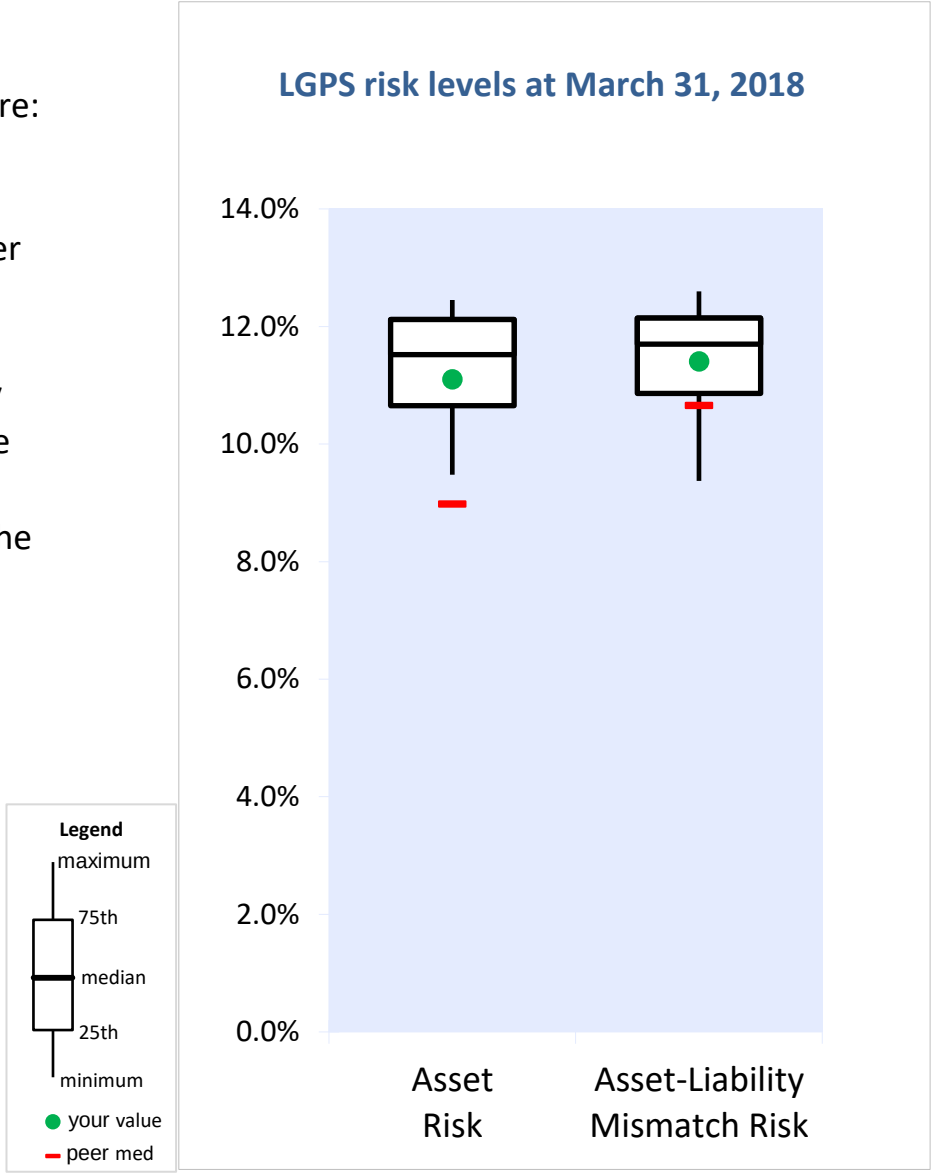
	5-Year average strategic asset mix[1]			5-year bmk. return	
	Your Fund	LGPS Avg.	More/ Less	Your Fund	LGPS Avg.
U.K. Stock	20%	17%	3%	6.1%	6.7%
U.S. Stock	0%	4%	-5%	n/a[3]	14.5%
Emerging Market Stock	0%	3%	-3%	n/a[3]	6.5%
Global Stock	40%	25%	15%	11.8%	11.3%
Other Stock[2]	0%	10%	-10%	n/a[3]	n/a[3]
Total Stock	61%	60%	0%	9.9%	9.8%
Fixed Income - UK	10%	7%	2%	5.6%	5.6%
Inflation Indexed Bonds	0%	3%	-3%	n/a[3]	7.9%
Global Bonds	1%	6%	-5%	n/a[3]	2.9%
Cash	0%	1%	-1%	n/a[3]	0.4%
Other Fixed Income[2]	3%	2%	0%	n/a[3]	n/a[3]
Total Fixed Income	13%	19%	-6%	4.4%	4.8%
Hedge Funds	0%	2%	-2%	n/a[3]	2.6%
Balanced Funds	0%	2%	-2%	n/a[3]	7.1%
Infrastructure	2%	2%	0%	6.6%	6.0%
Real Estate ex-REITs	2%	4%	-2%	8.0%	9.3%
Domestic Property	8%	5%	3%	8.8%	10.1%
Other Real Assets[2]	0%	1%	-1%	n/a[3]	n/a[3]
Private Equity*	15%	5%	10%	4.6%	16.6%
Total	100%	100%	0%		

1. 5-year weights are based on plans with 5 years of continuous data.
2.Other stock includes Europe exUK, EAFE and ACWIxUS stock. Other fixed income includes U.S., long bonds and EAFE bonds. Other real assets includes commodities, natural resources and REITS.
3. A value of 'n/a' is shown if asset class return are not available for the full 5 years or if they are broad and incomparable.
*Includes your Morgan Stanley alternative asset portfolio: A mix of commodities, hedge funds, real assets, private equity, and other alternative investments.

The strategic asset allocation is largely a function of your appetite for risk.

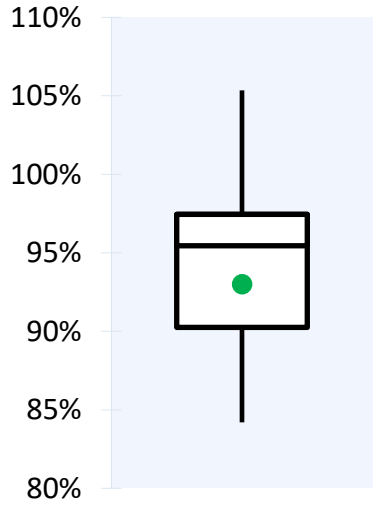
The two key risks for the Pension Committee to consider are:

- Asset Risk - A higher asset risk is indicative of a higher weighting to more volatile assets (and vice-versa).
- Asset-liability mismatch risk - A higher asset-liability mismatch risk is indicative a willingness to take more risk to improve the funding level. Lower asset risk is indicative of either better funding, concerns about the employer covenant or a desire for stability in

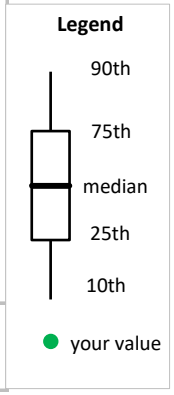


Your funding level of 93% was below the LGPS median of 95%.

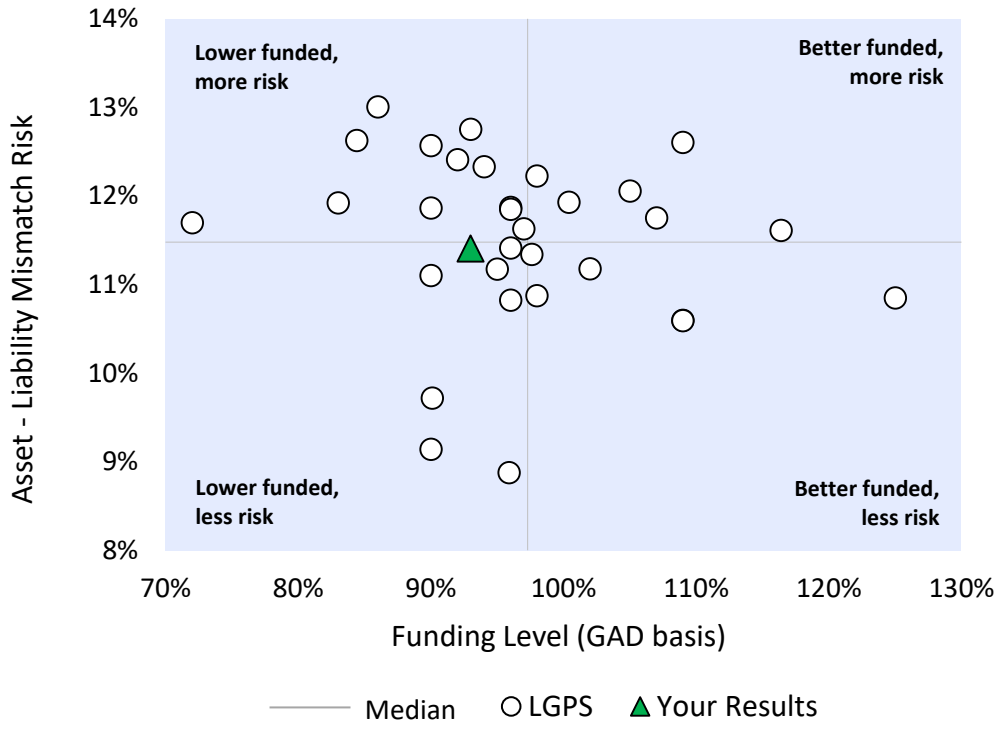
Funding Level using GAD's standard assumptions



LGPS	
90th	105.4%
Q3	97.5%
Median	95.5%
Q1	90.3%
10th	84.2%
Average	94.3%
Your fund	93.0%
LGPS %ile	36.4%



Funding Level vs Asset-Liability Mismatch Risk



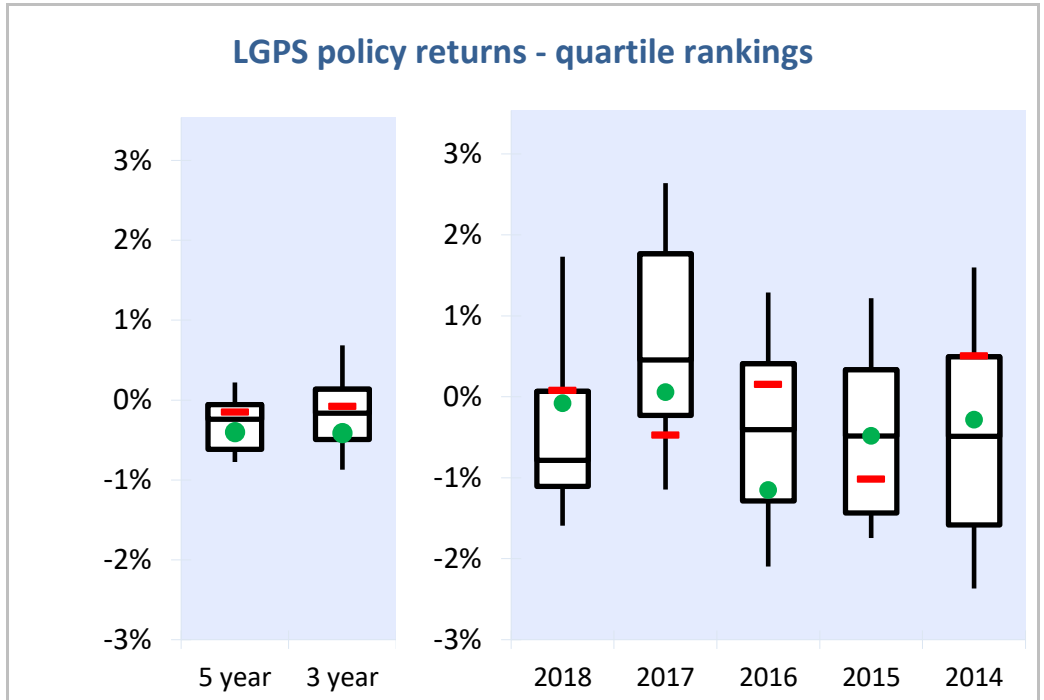
Funding level is based on standardised actuarial assumptions developed by the Government Actuaries Department (GAD). Most of the key assumptions are consistent across funds but some assumptions, and in particular mortality assumptions, are fund specific. Your funding level as shown may not reflect the actuarial basis you use to determine your asset allocation or contribution policies, but it serves a useful purpose in providing context for comparisons of asset risk and asset liability mismatch risk.

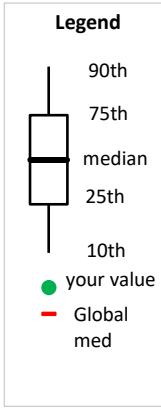
Net value added is the component of total return from active management. This is typically the responsibility of management (increasingly within pools in England and Wales). Your 5-year net value added was -0.1%.

Net value added equals total net return minus strategic asset mix return.

It is a function of active management decisions which includes tactical asset allocation, manager selection, stock selection, choice of benchmarks, hedging, overlays, etc.

Your 5-year net value added of -0.1% compares to a median of 0.1% for the LGPS universe and 0.2% globally.



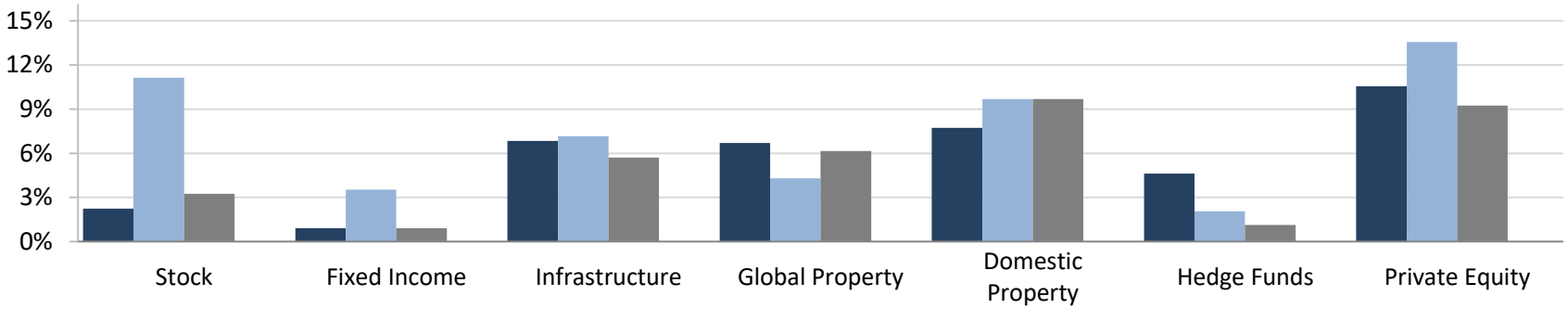


	5 year	3 year	2018	2017	2016	2015	2014
LGPS							
90th	0.6	1.0	2.1	3.0	1.6	1.6	1.9
Q3	0.3	0.5	0.4	2.1	0.8	0.7	0.8
Median	0.1	0.2	-0.4	0.8	-0.1	-0.1	-0.1
Q1	-0.3	-0.1	-0.8	0.1	-0.9	-1.1	-1.2
10th	-0.4	-0.5	-1.2	-0.8	-1.7	-1.4	-2.0
Average	0.1	0.2	0.0	1.0	-0.1	-0.2	-0.1
Global Median	0.2	0.3	0.4	-0.1	0.5	-0.7	0.9
Your fund	-0.1	-0.1	0.3	0.4	-0.8	-0.1	0.1
LGPS %ile	40%	33%	71%	43%	29%	52%	55%

The value added for other participants was adjusted to reflect private equity benchmarks based on investable public market indices.

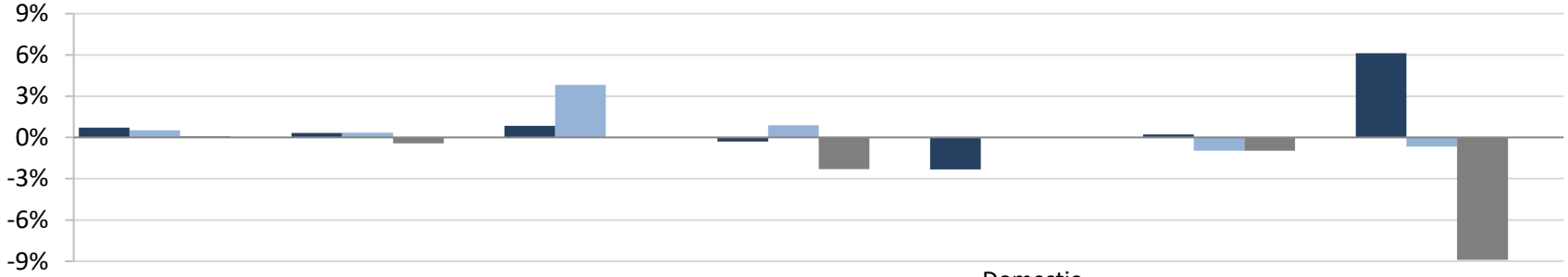
Here is how your net returns and net value added compare.

2017 average net return by major asset class



	Stock	Fixed Income	Infrastructure	Global Property	Domestic Property	Hedge Funds	Private Equity
Your fund	2.2%	0.9%	6.8%	6.7%	7.7%	4.6%	10.5%
Global average	11.1%	3.5%	7.2%	4.3%	9.7%	2.0%	13.5%
LGPS average	3.2%	0.9%	5.7%	6.1%	9.7%	1.1%	9.2%
Your % of assets	64.1%	17.7%	1.5%	1.6%	8.0%	3.6%	3.2%

2017 average net value added by major asset class



	Stock	Fixed Income	Infrastructure	Global Property	Domestic Property	Hedge Funds	Private Equity
Your fund	0.7%	0.3%	0.8%	-0.3%	-2.3%	0.2%	6.1%
Global average	0.5%	0.3%	3.8%	0.9%	0.0%	-1.0%	-0.7%
LGPS average	0.1%	-0.4%	0.0%	-2.3%	0.0%	-1.0%	-8.9%

We compare your costs to the following custom peer group:

- 21 Global sponsors from £1.5 billion to £4.8 billion
- Median size of £2.2 billion versus your £2.1 billion

- Peers are selected based on size (because size impacts costs) and to include both LGPS and non-LGPS funds (to help you understand how your costs compare with a broad cross-section of funds).

- We specifically exclude other LGPS funds from your pool because costs will increasingly be homogenous within the pool.

LGPS Funds

Bath & North East Somerset Council - Avon Pension Fund
City and County of Swansea Pension Fund
Dyfed Pension Fund
Falkirk Council Pension Fund
Flintshire - The Clwyd Pension Fund
Greater Gwent (Torfaen) Pension Fund
Gwynedd Pension Fund
Lincolnshire Pension Fund
The Cardiff and Vale of Glamorgan Pension Fund
Worcestershire

Non-LGPS Funds

BPF Mode-, Interieur-, Tapijt- en Textielindustrie
CBS Corporation
City of Austin Employees' Ret. Sys.
Eaton Corporation
Government Superannuation Fund Authority
IWA Forest Industry
Michelin North America Inc.
Oklahoma Police Pension & Ret. Sys.
Régimes de retraite de la Société de transport de Montréal
SPF TNO
Université du Québec

The names of the above fund sponsors in your peer group are confidential and may not be disclosed to third parties.

We are benchmarking investment costs of £12.4 million or 57.9 basis points in

Asset management costs by asset class and style (£000s)	External Management				
	Passive fees	Active base fees	Perform. fees [3]	Total	
Stock - UK	16			16	
Stock - Emerging		-67	64	-3	
Stock - Global		2,968	1,352	4,320	
Fixed Income - UK	62			62	
Fixed Income - Emerging		22	30	51	
Fixed Income - Inflation Indexed		122	48	170	
Fixed Income - High Yield		16	25	41	
Fixed Income - Private Debt		18	36	53	
Fixed Income - Other		237	114	350	
Cash		87	24	111	
Commodities		10	14	24	
REITs		6	12	19	
Hedge Fund - External Not Fund of Fund		733	250	984	
Global Property - LPs		279	49	328	
Global Property - FoFs [1 2]		425	55	480	
Infrastructure - LPs		524	152	676	
Domestic Property		1,316	6	1,322	
Diversified Private Equity - LPs [1]		305	600	905	
Diversified Private Equity - FoFs [1]		1,115	817	1,931	
Derivatives/Overlays	176			176	
Total				12,015	55.9bp
Oversight, custodial and other costs [4]					
Oversight of the fund				293	
Trustee & custodial				56	
Consulting and performance measurement				56	
Audit				25	
Other				0	
Total oversight, custodial & other costs				431	2.0bp
Total investment costs (excl. transaction costs)				12,446	57.9bp

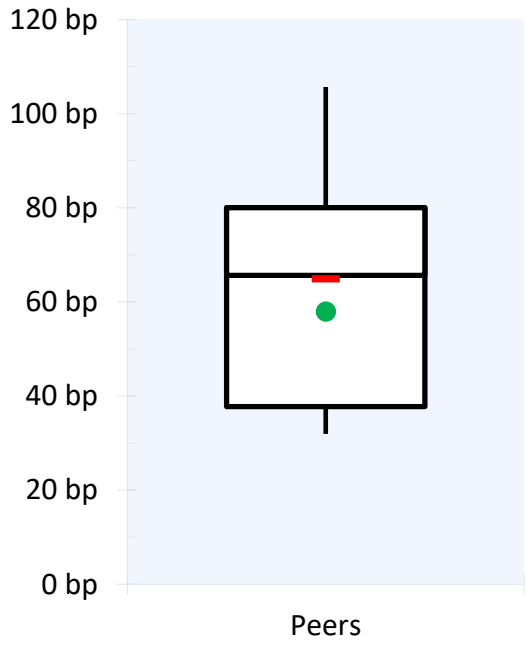
Footnotes
1. Default performance fees were added: Diversified Private Equity - FoFs 42 bps, Diversified Private Equity - LPs 183 bps, Global Property - FoFs 39 bp.
2. Default underlying costs were added: Global Property - FoFs 111 bp.
Refer to Appendix A for full details regarding defaults.
3. Total cost includes carry/performance fees for all asset classes.
4. Excludes non-investment costs, such as pension administration.

Your cost of 57.9 bps was below your benchmark cost of 62.1 bps.

Comparison of costs before adjusting for asset mix:

Before adjusting for differences in asset mix, your costs of 57.9 bps were -7.7 bps below the peer median of 65.6 bps.

Your cost versus peers
(before adjusting for asset mix differences)



Comparison of costs after adjusting for asset mix:

To calculate a benchmark cost we apply peer median costs at an asset class level to your asset mix (i.e., we adjust for differences in asset mix).

Your cost versus benchmark
(after adjusting for asset mix differences)

	£000s	basis points
Your total investment cost	12,446	57.9 bp
Your benchmark cost	13,349	62.1 bp
Your excess cost	(903)	(4.2) bp

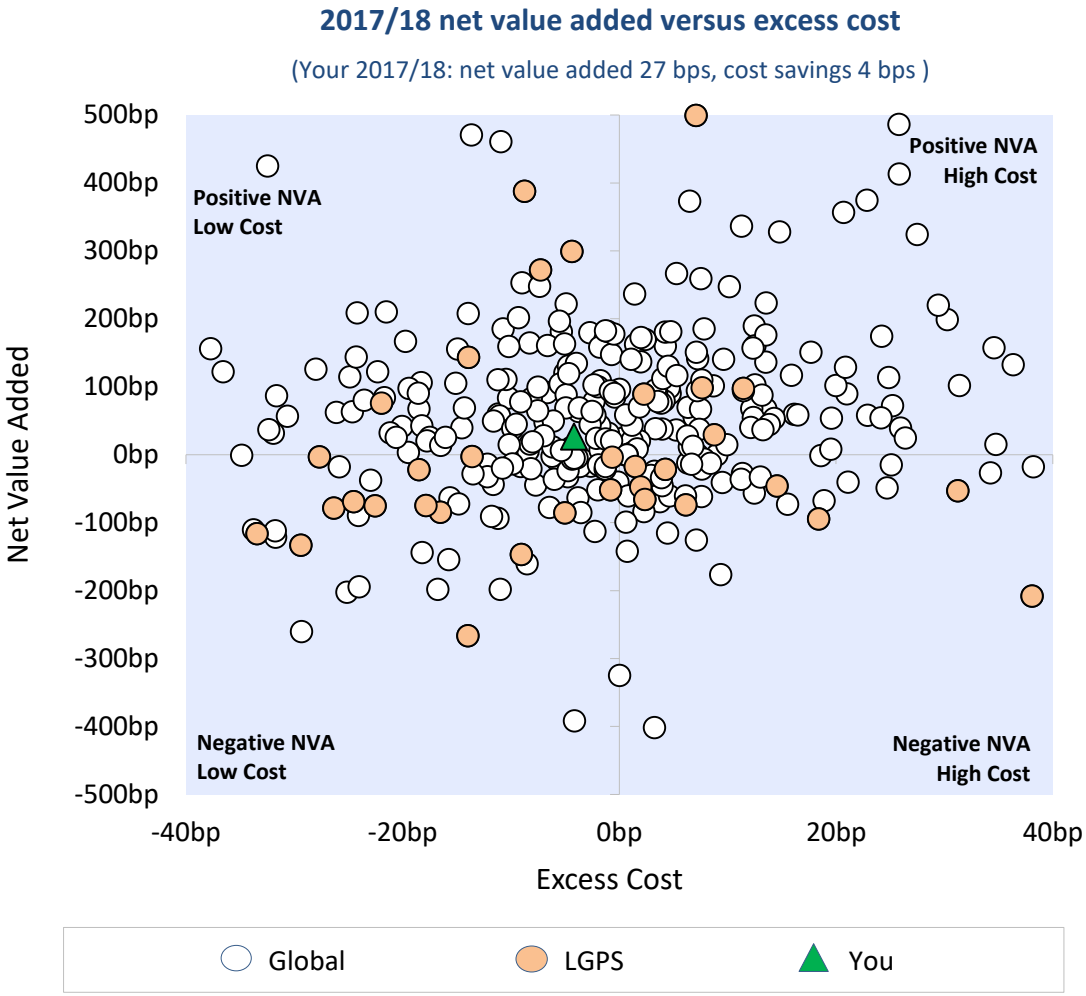
Your fund was slightly low cost because you paid less than peers for similar services.

Reasons for your low cost status

			Excess Cost/ (Savings) £000s	bps
1. Higher cost implementation style				
• Use of passive management (vs. higher cost active)			157	0.7
• More external management (vs. lower cost internal)			60	0.3
• More partnerships for private assets (vs. funds)			544	2.5
• Less fund of funds			(656)	(3.1)
• More overlays			98	0.5
			204	0.9
2. Paying less than peers for similar services				
• External investment management costs, for example:	You	Peer Median		
Stock - Global - Active	45.8 bp	39.1 bp	630	2.9
Infrastructure - Lp - Top layer perf. fees (on NAV)	47.1 bp	185.0 bp	(444)	(2.1)
Hedge Funds - Active - Top layer perf. fees (on NAV)	31.9 bp	74.2 bp	(331)	(1.5)
All other differences combined (see section 4)			(745)	(3.5)
• Oversight, custodial and other costs			(217)	(1.0)
			(1,107)	(5.2)
Total savings			(903)	(4.2)

Cost Effectiveness

Your 2017/18 performance placed in the positive value added, low cost quadrant of the cost effectiveness chart.



Key takeaways

Returns

- Your 5-year net total return was 8.3%. This was below the LGPS median of 8.7% and above the global median of 7.9%.
- Your 5-year strategic asset mix return was 8.4%. This was slightly below the LGPS median of 8.6% and above the global median of 7.6%.

Risk

- Your asset risk of 11.1% was below the LGPS median of 11.5%. Your asset-liability risk of 11.4% was below the LGPS median of 11.7%.
- Your funding level on the standard GAD basis of 93% was below the LGPS median of 95%.

Value added

- Your 5-year net value added was -0.1%. This was close to the LGPS median of 0.1% and slightly below the global median of 0.2%.

Cost

- Your investment cost of 57.9 bps was below your benchmark cost of 62.1 bps. This suggests that your fund was slightly low cost compared to your peers.
- Your fund was slightly low cost because you paid less than peers for similar services.
- Your cost fell from 108.6 bps in 2013/14 to 57.9 bps in 2017/18.