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Lincolnshire COUNTY COUNCIL
Working for a better future

County Offices
Newland
Lincoln
LN1 1YL

13 March 2019

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 21 March 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, 21 MARCH 2019

12 **MHCLG Statutory Guidance on Asset Pooling Consultation** 159 - 200

(To receive a report from Jo Ray (Pension Fund Manager), which proposes a response to the Governments Draft statutory guidance on asset pooling that is currently under consultation)

13 **CONSIDERATION OF EXEMPT INFORMATION**

(In accordance with Section 100 (A)(4) of the Local Government Act 1972, the following agenda item has not been circulated to the press and public on the grounds that it is considered to contain exempt information as defined in Paragraph 3 of part 1 of Schedule 12A of the Local Government Act 1972, as amended. The press and public may be excluded from the meeting for the consideration of this item of business)

14 **Pensions Administration Shared Service Extension** 201 - 204

(To receive a report from Jo Ray (Pension Fund Manager), which considers an extension of the Pensions Administration Shared Service)

Democratic Services Officer Contact Details

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

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

Contact details set out above.

All papers for council meetings are available on:
www.lincolnshire.gov.uk/committeerecords

Lincolnshire COUNTY COUNCIL
Working for a better future

PENSIONS COMMITTEE
10 JANUARY 2019

PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)

Councillors P E Coupland (Vice-Chairman), B Adams, Clio Perraton-Williams and Dr M E Thompson

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

Councillors: attended the meeting as observers

Officers in attendance:-

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

43 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor R D Butroid, Mr J Grant (Small Scheduled Bodies Representative) and Councillor Mrs S Rawlins.

44 DECLARATIONS OF MEMBERS' INTERESTS

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

45 MINUTES OF THE PREVIOUS MEETING HELD ON 13 DECEMBER 2018

RESOLVED:

That the minutes of the previous meeting held on Thursday 13 December 2018 be approved as a correct record and signed by the Chairman.

46 INDEPENDENT ADVISOR'S REPORT

The Independent Advisor provided a market commentary on the current state of global investment markets.

One Member questioned why the Independent Advisor had advised that China's economy was growing despite the fact that Jaguar Land Rover had recently announced job cuts as a result of a slowdown in the Chinese economy. It was clarified that as the Chinese population had peaked in 2018, they had started to reduce their consumption of luxury goods. However, the job losses at Jaguar Land Rover were due to more general issues within the company.

In response to a question, the Independent Advisor explained that the rise or fall of the UK population was crucially dependent on immigration.

RESOLVED:

That the report be noted.

47 REPORT BY THE INDEPENDENT CHAIR OF THE LINCOLNSHIRE LOCAL PENSION BOARD

The committee received a report from the Independent Chairman of the Lincolnshire Local Pension Board which provided an update on the recent work of the Pensions Board.

The report focussed on the backlog of leaver records at Lincolnshire County Council; contribution monitoring; and the Risk Register.

In response to a question on contribution monitoring, it was confirmed that all employees were fined the same amount and this did not differ depending on the size of the employer. The Fund's Administration Strategy sets out the fines imposed upon employers.

The committee were happy to continue to receive reports by the Independent Chairman of the Lincolnshire Local Pension Board on a quarterly basis.

RESOLVED:

1. That the report be noted.
2. That the committee considered including two additional items into the Risk Register as set out in the Fund Update Report.
3. That the committee continue to receive quarterly updates from the Independent Chairman of the Lincolnshire Local Pension Board.

48 PENSION FUND UPDATE REPORT

The committee received a report from the Pension Fund Manager which provided an update on Fund matters over the quarter ending 30th September 2018, as well as any current issues.

The Pension Fund Manager set out the proposed changes to Risk 24 and Risk 4 of the Council's risk register, as detailed in the report. The committee were satisfied with the proposed recommendations.

The Pension Board had reviewed the risk register at their October meeting and requested that the committee consider whether the current risk score for Risk 3 – 'Loss of key staff and loss of knowledge & skills', was still appropriate given the imminent retirement of the Executive Director of Finance and Public Protection and the County Finance Officer, both of whom had extensive and historical knowledge of the Lincolnshire Pension Fund.

The committee discussed the risk level in detail and concluded that the risk score for Risk 3 should increase to a red level of risk given the loss of expertise and the fact that there will only be one remaining member of staff with extensive knowledge on pensions.

It was also highlighted that there were still 3 members of the Pensions Committee who had still not completed the Pensions Regulator toolkit for training on the Code of Practice.

RESOLVED:

1. That the committee approve the change to Risk 25 – 'Failure to meet requirements as a responsible investor – across all ESG risks' to expand the wording to 'Failure to meet requirements as a responsible investor – across all ESG risks (including climate change and a move to a low carbon economy)'
2. That the committee approve the change to Risk 4 – 'Calculating and paying pensions correctly ' to expand the wording to be – 'calculating and paying pensions correctly (inc. completion of the Guaranteed Minimum Pension Reconciliation and communication with Pensioners)'
3. That the committee agreed to increase the level of risk for Risk 3 – 'Loss of key staff and loss of knowledge & skills'
4. That the report be noted

49 PENSIONS ADMINISTRATION REPORT

The committee received a report from the Business Development Manager (WYPF) which provided an update on current administration issues within the Fund.

It was noted that there had been a typing error in Paragraph 3.1 of the report, and that there had been 17 survey letters sent out, rather than 172 as stated in the report.

It was highlighted that the Pension Fund Manager was working with WYPF to make the Key Performance Indicators more specific and meaningful.

In response to a question, the Business Development Manager confirmed that there were scheme members that were over the age of 70 and still in employment and actively contributing to the Fund.

RESOLVED:

That the report be noted.

50 EMPLOYER MONTHLY SUBMISSIONS UPDATE

The Accounting, Investment and Governance Manager presented a report which provided the committee with up to date information on the employer monthly submissions for the financial year 2018/19.

The committee were asked to consider whether there were any further actions they wished to take against employers submitting late or inaccurate payments or data.

The committee were invited to ask questions, in which the following points were raised:

- In response to a question, it was clarified that all employers were fined the same amount despite the size of the employer.
- It was noted that training was offered to all employers to help them understand the submissions process.
- Officers emphasised that fines were a last resort and there was extensive work carried out by the Funds Finance Technician to help employers avoid late payment fines.
- Officers felt it was important to work with employers to attempt to resolve issues before taking further action, as it was important to maintain good relationships with employers.
- It was suggested that the level of fine be adjusted depending on the size of the employer.
- It was confirmed that the procedure for issuing fines was set out in the joint administration strategy and any changes to the procedure would need to form part of this strategy.
- The Business Development Manager (WYPF) agreed to investigate how fines were issued to each employer and whether there was merit to adjusting fines. It was agreed that he would review the fining procedure within the Fund's administration policy to see if it remained appropriate.

RESOLVED:

1. That the report be noted.
2. That the Pensions Committee would take no further action against employers submitting late or inaccurate payments or data at this time.

51 INVESTMENT MANAGEMENT REPORT

The Accounting, Investment and Governance Manager presented a report which covered the investment management of the Lincolnshire Pension Fund assets over the period from 1st July 2018 to 30th September 2018.

The report provided a funding level update; the fund performance and asset allocation; Hyman Robertson Manager Ratings and individual manager updates.

Members were referred to the individual manger performance reports from paragraph 4.2 of the report. In response to a question on why Morgan Stanley Global Brands only received a rating of "retain – suitable" from the Fund's Investment Consultant, despite appearing to have produced good returns in 2018. It was clarified that because the fund manager runs a concentrated strategy focussing on 20-40 stocks, this increases the volatility of the product, resulting in a lower rating. However, this

manager was selected to compliment the other global equity managers used by the fund.

RESOLVED:

That the report be noted.

52 BORDER TO COAST RESPONSIBLE INVESTMENT POLICY AND CORPORATE GOVERNANCE VOTING GUIDELINES REVIEW

12:11 - Councillor B Adams left the meeting and did not return.

The committee received a report from the Pension Fund Manager which highlighted the changes to the Border to Coast Pensions Partnership's Responsible Investment (RI) Policy and Corporate Governance and Voting Guidelines.

Members were referred to appendix A and B of the report, which set out the proposed revised Border to Coast Responsible Investment Policy and the Corporate Governance and Voting Guidelines. Officers highlighted the key changes to both documents.

The committee were asked to approve the alignment of the new version to the current Lincolnshire policy and guidelines.

The Pension Fund Manager also referred the committee to appendix C of the report, which showed the comparison between RI Policies of LGPS pools, published in Responsible Investor.com. This highlighted the considerable work that Border to Coast had put into producing their policy, which came out very favourably compared to other pools' policies.

RESOLVED:

1. That the committee considered the proposed Border to Coast Responsible Investment Policy and Corporate and Voting Guidelines
2. That the committee agreed to align the Lincolnshire RI Policy and Voting Guidelines to Border to Coast's
3. That the report be noted.

53 MAZARS EXTERNAL AUDIT PRESENTATION

The Accounting, Investment and Governance Manager provided a short report and introduced the committee to the Fund's new external auditor – Mazars.

The committee received a presentation from Mike Norman (Senior Manager – Mazars), which provided background information on Mazars, the Local Audit Team and Mazars' audit responsibilities and approach.

In response to a question, Mike Norman confirmed that Mazars would attend the council's Audit Committee meetings and the Pension Fund's accounts would continue

to be presented to and approved by this committee. However, Mazars will also attend and report their findings to the Pensions Committee if requested.

RESOLVED

That the report and presentation be noted.

54 CEM BENCHMARKING PRESENTATION

The Pension Fund Manager introduced the Fund's cost benchmarking provider, CEM.

The committee received a presentation from John Simmonds (CEM), which provided the Lincolnshire Pension Fund Investment Benchmarking Results for the five year period ending 31st March, 2018.
The committee's Independent Advisor noted that data scores appeared to be lower due to:

- A difficult year for the fund in 2016. It was highlighted that data from further years should reflect a more accurate and more positive picture of the benchmark; and
- The mismatch between the classifications of the fund's alternative portfolio compared when compared to the CEM benchmark.

RESOLVED

That the report and presentation be noted.

The meeting closed at 1.09 pm

Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**21 March 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 – March 2019

Equity Markets' astonishing rise this year

The change in equity market sentiment since the start of 2019 has been nothing short of astonishing. The last week of 2018 – admittedly a week when little trading took place – was one of doom and gloom, in part related to the US Government shut down over the proposed "Mexican Wall". But the New Year started with a bounce back in prices, not surprising in view of the previous negativity. And yet the global equity markets have kept on rising, in a more or less unbroken trend now extending to 8 weeks. The US market has risen around 15% over the period and most European markets around 10%. The UK market is up only 5%.

Bond markets, especially the US Treasury Bond market and that of UK gilts, have been largely unchanged so far this year.

What has changed – and what not changed?

To take the latter topic first, the deterioration in economic growth conditions is continuing, not only in the USA (growth this year of around 2%), but especially in continental Europe – which is coming close to stagnating. The UK seems to be growing at about 1% per annum despite the Brexit uncertainty. Views on the health of the Chinese economy are mixed but the Chinese authorities have provided

some modest financial stimulus - which suggests some softening in current economic conditions.

What has most definitely changed is the attitude of global central bankers. The US Federal Reserve (the central bank of the US) had previously indicated that it envisaged two if not three increases in short term interest rates in 2019; from 2.5% to over 3%. It has now reversed tack and indicated that it is happy with the current level. The Bank of England had previously indicated no change in rates until the Brexit issue sees some resolution. But the European Central Bank and the Bank of Japan have to some degree followed their US counterpart and indicated that they are in no hurry to raise rates. All of these central bank changes in stance have benefitted sentiment in equity markets.

A further – and important - change in central bank policy is regarding Quantitative Easing. These were the policies initiated in response to the global financial crisis of 2009/10 whereby central banks bought prodigious amounts of their own government debt to assist the banking industry and generally with a view to stimulating their economies. The US Federal Reserve had already started to reduce its holding of such debt with a view to "normalising" matters (by selling US Treasury Stock back to the market) and indicated in late 2018 an intention to press on with such a strategy. Early 2019 has seen a rethink of the policy, which appears to be on hold. This has also improved market sentiment.

International trade tensions

President Trump's "make America great again" had negative impacts on equity markets in 2018. These largely reflected attitudes to the US/China trade talks on tariffs and on intellectual property rights. It does not look likely that the tensions will be resolved for some months. Yet, equity markets appear to be taking an optimistic view of the outcomes. It is possible to sympathise with this view, to the extent that the two economies of China and the US are so closely inter- twined that it is in neither's interest to provoke a breech. Rather like a married couple perhaps where divorce ought to be very much a last resort!

But a brief consideration of the global market for motor vehicles and components sheds some light on the risks. The Chinese car market is very large, over 50% bigger than the US. That market is now in decline; indeed the whole global motor market is in decline, witness the latest announcements from Honda UK and Nissan UK that they were likely to close their UK factories as being sub-scale. US manufacturers export meaningful volumes to the Chinese markets, ironically, many of these are Mercedes/BMW brands manufactured in the USA. The pressure on Germany and its huge reliance on its manufacturing base becomes clear. This is indeed a global issue.

Brexit deadline?

By the time the committee next meets, the 29th March deadline will almost be upon us. It would be a mistake to regard that as “the end of the story”. The EU Commission seemingly regards the Euros 40 billion or so of UK obligations under the withdrawal agreement as payable whatever the 29th March outcome. First payments are due into the European budget by the end of April 2019. Whether the UK government actually agreed to unconditional payments, I have no means of knowing. It seems an appalling negotiating tactic, if true.

If there is a hard Brexit, there are a whole host of (temporary?) arrangements to be put in place, to include airline flying rights, fishing quotas, food tariffs etc., to quote some obvious ones.

Market prospects

Equity markets have run up quite a long way so far this year. There is certainly room for optimism compared to late 2018. My instinct is that the current excess of optimism will fade and result in more subdued equity markets. I doubt that either equity or bond markets will fall by any appreciable amount in the next few months. Cash flows into financial markets remain substantial.

Conclusion
Peter Jones
28 February 2019

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

This report was written by Peter Jones, who can be contacted 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:	**21 March 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; and

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

Recommendation(s):

The Pensions Committee is requested to:

A) Note the report; and

B) Note and consider the report on the BCPP Governance Review.

Background

OUTCOMES FROM PENSION BOARD MEETING ON 10 JANUARY 2019

1.1 The PB met on the 10th January and its main focus was on the following topics:

A) **Backlog of leaver records** – it is pleasing to report that in addition to clearing the historic backlog, the in-year leavers for Lincolnshire County Council (LCC) had reduced to normal levels. The PB acknowledged the improvements made as part of the LCC Employer improvement plan and were content to cease the requirement for regular reporting back to the Board. LCC will now fall into the normal monitoring of all employers. On behalf of the PB, the Chairman wrote to the Head of Paid Services to express the Board's satisfaction with the work that had been carried out and

suggested that it would be appropriate for LCC to notify the Pensions Regulator that all backlogs had been cleared.

B) **Employer Monthly Submissions and Contribution Monitoring** – the report on this matter at the last meeting generated some debate. Generally, the payment of contributions and the Employer Data Submissions on a timely basis are good but there are still a few outliers. This is both disappointing and unacceptable. Officers felt it was important to work with employers to attempt to resolve issues before taking further action, as it was important to maintain good relationships with them. The PB resolved that at this stage no further actions should be taken against employers submitting late or inaccurate payments or data but that the Board continue to receive the Employer Monthly Submissions Update Report.

C) **Data Scores** – the PB considered a report from WYPF on the data scores for the Lincolnshire Pension Fund as reported to the Pensions Regulator; these were Common 95.71% and Conditional 94.81%. The target is 100%, particularly for Common Data. WYPF are currently working on a data improvement plan and using a tracing company in an attempt to track lost members. During the ensuing discussion, it transpired that when a member reaches pension age and they have not been successfully traced, WYPF had set up a HSBC bank account with sub accounts for each pensioner. This avoided any unauthorised payment tax charges for the members once they were found. The PB requested a further report on the Pension Regulator's data scores together with sight of the improvement plan. The PB will also monitor the HSBC sub account procedures and may invite internal audit to review.

D) **Border to Coast Governance (BCPP) Review** – at the request of the Board, the Pension Fund Manager (PFM) produced a report which detailed the governance structure of BCPP. The PFM identified the key stakeholders of BCPP and explained what each of the roles entailed. Prior to the meeting, the Chairman had submitted a number of questions by email in relation to the governance review. In the interests of time, the answers were circulated after the meeting. In terms of good governance, the Chairman believes that the S151 Officers' Group should produce minutes/notes of their meetings. The PB commends the PFM's excellent report to the Pensions Committee, a copy of which is attached at **Appendix A** to this report together with the supporting questions and answers (**Appendix B**).

E) **BCPP Joint Committee Scheme Member Representative** – the BCPP Joint Committee has approved an addition to its existing membership, one non-voting scheme member representative, together with a standing substitute. Both scheme member representatives of the Lincolnshire Board were eligible to put themselves forward for the position. After much deliberation both during and after the meeting, both members decided against being part of the ballot process. In the event, five scheme members from other BCPP funds were entered in the ballot. Nicholas Wirz, from Tyne

and Wear, was elected as the scheme member representative and Deirdre Burnet, from Cumbria, will hold the substitute role.

Conclusion

ASSURANCES GAINED BY THE BOARD

2.1 The backlog of leaver records for LCC as Employer has been cleared;

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 PB has some concerns about the data scores and cannot provide full assurance on this aspect; and

2.4 The PB welcomed the BCPP Governance Report and were assured by its contents.

Roger Buttery
Independent Chairman

February 2019

Consultation

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

No

b) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pensions Board - Border to Coast Governance Review Report (from 10 January 2019 meeting)
Appendix B	Lincolnshire Pensions Board - Border to Coast Governance Review Supporting Questions and Responses

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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Appendix A

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:	**Lincolnshire Pension Board**
Date:	**10 January 2019**
Subject:	**Border to Coast Governance Review**

Summary:

This report details the governance structure of Border to Coast, identifying the key stakeholders and their respective roles.

Recommendation(s):

That the Board note the report.

Background

1 At the October meeting of the Pension Board, it was requested that Officers bring a paper detailing the governance arrangements surrounding the Fund's asset pool, Border to Coast Pensions Partnership (Border to Coast).

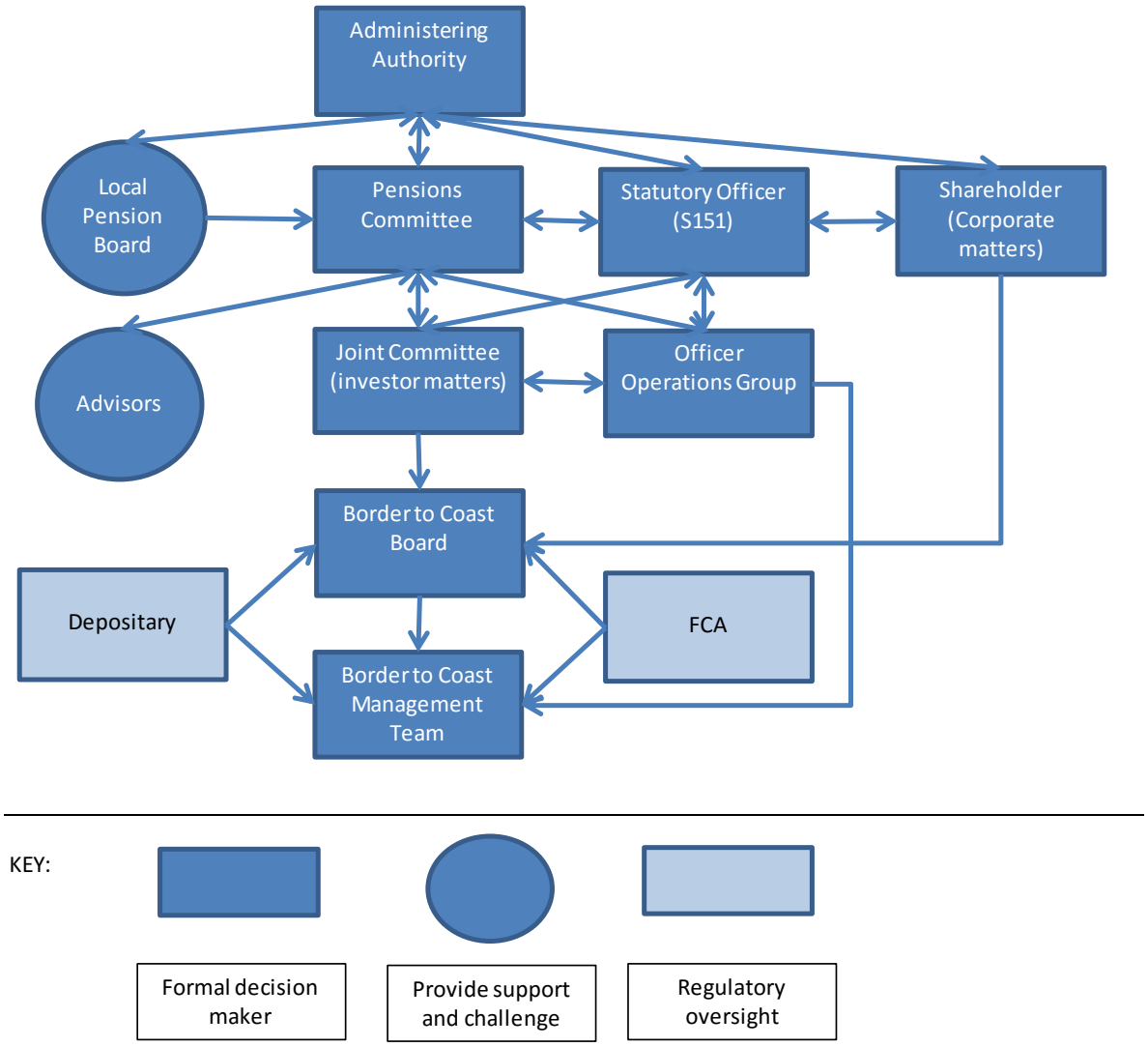
2 There are a number of different key stakeholders across Border to Coast, all with varying interests in different aspects of how Border to Coast performs. The investment performance and capability is overseen by the Partner Funds on a day-to-day basis by senior officers and formally on a quarterly basis by the Joint Committee. Border to Coast's performance as a company is overseen by shareholder representatives from the twelve administering authorities, both on an ongoing basis and formally once a year at its AGM.

3 The Partner Funds and Border to Coast work collaboratively to build the investment capabilities required to ensure that the Partner Funds are able to efficiently and effectively deliver their strategic asset allocations. However, in order to hold Border to Coast to account and to meet FCA requirements for a regulated asset manager, the governance structure is designed to ensure sufficient independence between the Partner Funds and Border to Coast during implementation and on-going management of sub-funds.

4 The diagram below shows the governance structure in place to ensure proper oversight of Border to Coast is carried out both from a **shareholder** and an **investor** perspective. Further information is then provided on each

of the stakeholder groups shown, highlighting their roles and responsibilities in relation to the overall governance structure.

Border to Coast Governance structure:



Administering Authority (and Pensions Committee) – as the Investor

5 Each local Administering Authority acts as scheme manager for each Pension Fund, and so is responsible, amongst other things, for investing and managing LGPS assets. The Pensions Committee is the decision making body and as such sets the strategic asset allocation and investment strategy for the Fund.

6 To enable the Funds to effectively and efficiently implement their investment strategy, Border to Coast, in partnership and working closely with the Partner Funds, is responsible for designing sub-funds with certain risk / return / liquidity characteristics that will provide the strategic "building blocks" for Funds to invest in.

7 Once the design is agreed, Border to Coast becomes the asset manager responsible for tactical matters such as implementation and ongoing management of each sub-fund, management of internal investment capability, appointment and oversight of external managers, implementation of responsible investment (voting and engagement) policy, and tactical asset allocation within risk parameters agreed with the Funds.

8 The Funds are responsible for the review of whether the built sub-fund meets their strategic needs and, under their fiduciary duties, will review Border to Coast's capability to deliver the objectives. This is done collectively through the groups/individuals shown in the paragraphs below.

Joint Committee (Investor role)

9 The Joint Committee (JC) is constituted from the 12 Pension Fund Committee Chairs and meets quarterly. It is the collaborative vehicle through which the individual Partner Funds provide collective oversight of the performance and direction of Border to Coast. Its remit includes oversight of progress towards the pooling of Partner Fund assets as a whole.

10 As a S102 Committee there are agreed Terms of Reference and as these are public meetings they are operated and reported as is required. It should be noted that the JC does not have any formally delegated authority, and therefore any matters requiring decision must be considered and approved by each Pension Committee.

11 The Chair and Vice Chair of the JC are elected by the members of the JC on an annual basis. Secretariat functions to support the Joint Committee are provided through South Yorkshire Pensions Authority. Tyne & Wear Pension Fund act as host authority for all other matters.

Officer Groups (Investor role)

12 The JC is supported by the respective Statutory Officers (S151 and Monitoring Officers) and the Officer Operations Group ("OOG"), constituted from the twelve Senior Pension Fund Officers. These groups meet to discuss issues and give input to both Elected Members and Border to Coast as required.

13 The OOG meet monthly, with part of the meeting being attended by Border to Coast, and part in closed session. The OOG work collaboratively to ensure that due diligence over Border to Coast investment capabilities is carried out effectively on behalf of the Pension Committees.

Local Pension Board (Investor role)

14 In line with their role in other administrative and governance matters, the local pension boards provide support and challenge to the Pension Committee's decisions and decision-making process in relevant investment

areas, and look to ensure appropriate governance is in place to provide effective monitoring.

Advisors (Investor role)

15 Regulations require that Pension Funds take professional advice in respect of any investment decisions, and this is generally provided through Funds appointing Independent Investment Advisors and/or Investment Consultants. They will work with the Pensions Committee and Officers to ensure that the strategic asset allocation can be effectively implemented through the use of the sub-funds available at Border to Coast.

Administering Authority – as the Shareholder

16 Each Partner Fund also has the right to exercise corporate control and oversight through its Administering Authority's ownership of Border to Coast as an equal shareholder. Each Fund, as shareholder, owns a single equity voting share, and through the exercise of its voting rights across a range of reserved matters demonstrates its exercise of "significant control" as required under "teckal" (Border to Coast Pensions Partnership is a teckal company i.e. one that is set up under the Teckal procurement exemption).

17 In general, shareholders' role in the governance of a company is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place within the company. In the case of the Border to Coast, shareholders also retain certain rights under a Shareholder Agreement entered into by all shareholders at the time of its incorporation, including approval of the annual Strategic Plan (including: annual Budgets, cash flow, balance sheet, cost sharing and regulatory capital assessment), Company pensions provision, admission of new shareholders and cost sharing.

18 The shareholder representative must be a nominated individual, as the Administering Authority cannot physically appear at a Company's shareholder meeting. The shareholder representative for Lincolnshire is the Executive Director of Finance and Public Protection. The shareholders carry out their duties typically by written resolution, with advice from the officers, Section 151 and monitoring officers, as deemed appropriate.

19 Border to Coast will hold an Annual General Meeting to provide the shareholders with a forum for discussion about the Company's performance against the wider pooling objectives and to hold the Border to Coast directors to account for this. This would also provide a forum for discussion regarding future strategic capability build and agreement for changes to the budget to support such developments. The primary Border to Coast contact for shareholders will be with the Chair, Chief Executive Officer (CEO) and Chief Operating Officer (COO).

Border to Coast Board

20 The Board is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs, having due regards to its shareholders, customers and other stakeholders as a whole. The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board sets the Company's values and standards and ensures that its obligations to its shareholders, customers and other stakeholders are understood and met.

21 In carrying out these responsibilities, the Board must have regard to what is appropriate for the Company's business and reputation, the materiality of the financial and other risks inherent in the business and the relevant costs and benefits of implementing specific controls.

22 The Board is comprised of suitably skilled and experienced individuals who collectively have sufficient knowledge and understanding of all the Company's markets and products to be able to discharge all their responsibilities in an effective, efficient and compliant manner.

23 In addition to the Executive Directors and the Non-Executive Directors (NED), Border to Coast also has representation from its Shareholders on the Board, with two shareholder NED's.

Border to Coast Management Team

24 The Board has delegated the management of the Company on a day-to- day basis to the Chief Executive Officer (CEO), subject always to those matters reserved for decision by the Board or its committees. The CEO has in turn delegated certain responsibilities to her direct reports (Chief Operating Officer, Chief Investment Officer and Chief Risk Officer). A number of committees have been created to assist the CEO in her decision-making or to monitor certain activities.

25 The CEO reports regularly to the Chairman and the Board with appropriate, timely and quality information so that it can discharge its responsibilities effectively. Her specific responsibilities include the following:

- Strategy and Business Planning
- Leadership and Corporate Governance
- Human Resources
- Pensions
- Risk Management and Controls
- Finance

- Customer Services, Conduct Risk Management and Treating Customers Fairly
- Communications and Shareholder Liaison

The Financial Conduct Authority (FCA) – the regulator

26 Border to Coast is approved and regulated by the Financial Conduct Authority as an Alternative Investment Fund Manager (AIFM). This means the Company and its employees must meet certain standards of conduct in the operation of its business. The Regulator may carry out investigations if it believes that an organisation is not meeting the appropriate standards. It has wide-ranging powers of intervention and sanction.

The Depositary

27 In a regulated collective investment vehicle such as the Border to Coast Authorised Contractual Scheme (ACS), a depositary is appointed to act on behalf of investors. Northern Trust has been appointed as the depositary for the Border to Coast ACS. Its duties include:

- Safeguarding assets of the authorised fund via its custody services or utilising a sub-custodian.
- Oversight of manager's activities e.g. unit pricing, dealing, portfolio management.
- Oversight of how the manager is discharging its responsibilities.
- Cash flow / liquidity oversight.
- Distributions.
- Protecting the best interests of investors.
- Reporting breaches of FCA guidance to the FCA (including any due diligence findings).

Conclusion

28 As can be seen from the detail above, Border to Coast has a very well defined governance structure, and is subject to comprehensive oversight and challenge from a number of key stakeholders, including investors, shareholders, industry and regulatory bodies. Within Lincolnshire, officers have day-to-day contact with Border to Coast and regular reports are taken to both the Pensions Committee and the Pension Board.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Background Papers

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

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

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Appendix B

Roger's questions re B2C Governance:

1. How much has the Lincolnshire Pension Fund incurred so far in the creation of BCPP?

   2017/18 £125.6k project costs
   2018/19 £288.0k project costs
   £171.0k annual operating charge (9mths pro rata)
   £20.1k Investment proposition Development
   £479.1k

   Share capital A shares £1, B shares £833.3k

   Total overall expenditure:£1,438k

2. Is it possible for the Board to have a copy of the BCPP Limited Annual Report and Financial Statements for 2017/2018 (and future Reports) and the external audit report, please?

   Yes can share 2017/18 and future ones. They are available on Companies House (co. number 10795539).

3. What happens to any profit generated by BCPP - is it retained in the Company or returned to the shareholders?

   It is a non-profit making company, and any profit generated will reduce the annual operating charge paid by shareholders.

4. Does the Section 151 Officers' Group take an active role in BCPP? Are there minutes of meetings? If so, does the Board have access to them or are they strictly confidential?

   The S151's interest and involvement has increased considerably over the last year and there are now monthly phone calls are had with the CEO and the S151's, and meetings as and when required (e.g. 3rd December budget meeting). No minutes are taken however information is shared with officers as required.

5. Does BCPP Limited have a Remuneration Committee? Is this the Section 151 Officers' Group? In essence, who determines the salaries/fees of the Directors?

   There is a Nomination and Remuneration Committee. NED's are responsible for recommending appropriate levels of remuneration of Executive Directors for approval by the Shareholders.

6. Are there any weaknesses in the governance arrangements surrounding BCPP that you would like to see strengthened?

   Not yet had a full year of BAU. The building blocks are in place and at this moment there is nothing additional that I would expect to see. However this is regularly under review.

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:	**21 March 2019**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Committee on Fund matters over the quarter ending 31st December 2018 and any current issues.

Recommendation(s):

That the Committee note the report.

Background

Fund Summary

1.1 Over the period covered by this report, the value of the Fund fell in value by £163.5m (6.9%) to £2,199.9m on 31st December 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 31st December. Across the asset classes, UK equities is slightly below the agreed tolerance weighting, at 17.9% compared to a lower tolerance of 18%, however equities overall is within its tolerance. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 1.3%
- UK Equities underweight by 2.1%
- Global Equities overweight by 3.4%

Underweight Alternatives by 0.4%

Overweight Property by 0.3%

Underweight Infrastructure by 0.6%

Underweight Bonds by 1.0%

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.

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

1.4 Appendix C shows the market returns over the three and twelve months to 31st December 2018.

1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 31st December, accounting for 10.3% of the Fund, compared to 10.9% 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	36.0	1.6
2	MICROSOFT	23.9	1.5
3	HSBC	24.3	1.1
4	RECKITT BENCKISER	23.5	1.1
5	UNILEVER	21.8	1.0
6	VISA	19.1	0.9
7	BP	18.1	0.8
8	BRITISH AMERICAN TOBACCO	17.4	0.8
9	DIAGEO	17.4	0.8
10	AMAZON	15.8	0.7
	TOTAL	**226.3**	**10.3**

1.6 Appendix D presents summarised information in respect of votes in relation to the Fund's equity holdings. The contract with Manifest Voting Agency was terminated as of 29th November 2018, and from that date the external segregated equity managers have been voting in line with their own policies, as agreed at the July 2018 meeting of this Committee. This change was made ahead of the transition of assets to Border to Coast.

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.

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 this quarter, LAPFF engaged with 95 companies on issues ranging from human capital management and Board composition to climate change reporting and sustainability.

- Concerned about the continuing human capital management and governance issues at Ryanair, the Forum announced a proposal to file a shareholder resolution ahead of the company's 2019 AGM, with the aim of replacing the current Chair David Bonderman, who has been on the board for 22 years, and ensuring that a coherent succession plan is in place for Chief Executive Michael O'Leary. Despite numerous efforts to meet with a Board member, Ryanair has not yet agreed to such a meeting.

- The Forum progressed work on the topic of plastics, joining a coalition of investors engaging with companies on the overall threats posed by plastic waste and pollution. The Forum met with two companies on this, as well as discussing the use of single-use plastic specifically. Additionally, the Forum co-signed a letter to a range of companies on reducing plastic pellet loss.

- The quarter saw many engagements with Board members of housebuilders and construction companies on the topic of sustainable cities and climate risk management. Part of a broader topic of

Sustainable Development Goals, these meetings sought to broaden the Forum's understanding of how these companies approach issues around planning and affordability, and seek assurance that tackling climate change is integral to the business strategy.

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 £11.2m for the year financial year to 31st December. The invested cash has outperformed the benchmark from 1st April 2018 by 0.17%, annualised, as shown in the table below, and earned interest of £65.6k.

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 – Q3 to 31st December				
Pension Fund Average Balance £'000	**Interest Earned £'000**	**Cumulative Average Yield Annualised %**	**Cumulative Weighted Benchmark Annualised %**	**Performance %**
11,223	65.6	0.8	0.63	0.17

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 Risk Register Update

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

5.2 The January meeting of this Committee agreed the recommendations made by the Pension Board and risks 3 and 4 have been updated to reflect the changes:

- the score for Risk 3 has been upgraded to red, 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. Additional controls were also added, shown below in italic.

Risk 3	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) *B2C and partner funds relationship* *PFM's objective to support/train new Director*	4	2

- additional words were added to Risk 4 as shown below in italic.

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

5.3 There are now two red risks on the register, Risk 3 above and 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

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

6 Asset Pooling Update

Sub Funds

6.1 Work continues on the development of the sub-fund products within Border to Coast, with a number of workshops for Officers and Border to Coast staff being set up over the coming months to discuss requirements and agree structures.

6.2 The manager tenders for the Global Equity Alpha Fund have closed and the selection process is underway at the time of writing this report.

6.3 An advisor call/meeting has been diarised for March to ensure that all advisors are content with the sub-fund offerings and progress.

6.4 Representatives from Border to Coast will present to the June meeting of this Committee, detailing the sub-funds that the Fund may be investing in.

Joint Committee Meetings

6.5 The Joint Committee (JC) last met on 11th March 2019, and the papers were circulated to all Pensions Committee members. The minutes will be circulated once approved, and below are the agenda items for the meeting:

- Scheme member representation
- Elections for the Role of Chair and Vice Chair of the Joint Committee and Nominee for the Directorship of Border to Coast Pensions Partnership Limited
- JC Budget
- Governance Arrangements – The role of the shareholder and investor
- MHCLG – Statutory Guidance on Asset Pooling
- Feedback on National Working Groups
- Update from Border to Coast Chaiman
- Chief Executive Officer (CEO) Report
- Transition Timeline
- Global Equity Alpha Fund Update
- Alternatives Update
- Fixed Income Update

6.6 The next JC meeting is being held on 4th June 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.

Shareholder Approvals

6.7 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.

6.8 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.

6.9 Two shareholder approvals were completed since the last Committee:

- 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 required approval from all shareholders and 100% approval was received.

- 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 required approval from 75% of shareholders (9 Partner Funds) and this approval was received.

Visit to Border to Coast Offices

6.10 Officers are in the process of identifying some dates with Border to Coast for a visit to their offices, accompanied by Pension Board members. Information and travel arrangements will be circulated once agreed.

7 Conference and Training Attendance

7.1 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.

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

Conclusion

8 This reporting period saw the value of the Fund fall by £163.5m to £2,199.9m. At the end of the period the asset allocation, compared to the strategic allocation, was:

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

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

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.

APPENDIX A

DISTRIBUTION OF INVESTMENTS

INVESTMENT	31 Dec 2018			30 Sept 2018			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
UK Index Tracker	170,792	0.0%	0.0%	170,607	0.0%	0.0%		
Legal & General	392,746,958	29.1%	17.9%	437,235,675	28.9%	18.5%	20.0%	+/- 2%
TOTAL UK EQUITIES	**392,917,750**		**17.9%**	**437,406,282**		**18.5%**	**20.0%**	
GLOBAL EQUITIES								
Invesco	502,820,032	37.3%	22.9%	573,876,747	37.9%	24.3%	22.5%	+/- 2.5%
Threadneedle	132,269,695	9.8%	6.0%	150,700,695	10.0%	6.4%	5.0%	+/- 1%
Schroder	123,911,170	9.2%	5.6%	139,637,448	9.2%	5.9%	5.0%	+/- 1%
Morgan Stanley	196,420,114	14.6%	8.9%	212,166,714	14.0%	9.0%	7.5%	+/- 1%
TOTAL GLOBAL EQUITIES	**955,421,010**		**43.4%**	**1,076,381,605**		**45.5%**	**40.0%**	
TOTAL EQUITIES	**1,348,338,760**	**100%**	**61.3%**	**1,513,787,887**	**100%**	**64.1%**	**60.0%**	**+/- 6%**
ALTERNATIVES	**321,982,483**		**14.6%**	**323,869,717**		**13.7%**	**15.0%**	**+/- 1.5%**
PROPERTY	**205,267,538**		**9.3%**	**205,572,420**		**8.7%**	**9.0%**	**+/- 1.5%**
INFRASTUCTURE	**41,846,019**		**1.9%**	**38,539,818**		**1.6%**	**2.5%**	**+/- 1.5%**
FIXED INTEREST								
Blackrock Interim	137,584,346	50.1%	6.3%	136,008,559	49.8%	5.8%	6.75%	+/- 1%
Blackrock	137,042,880	49.9%	6.2%	136,948,000	50.2%	5.8%	6.75%	+/- 1%
TOTAL FIXED INTEREST	**274,627,226**	**100%**	**12.5%**	**272,956,559**	**100%**	**11.5%**	**13.5%**	**+/- 1.5%**
TOTAL UNALLOCATED CASH	**7,817,553**		**0.4%**	**8,614,157**		**0.4%**	**0.0%**	**+ 0.5%**
TOTAL FUND	**2,199,879,579**		**100%**	**2,363,340,558**		**100%**	**100%**	

APPENDIX B

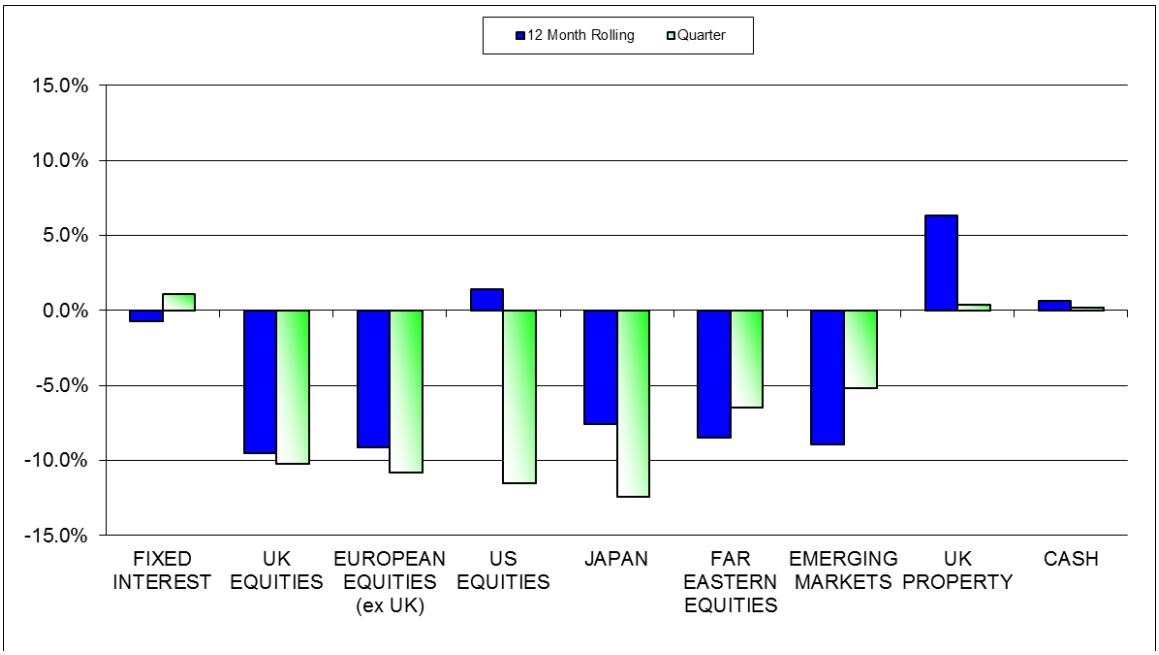
PURCHASES AND SALES OF INVESTMENTS
Quarter Ended 31st December 2018

Investment	Purchases £000's	Sales (£000's)	Net Investment £000's
UK Equities			
Legal & General	0	0	0
Global Equities			
Invesco	56,704	(54,040)	2,664
Columbia Threadneedle	10,727	(11,327)	(600)
Schroders	24,279	(24,032)	247
Morgan Stanley Global Brands	0	0	0
Total Equities	**91,710**	**(89,399)**	**2,311**
Alternatives			
Morgan Stanley	0	0	0
Total Alternatives	**0**	**0**	**0**
Property	**0**	**(56)**	**(56)**
Infrastructure	**1,819**	**(2,533)**	**(714)**
Fixed Interest			
BlackRock	0	0	0
Blackrock Interim	0	0	0
Total FI	**0**	**0**	**0**
TOTAL FUND	**93,529**	**(91,988)**	**1,541**

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 31st DECEMBER 2018



INDEX RETURNS	12 Months to Dec 18 %	Oct-Dec 18 %
FIXED INTEREST	-0.7%	1.1%
UK EQUITIES	-9.5%	-10.2%
EUROPEAN EQUITIES	-9.1%	-10.8%
US EQUITIES	1.4%	-11.5%
JAPANESE EQUITIES	-7.6%	-12.4%
FAR EASTERN EQUITIES	-8.5%	-6.5%
EMERGING MARKETS	-8.9%	-5.2%
UK PROPERTY	6.3%	0.4%
CASH	0.6%	0.2%

APPENDIX D

Voting carried out through Manifest – October to November 2018

Votes Summarised by Votes Cast				
Votes Cast at Management Group Level				
Report Period: 01 October 2018 to 30 November 2018				
Voting Guideline Code	For	Abstain	Against	Total
Adjourn Meeting	1	0	0	1
All Employee Share Schemes	4	0	0	4
Amend Class of Capital	1	0	0	1
Appoint Chairman	1	0	0	1
Appoint Independent Proxy	1	0	0	1
Appoint Remuneration Committee Member	4	0	0	4
Approval of Executive's Remuneration Package	4	0	0	4
Auditor - Appointment	21	0	4	25
Auditor - Remuneration	4	0	3	7
Auth Board to Issue Shares	3	0	2	5
Auth Board to Issue Shares w/o Pre-emption	6	0	1	7
Authorise Political Donations & Expenditure	1	0	0	1
Board of Directors aggregate remuneration approval	2	0	0	2
Board Rem - Allow Board to Set	1	0	0	1
Board Size Range	1	0	0	1
Cancel Class of Capital	2	0	0	2
Cancel Treasury Shares	1	0	0	1
Change of Name	2	0	0	2
De-classify the Board	1	0	0	1
Delegate Powers	2	0	0	2
Director - Discharge from Liability	1	0	0	1
Director Election - All Directors [Single]	194	0	56	250
Director Election - Chairman	7	0	11	18
Director Election - Chairs Audit Committee	14	0	4	18
Director Election - Chairs Nomination Committee	14	0	5	19
Director Election - Chairs Remuneration Committee	19	0	2	21
Director Election - Chairs Risk Committee	2	0	0	2
Director Election - Executives	21	0	17	38
Director Election - Lead Ind. Director/DepCH	10	0	0	10
Director Election - Non-executive/Sup Board	172	0	37	209
Director Election - Sits on Audit Committee	63	0	12	75
Director Election - Sits on Nomination Committee	61	0	10	71
Director Election - Sits on Rem Com	60	0	12	72
Director Election - Sits on Risk Committee	6	0	3	9
Distribute/Appropriate Profits/Reserves	3	0	0	3
Dividends - Ordinary	5	0	0	5

Executive aggregate remuneration approval	2	0	0	2
Financial Statements	6	0	1	7
Financial Statements - Environmental Issues	3	0	0	3
Individual Share Award	11	0	1	12
Insert New Holding Company	0	0	1	1
Internal Reorganisation	0	0	0	0
Long-term Incentive Plans	0	0	4	4
LTIP Performance Measures	1	0	0	1
Merger Related Compensation [US]	1	0	0	1
NED Remuneration - Fee Rate/Ceiling	2	0	0	2
NED Remuneration - Fees proposed for year	1	0	0	1
Other Changes to Governance Arrangements	2	0	0	2
Proportional Takeover Provisions	3	0	0	3
Ratify Co-option to Board	1	0	0	1
Reduce or Reclassify Capital or Reserves	0	0	0	0
Reissue (Use) Treasury Shares	0	0	2	2
Related Party Transaction - Specific Transaction	0	0	0	0
Remuneration Policy	1	0	2	3
Remuneration Report	2	0	30	32
Resolution Issues	0	0	1	1
Return of Capital	0	0	0	0
Scheme of Arrangement	0	0	1	1
SH: Coal Reliance	0	0	0	0
SH: Independent Chairman	2	0	0	2
SH: Lobbying - Improve Disclosure	1	0	0	1
	767	**0**	**229**	**996**

Manager Voting – December 2018

Schroders
No voting was undertaken in the period.

Columbia Threadneedle
No voting was undertaken in the period.

Invesco

Count of Vote Instruction		Vote Instruction		
Proposal Code Category	**Proposal Code Description**	**Against**	**For**	**Grand Total**
Directors Related	Approve Discharge of Management Board		1	1
	Approve Remuneration of Directors and/or Committee Members		1	1
	Elect Board Chairman/Vice-Chairman		1	1
	Elect Director		10	10
Directors Related Total			13	13
Non-Salary Comp.	Advisory Vote to Ratify Named Executive Officers'Compensation	1		1
	Approve Remuneration of Executive Directors and/or Non-Executive Directors		2	2
Non-Salary Comp. Total		1	2	3
Routine/Business	Accept Financial Statements and Statutory Reports		2	2
	Approve Allocation of Income and Dividends		1	1
	Designate X as Independent Proxy		1	1
	Elect Member(s) of Remuneration Committee		4	4
	Other Business	1		1
	Ratify Auditors		1	1
Routine/Business Total		1	9	10
Grand Total		2	24	26

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:	**21 March 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 October 2018 to 31 December 2018.

KPI's for the period 1.10.18 to 31.12.18						
WORKTYPE	**TOTAL CASES**	**TARGET DAYS FOR EACH CASE**	**TARGET MET CASES**	**MINIUM TARGET PERCENT**	**TARGET MET PERCENT**	**AVERAGE TIME TAKEN**
AVC In-house (General)	92	10	90	85	97.83	2.15
Age 55 Increase to Pension	1	20	1	85	100	3
Change of Address	227	5	221	85	97.36	0.61

WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT	AVERAGE TIME TAKEN
Change of Bank Details	54	For next payroll	54	85	100	2.41
DWP request for Information	9	10	9	85	100	3.11
Death Grant Nomination Form Received	789	20	789	85	100	3.71
Death Grant to Set Up	32	5	31	85	96.88	1.03
Death In Retirement	128	5	123	85	96.09	2.24
Death In Service	1	5	1	85	100	3
Death on Deferred	9	5	6	85	66.67	6.11
Deferred Benefits Into Payment Actual	277	5	252	90	90.97	4.45
Deferred Benefits Into Payment Quote	295	35	278	85	94.24	12.19
Deferred Benefits Set Up on Leaving	1363	20	1263	85	92.66	7.06
Divorce Quote	65	20	65	85	100	3.72
Enquiry	3	5	3	85	100	2.67
General Payroll Changes	35	5	34	85	97.14	1.89
Initial Letter Death in Service	1	5	1	85	100	0
Initial letter Death in Retirement	128	5	128	85	100	0.72
Initial letter Death on Deferred	9	5	7	85	77.78	12.22
Life Certificate Received	11	10	10	85	90.91	14.91
Monthly Posting	884	10	785	95	88.8	4.42
NI adjustment to Pension at State Pension Age	5	20	5	85	100	5.6
Pension Estimate	286	10	266	75	93.01	6.85
Refund Payment	204	10	194	95	95.1	2.62
Refund Quote	413	35	364	85	88.14	18.82
Retirement Actual	148	3	142	90	95.95	0.87
Retirement Quote	207	10	181	85	87.44	4.81
Set Up New Spouse Pension	52	5	50	85	96.15	3.83
Spouse Potential	10	20	10	85	100	6.6
Transfer In Actual	29	35	23	85	79.31	22.72
Transfer In Quote	31	35	31	85	100	4.19
Transfer Out Payment	11	35	11	85	100	5.45
Transfer Out Quote	118	20	93	85	78.81	15.46

Reasons for underperforming KPI's:

Death on Deferred	Delays due to deaths discovered through National Fraud Initiative
Initial letter Death on Deferred	Delays due to deaths discovered through National Fraud Initiative
Monthly Posting	Files that cannot be validated because of errors, queries, mismatches etc. Average time taken across all employers is less than 10 days. Only one repeat offender (Woodlands Academy).
Transfer In Actual	Stockpiled due to changes in actuarial factors.
Transfer Out Quote	Stockpiled due to changes in actuarial factors.

2.0 Scheme Information

2.1 Membership numbers as at January 19 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	23,925	28,104	1,130	21,452	2,623
Percentage of Membership	31.78	35.68	1.83	27.44	3.3
Change from Last Quarter	-554	+628	-282	-320	+107

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	319	1615	1548	2050	2654	2952	4086	3895	3006	1485	249	66	23,925

2.3 **Employer Activity**

Academies and Prime Account Schools

Between 1 October 2018 to 31 December 2018, 5 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.

Town and Parish Councils

Between 1 October 2018 and 31 December 2018 no Town or Parish Councils became Scheme employers.

Admission Bodies

Between 1 October 2018 and 31 December 2018 there were no new Admission Bodies in the Fund.

WYPF are currently working on the admissions for 4 Admission Bodies.

Problem employers:

Employers ceasing Participation

Between 1 October 2018 and 31 December 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 December 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 Member and Employer Contact

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

Over the quarter October to December 193 Lincolnshire member's sample survey letters were sent out and 32 (16.6%) returned:

Overall Customer Satisfaction Score:

October to December 2017	January to March 2018	April to June 2018	July to September 2018	October to December 2018
91.7%	87.3%	72.1%	81.6%	81.0%

3.2 Employer Training

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

Customer satisfaction scores were 89.96% and 94.14% respectively.

4.0 Internal Disputes Resolution Procedures

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

Stage 1 appeals against the fund

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

Date of appeal	Member no	Employer	Reason for appeal	Date of decision	Decision	Outcome / comments
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.			
10/12/18	8064349	LCC	Appeal against not being permitted to reverse her earlier decision to transfer in an AVC.			

Stage 1 appeals against scheme employers

One appeal decision in this period. One appeal 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.	7/12/18	Appeal upheld	Further medical referral and advice obtained by LCC resulting in certification that criteria for a Tier 1 ill health retirement are met and this benefit is to be awarded to the member.
20/12/2018	8015754	LCC	Appeal against decision not to turn on 'rule of 85' for early release of pension.			

Stage 2 appeals

2 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.

Ombudsman

4.2 1 appeal outstanding against being turned down for early release of pension on ill health grounds. LCC Legal compiled information for response. WYPF provided details of regs relevant to the case. LCC Legal were informed by the Pensions Ombudsman on 17 December 2018 that the complaint has been resolved informally.

5.0 Administration Update

5.1 Data Quality

As quoted in the last report the data quality scores reported to TPR for LPF were:

Common Data – 95.71
Scheme Specific Data – 94.81

A draft improvement plan has now been produced which identifies where the issues are and how what we can do to improve on the scores.

5.2 GMP Reconciliation

Responses from HMRC have started to come back. So far we have received responses to:

- Member on HMRC records but not on our records – HMRC have now supplied the last Employer for these cases. Officers have been working through the list of 498 cases to identify why they do not appear on LPF records. The majority show as working for schools so they may well have been in the Teachers' pension Scheme. The responses have been sent back to HMRC.

- Member on our records but not HMRC records – File has been received last month and is awaiting processing.

5.3 Post 2014 Preserved Refunds

We are waiting for confirmation that a new deposit account is open and ready to accept payments. We will write to affected members whose 5 year deadline is approaching and tell them that they must claim their refund. If they do not do this we will pay the refund into the deposit account to comply with the deadline restrictions and rules. Late claims will then be released from the account and paid to the claimant.

6.0 Current Issues

See Appendix 1

7.0 Shared service Budget

7.1 Latest forecast of outturn for 2018/19 Period 8 is £6,246,910 against a revised budget of £6,482,300m, underspend of £235k against revised budget. Latest forecast shows a cost per member of £14.58 against the budget of £15.13. Our projected cost per member is therefore still below our target cost of £17.

7.2 Table 1 - Cost per Member

WYPF PENSION ADMIN COST PER MEMBER	mbr no 2018/19	RVSD BUDGET per mbr 2018/19	REVISED EST 2018/19	PD8 per mbr 2018/19	FORECAST PD8 2018/19	DRAFT BDGT per mbr 2019/20	DRAFT BDGT 2019/20
WYPF	301,534	£15.13	**£4,562,910**	£14.58	**£4,397,220**	£15.89	**£4,791,060**
SHARED SERVICE CLIENTS	126,840	£15.13	**£1,919,390**	£14.58	**£1,849,690**	£15.89	**£2,015,360**
TOTAL	428,374	**£15.13**	£6,482,300	**£14.58**	£6,246,910	**£15.89**	£6,806,420

7.3 Table 2 - Shared Service spend

WYPF SHARED SERVICES	GROUP	OUTTURN 2017_18	BUDGET 2018_19	REVISED BUDGET 2018_19	FORECAST PD8 2018_19	VARPD8 FRCST - RVSD BDGT	SHARED SERVICE MBRS	FORECAST PD8 2018_19 PER MEMBER	DRAFT BUDGET 2019/20	DRAFT BUDGET 2019/20 PER MEMBER
EXP	Accommodation	£144,212	£185,300	£180,000	£176,100	-£3,900	428,374	£0.41	£184,910	£0.43
	Actuary	£0	£0	£0	£0	£0	428,374	£0.00	£0	£0.00
	Computer	£207,792	£281,000	£250,000	£222,970	-£27,030	428,374	£0.52	£234,120	£0.55
	Employees	£4,321,269	£4,803,766	£5,067,300	£4,928,000	-£139,300	428,374	£11.50	£5,421,560	£12.66
	Internal Recharge	£209,880	£202,980	£235,000	£204,150	-£30,850	428,374	£0.48	£214,360	£0.50
	Other	£126,645	£592,200	£150,000	£118,690	-£31,310	428,374	£0.28	£124,620	£0.29
	Printing & stationery	£405,831	£378,500	£600,000	£597,000	-£3,000	428,374	£1.39	£626,850	£1.46
TOTAL SPEND		£5,415,629	£6,443,746	£6,482,300	£6,246,910	-£235,390	428,374	£14.58	£6,806,420	£15.89

8.0 Awards

WYPF were winners of the Best Administration Award held by Pensions Age Awards held in London in 28 February.

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	Current Issues

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 Pensions Manager.

Background Papers

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

This report was written by Yunus Gajra, who can be contacted on 01274 432343 or Yunus.gajra@wypf.org.uk.

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Appendix 1

Current Issues

1 Cost management update

On 7th February the SAB received confirmation that the cost cap pause and the uncertainty caused by the McCloud case announced in last week's Written Ministerial Statement (as notified in our email of 30th January) applies equally to the LGPS as to the unfunded public service pension schemes. This is disappointing, however given that confirmation the SAB considers it has no option but to pause its own cost management process pending the outcome of McCloud.

The SAB remains committed to honouring the result of its cost management process once the outcome of McCloud is known. In pausing the process it has reserved its position regarding the resubmission of the same or a revised package of benefit improvements and contribution reductions when clarity in this matter has been achieve.

As a result there are currently no changes to benefits planned in respect of the cost cap. This situation will be reviewed once McCloud is resolved which is not expected for some months.

Administering authorities and employers should therefore proceed on the assumption that the scheme will not change in April. In particular employee contributions should be collected in April on the basis of current regulations.
Further information including a copy of the McCloud Appeal Court Judgement, the Written Ministerial Statement (WMS) and the letter confirming LGPS inclusion in the WMS is available on the SAB website by following this link:
http://www.lgpsboard.org/index.php/structure-reform/cost-management.

2 MHCLG issue consultation on pooling guidance

On 3 January 2019, MHCLG issued draft statutory guidance on LGPS asset pooling. The guidance sets out the requirements on administering authorities, replacing previous guidance, and builds on previous Ministerial communications and guidance on investment strategies.

The consultation is an informal one with interested parties only, including the Scheme Advisory Board, Pensions Committees, Local Pension Boards, the pool Joint Committees or equivalent, the Cross Pool Collaboration Group, the pool operating companies where owned by participating funds, CIPFA and ALATS.

The consultation closes on 28 March 2019.

3 MHCLG issue consultation on fair deal

MHCLG have circulated a policy consultation and draft regulations on 'Fair Deal – strengthening pension protection' in the LGPS.

The consultation contains proposals to strengthen the pension protections that apply when an employee of a LGPS employer is compulsorily transferred to the

employment of a service provider. The proposed amendments to the LGPS Regulations 2013 would, in most cases, give transferred staff a continued right to membership of the LGPS. These changes are intended to bring the LGPS in line with the government's October 2013 Fair Deal guidance that applies in relation to transfers from central government. The consultation closes on 4 April 2019.

The LGPC will be responding to the consultation in due course. In addition, the national LGPS Technical Group have created a sub-group to review the impact of the consultation and to make recommendations for response. The sub-group will be working closely with the LGA and MHCLG.

4 Contribution bands for 2019/20

On 17 October 2018, the Office for National Statistics (ONS) announced that the Consumer Prices Index (CPI) rate of inflation for September 2018 was 2.4%.

Government policy in recent years has been to base both pensions increase under the Pensions (Increase) Act 1971 and revaluation of pension accounts under section 9 of the Public Service Pensions Act 2013 on the rate of CPI for September of the previous year.

The table below sets out the draft contribution bands[1], which will be effective from 1 April 2019. These are based on the pay bands for 2018/19 as increased by the September 2018 CPI figure of 2.4%, with the result rounded down to the nearest £100.

Draft Contribution table 2019/20			
Band	**Actual pensionable pay for an employment**	**Contribution rate for that employment**	
		Main section	**50/50 section**
1	Up to £14,400	5.5%	2.75%
2	£14,401 to £22,500	5.8%	2.9%
3	£22,501 to £36,500	6.5%	3.25%
4	£36,501 to £46,200	6.8%	3.4%
5	£46,201 to £64,600	8.5%	4.25%
6	£64,601 to £91,500	9.9%	4.95%
7	£91,501 to £107,700	10.5%	5.25%
8	£107,701 to £161,500	11.4%	5.7%
9	£161,501 or more	12.5%	6.25%

5 LGPS (Miscellaneous Amendment) Regulations 2018 [SI 2018/1366]

The regulations came into force on 10 January 2019, with some provisions having an earlier effect. The regulations:

- introduce a general power for the Secretary of State to issue statutory guidance.
- make a technical amendment to allow early access to benefits between the age of 55 and NRD (as defined by the LGPS Regulations 1995[2]), for deferred members who left before 1 April 1998.
- address the Walker v Innospec judgment by providing that survivors of registered civil partnerships or same sex marriages will be provided with benefits that replicate those provided to widows.

There are actions that WYPF will take as a result of these changes.

- make any necessary changes to procedures / documentation to reflect that from 17 April 2018 deferred members who left the Scheme before 1 April 1998:

  - must now make a written election for early payment to the administering authority, instead of their former employer.
  - no longer have to have left all local government employment in order to receive early payment of their benefits under regulation D11(2)(d) of the LGPS Regulations 19953 i.e. election for early payment

- revisit calculations of pensions paid to surviving civil partners and same sex spouses and pay any additional amounts due. Await statutory guidance with regard to any further adjustments that may be due e.g. to CETVs, trivial commutations paid to surviving civil partners and same sex spouses and trivial commutations paid to members where the member was in a civil partnership or married to a same sex spouse at the date of payment. MHCLG have confirmed they will issue statutory guidance to assist administering authorities in this exercise.

- make adjustments to the calculation of some widows' and widowers' pensions where the member dies after 9 January 2019.

6 SCAPE discount rate – impact on actuarial guidance – update

MHCLG had issued revised factors, effective from 8 January 2019 with transitional arrangements for certain events, for:

- non-club transfers in.
- early retirements.
- trivial commutations.
- pension credits (where the debited member left the LGPS prior to 1 April 2014 or the transfer date is prior to 1 April 2014).
- pension debits (pre and post 2014).

These have been updated on UPM so any calculations done reflect the new factors.

a. Club transfer factors

New club factors will come into effect from 1 April 2019.

7 Late retirement factors

It is intended to introduce new factors and methodology for members taking payment of their benefits after Normal Pension Age. We understand that MHCLG will undertake a consultation with stakeholders soon.

Yunus Gajra
March 2019

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:	**21 March 2019**
Subject:	**Employer Monthly Submissions Update**

Summary:

This paper provides the Committee with up to date information on Employer Monthly Submissions for the third quarter of the financial year 2018/19 (October to December).

Recommendation(s):

The 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 There are just under 270 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.

2 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).

3 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.

4 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 three can be found at **Appendix A**.

Table One: Late contributions and data submissions to December 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%*
October	3	1.1%	13	4.9%
November	0	0.0%	8	3.0%
December	3	1.1%	11	4.1%
Total for 2018/19	**30**		**94**	

5 The analysis shows the number of employers making late contributions is a relatively small percentage of the overall number of employers. A higher number of employers submit their data returns late, or have made an incorrect submission by the deadline date (i.e. their data contains errors, or does not agree to the contributions paid across). There has been an increase in the number of employers who have made late data submissions in the last quarter. A number of reasons have been identified, these include:

- Staff changes at a number of employers;
- Merger of a number of schools into a larger academy trust; and
- Change of payroll providers at a number of employers.

6 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.

7 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 £136. Details of fines issued since April 2018 are set out in table two below.

Table Two: Late contributions fines to December 2018

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

October	November	December
1	1	1

Conclusion

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

9 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 Three (October to December 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

October 2018

Employer	Late Contributions	Date received	Late Data Submissions	Date submitted
Aspens	No		Yes	18/12/2018
Bourne Abbey Academy Trust	Yes	20/11/2018	Yes	20/11/2018
Bourne Westfield Primary	No		Yes	20/11/2018
Compass Point	No		Yes	26/11/2018
East Lindsey DC	No		Yes	22/11/2018
Gainsborough Town Council	No		Yes	20/11/2018
Hartsholme Academy	Yes	28/11/2018	No	
Magna Vitae	No		Yes	26/11/2018
Redwood Primary Academy	No		Yes	04/12/2018
South Holland District Council	No		Yes	26/11/2018
South Witham Community Primary School	No		Yes	22/11/2018
Spalding Academy	No		Yes	30/11/2018
St Bartholomews Primary	No		Yes	20/11/2018
St Giles Academy	Yes	28/11/2018	No	
Woodhall Spa Parish Council	No		Yes	05/12/2018
	Total = 3		Total = 13	

November 2018

Employer	Late Contributions	Date received	Late Data Submissions	Date submitted
Lincolnshire Housing Partnership	No		Yes	19/02/2019
Our Lady of Lincoln	No		Yes	08/01/2019
Sir Robert Pattinson	No		Yes	20/12/2018
Sir William Robertson	No		Yes	04/01/2019
Welton St Mary's	No		Yes	15/01/2019
The King's School, Grantham	No		Yes	20/12/2018
The Thomas Cowley Academy	No		Yes	06/02/2019
University Academy Holbeach	No		Yes	06/02/2019
	Total = 0		Total = 8	

December 2018

Employer	Late Contributions	Date received	Late Data Submissions	Date submitted
Aspens	Yes	24/01/2019	Yes	24/01/2019
Lincolnshire Housing Partnership	No		Yes	19/02/2019
Caistor Yarborough Academy	Yes	21/01/2019	Yes	30/01/2019
Gosberton House Schoool	No		Yes	29/01/2019
Holbeach Bank Primary Academy	No		Yes	24/01/2019
St Hugh's Caltholic Primary Academy	No		Yes	24/01/2019
Our Lady of Lincoln	No		Yes	28/01/2019
Outspoken	Yes	22/01/2019	Yes	22/01/2019
Thomas Cowley Academy	No		Yes	06/02/2019
West Grantham Academy	No		Yes	05/02/2019
The Priory Federation of Academies	No		Yes	25/01/2019
	Total = 3		Total = 11	

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection	
Report to:	**Pensions Committee**
Date:	**21 March 2019**
Subject:	**Investment Management Report**

Summary:

This report covers the management of the Lincolnshire Pension Fund assets over the period from 1 October 2018 to 31 December 2018.

Recommendation(s):

That the Committee:

a) note this report; and

b) consider if they wish officers to investigate further the use of an Environmental, Social and Governance focused index in respect of the Fund's passive UK equity holdings.

Background

This report is split into four areas:

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

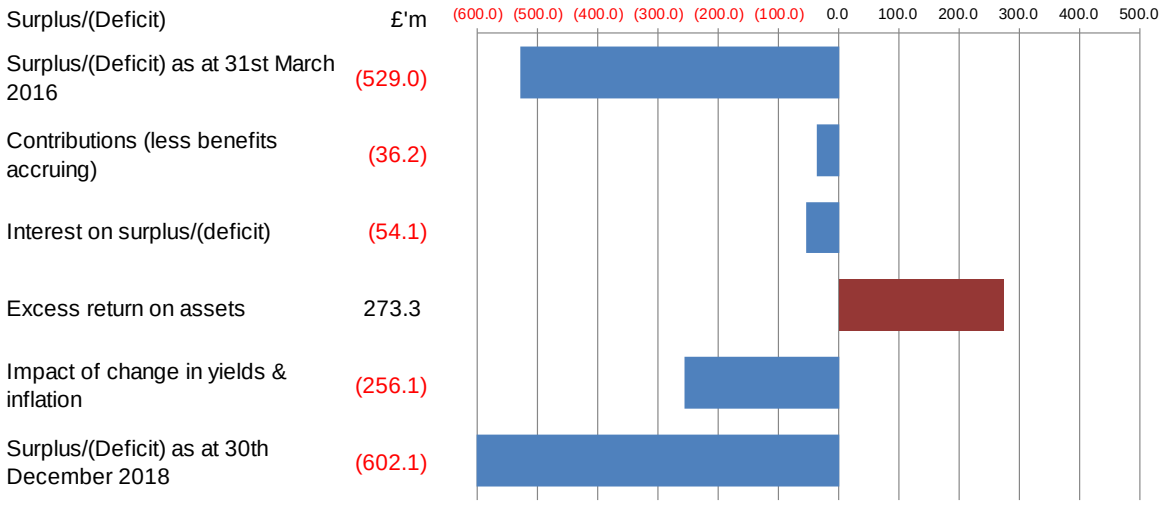
1. Funding Level Update

1.1 The funding update is provided to illustrate the estimated development of the funding position of the Lincolnshire Pension Fund from the latest formal valuation, 31 March 2016, to the current quarter end, 31 December 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 below shows the funding level at the latest formal valuation, at 76.9%, and its movement to 31 December 2018, where the funding level has increased to 79.0%.

Change in funding level since last valuation

1.3 Over the period 31 March 2016 to 31 December 2018 the deficit, in real money, has increased from £529.0m to £602.1m. The chart below shows the main impactors on the deficit. The excess return on assets no longer offsets the negative changes in yields and inflation, interest deficit and contributions (less benefits accruing) seen over this period.



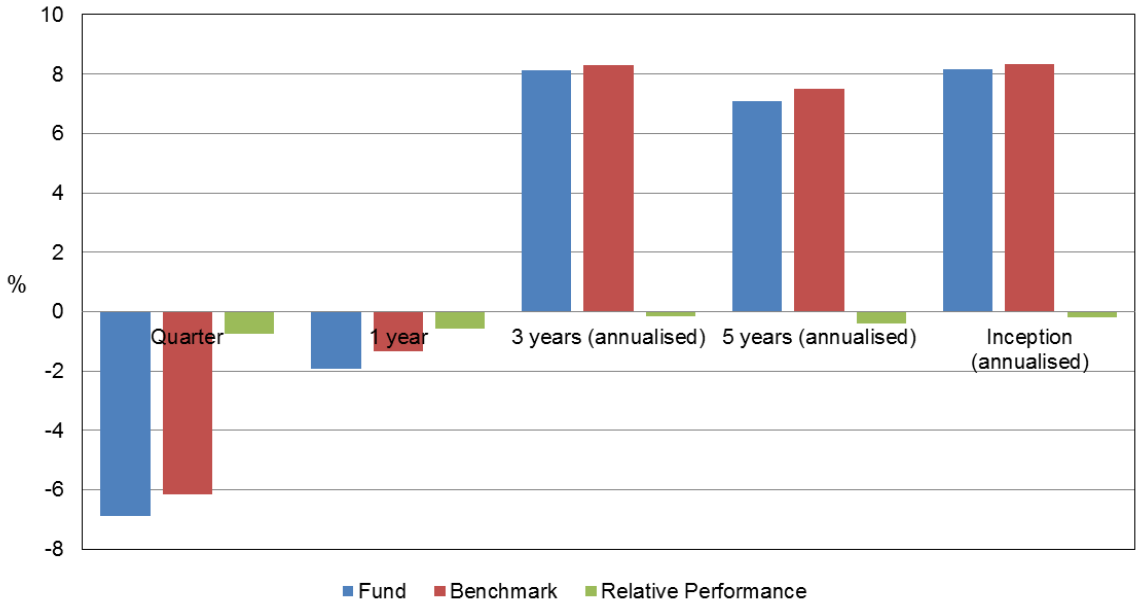
1.4 On a shorter term time horizon, looking at the last quarter, the funding level has reduced from 86.3% to 79.0% between 30 September 2018 and 31 December 2018. The deficit has increased from £384.5m to £602.1m, this is due to a significant reduction to the excess return on assets. At 30 September 2018 this was estimated to be £462.8m by 31 December 2018 this had reduced to £273.3m.

2. Fund Performance & Asset Allocation

2.1 The Fund decreased in value by £163.5m during the quarter from £2,363.4m to £2,199.9m, as the table below shows. The most significant movements in the quarter were seen on equities, both global and UK equity holdings which had reduced in value significantly. Global Equities by 11% or £121.0m, and UK Equities by 10% or £44.5m.

Asset Class	Q4 2018 £m	Q3 2018 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	392.9	437.4	17.9	20.0	(2.1)
Global Equities	955.4	1,076.4	43.4	40.0	3.4
Alternatives	322.0	323.9	14.6	15.0	(0.4)
Property	205.3	205.6	9.3	9.0	0.3
Infrastructure	41.8	38.5	1.9	2.5	(0.6)
Fixed Interest	274.6	273.0	12.5	13.5	(1.0)
Cash	7.9	8.6	0.4	0.0	0.4
Total	**2,199.9**	**2,363.4**		**100.0**	

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



	Fund %	Benchmark %	Relative Performance %
Quarter	(6.88)	(6.15)	(0.73)
1 year	(1.91)	(1.32)	(0.59)
3 years*	8.14	8.3	(0.16)
5 years*	7.10	7.49	(0.39)

Inception**	8.16	8.35	(0.19)

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

2.3 Over the quarter, the Fund produced a negative return of -6.88% (as measured by JPMorgan), underperforming the benchmark by -0.73%. The Fund was also behind the benchmark over all periods, one, three and five year periods 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 been two changes to manager ratings (Morgan Stanley Alternative Investments and Aviva Pooled Property Fund). 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	

<u>Morgan Stanley Alternative Investment</u>

3.3 Hymans Robertson have downgraded Morgan Stanley Diversified Alternatives from 'Positive' to 'Suitable'. 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.

3.4 In September 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, Hymans believe London-based Steve Turner will effectively shoulder a lot of McDonnell's responsibilities. As a result of this change, Hymans has downgraded the strategy to 'Suitable'.

Aviva Pooled Property Fund

3.5 Aviva Investors has informed the Fund and Hymans Robertson that Luke Baker, Co-Fund Manager of the AIPL Property Fund, is leaving the firm to take up a role at an in-house fund manager. Baker has co-managed the fund alongside David Diemer since 2016 and leaves the firm after six years. As a result, Aviva has promoted its Assistant Fund Manager, Imogen Ebbs, to Co-Fund Manager alongside David Diemer. Ebb's is being replaced as Assistant Fund Manager internally by, Tom Goodwin, who moves from Aviva's UK strategy and research team.

3.6 The fund has been downgraded to 'Suitable – On Watch' as a result of this news. This is a significant development given the difficulties experienced by the fund over recent years, including poor performance and a deferred redemption policy since 2016.

Individual Manager Update

3.7 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.

3.8 Over the quarter, two managers showed a positive return relative to their benchmark, Morgan Stanley Global Brands and Blackrock (fixed income). Two managers achieved the benchmark, Blackrock Interim and Legal and General. Over the 12 month period, only four managers have achieved their benchmark: Morgan Stanley Global Brands, Legal and General, Blackrock (Fixed Income) and Blackrock Interim.

	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)	(10.1)	(10.2)	0.0	(9.4)	(9.4)	0.0	Match Index
Invesco (Global Equities (ex UK))	(12.4)	(11.5)	(1.0)	(4.2)	(2.6)	(1.6)	+1.0
Columbia Threadneedle (Global Equities)	(12.2)	(10.6)	(1.9)	(3.8)	(3.3)	(0.5)	+2.0
Schroders (Global Equities)	(11.3)	(10.7)	(0.7)	(3.9)	(3.8)	(0.2)	+3.0
Morgan Stanley Global Brands	(7.4)	(11.4)	4.4	3.5	(3.0)	6.8	n/a
Blackrock (Fixed Interest)	1.2	1.1	0.1	(0.6)	(0.7)	0.1	Match Index
Blackrock Interim (Fixed Interest)	0.1	0.1	0.0	0.0	0.0	0.0	Match Index
Morgan Stanley (Alternative Investments)	(1.1)	1.2	(2.3)	1.9	4.9	(2.8)	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 December 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.

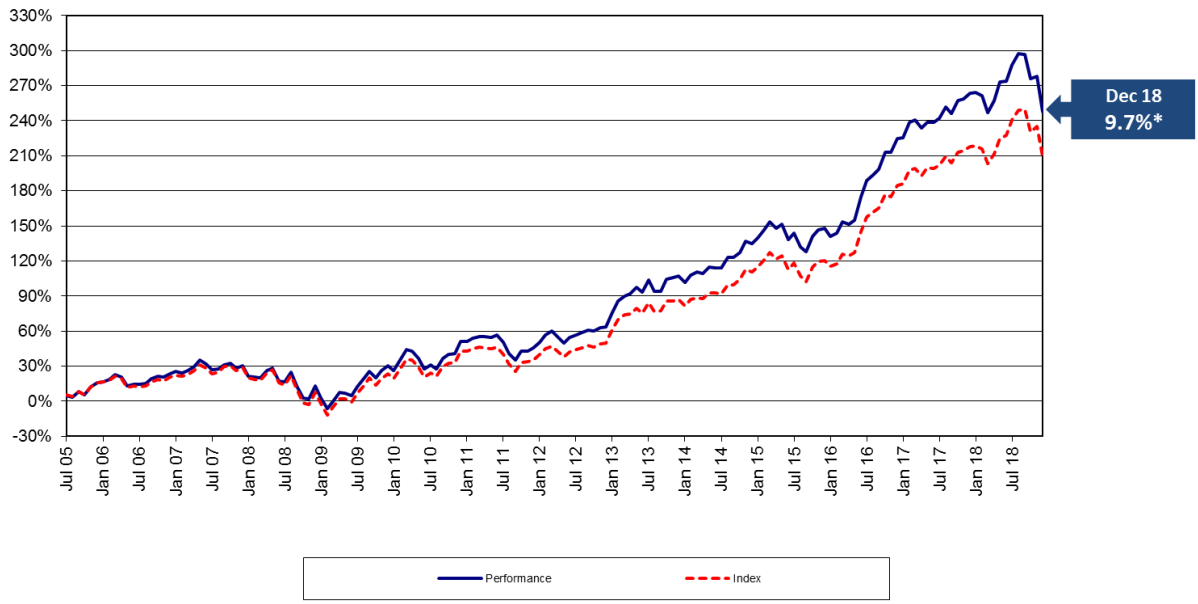
Portfolio Valuation

Value at 30.09.18	Value at 31.12.18
£573,876,747	£502,820,032

Performance

Stock selection had the largest negative impact on relative performance with an overweight in stocks with an attractive earnings momentum and price momentum delivering a negative contribution. Value and quality factors contributed positively. Stock-specific events, which are not attributable to any other factors, had an additional negative impact on return. Implied active sector exposures had a marginally negative impact to relative performance, with underweight in utilities being the main detractor and overweight in industrials adding to performance.

Invesco Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Invesco	(12.4)	(4.2)	11.9	10.9	9.7
MSCI World ex UK	(11.5)	(2.6)	12.0	10.6	8.7
Relative Performance	(1.0)	(1.6)	(0.1)	0.3	0.9

* annualised, inception date 01/07/2005

Turnover

Holdings at 30.09.18	Holdings at 31.12.18	Turnover in Qtr %	Turnover in Previous Qtr %
476	476	9.0	8.9

Purchases and Sales

During the last quarter, a number of stock adjustments to the portfolio as a result of our stock selection process were made. Walgreens Boots Alliance, Starbucks, Athene Holdings and Popular were added with trade weights of 0.45%, 0.43%, 0.39% and 0.28%, respectively. Furthermore, the position in CP Railway with a trade weight of 0.31% was increased. On the other side, Invesco sold out of Verisign, BASF and Aristocrat Leisure with trade weights of 0.48%, 0.37% and 0.30%, respectively, and the positions in VMware and Cigna with trade weights of 0.29% and 0.28%, respectively were decreased.

Largest Overweights

Mitsui	0.91%
L'Oreal	0.76%
ConocoPhillips	0.65%
Peugeot	0.62%
Aflac	0.58%

Largest Underweights

Alphabet	(0.63%)
Abbott Labs	(0.38%)
DowDuPont	(0.37%)
Home Depot	(0.35%)
Netflix	(0.35%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple	£13,397,620.61
2	Microsoft	£12,192,786.23
3	Amazon	£8,246,918.97
4	JP Morgan Chase	£7,592,607.26
5	Pfizer	£5,742,703.33
6	Procter & Gamble	£5,491,743.55
7	Alphabet	£5,266,644.15
8	Roche	£5,251,988.25
9	Cisco Systems	£5,051,844.10
10	Bank of America	£5,012,970.73

Hymans Robertson View

Invesco's Global Ex-UK Enhanced strategy is rated 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 ex-ante tracking error of the fund slightly increased to 1.06% (ex post target 1%). With 96%, the major part of our active risk was associated with our stock selection factors.

Lincolnshire Pension Fund
Global Equities – Schroders
Quarterly Report December 2018

Investment Process

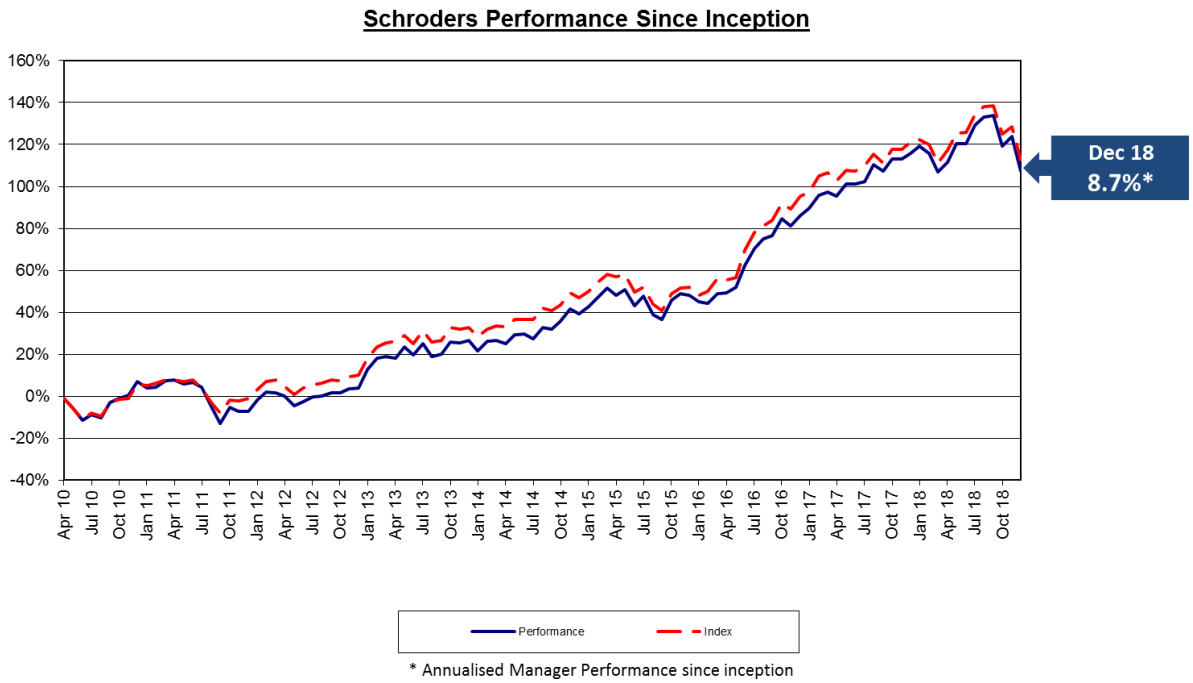
This portfolio is mandated to outperform the MSCI All Countries World Daily Net Index by 2% to 4% over rolling three year periods, gross of fees. This is achieved through an investment approach that is designed to add value relative to the benchmark through both stock selection and asset allocation decisions. 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 30.09.18	Value at 31.12.18
£139,637,448	£123,911,170

Performance

The portfolio underperformed the benchmark during the quater. Zero weight in real estate and utilities, as well as positions in consumer discretionary weighed most on returns. Healthcare holdings proved to be more resilient. By region, our exposure to North America detracted the most, while UK and Pacific ex Japan holdings added value.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Schroders	(11.3)	(3.9)	11.9	10.3	8.7
MSCI ACWI (Net)	(10.7)	(3.8)	11.9	9.9	9.0
Relative Performance	(0.7)	(0.2)	0.0	0.4	(0.3)

*annualised, Inception date April 2010

Turnover

Holdings at 30.09.18	Holdings at 31.12.18	Turnover in Qtr %	Turnover in Previous Qtr %
91	82	15.7	7.5

Purchases and Sales

Amongst a number of trades enacted over the quarter, the position in Linde was sold as the merger with Praxair completed in line with the investment thesis. During the quarter, Drug manufacturer Eli Lilly (LLY) was purchased. Eli Lilly currently boasts industry leading growth, due in part to strong sales of new diabetes drug. They are a high quality, cash generative company with limited exposure to the economic cycle, strong operating leverage and – importantly – stronger earnings momentum than the market recognises.

Top 5 Contributions to Return

HDFC Bank	0.3%
Telefonica Brasil	0.3%
Procter & Gamble	0.2%
Comcast	0.2%
Diageo	0.2%

Bottom 5 Contributions to Return

Activision Blizzard	(0.4%)
Amazon.com	(0.2%)
Alcoa	(0.2%)
Schlumberger	(0.2%)
Occidental Petroleum	(0.2%)

Top 10 Holdings

1	Visa	£3,705,543
2	Alphabet	£3,636,398
3	United Health	£3,573,993
4	Novartis	£3,433,905
5	Amazon	£3,399,445
6	Comcast	£3,354,558
7	JPMorgan Chase	£3,253,318
8	Nestle	£3,061,406
9	Bank of America	£3,022,109
10	AIA	£2,915,120

Hymans Robertson View

Schroder's Global Alpha is rated at ‘Positive’. The Schroder's fundamental equity team has settled down under the leadership of Alex Tedder. We regard his actions in rebuilding the team as being a good foundation for the future and should improve consistency. There have been periods in recent years when portfolios focused on fundamental long term growth have struggled in markets dominated by low growth and risk aversion - and the commodity cycle has also been problematic - though we support the broad philosophy of the team. However, Schroder do need to demonstrate more consistent stock selection.

Schroders have announced that Head of Equities, Nicky Richards has moved to a Senior Advisor role within Schroders, effective March 2019. Rory Bateman, former Head of UK and European Equities will take over as Head of Equities and will also join the Group Management Committee. We do not have any concerns over this appointment. Bateman has been a core figure within Schroders’ equity business since he joined the firm in 2008 and has over 20 years’ experience of managing equity strategies. Schroders have stated they plan to appoint someone internal to fill the Head of UK and European Equities role.

Risk Control

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

Lincolnshire Pension Fund
Global Equities – Columbia Threadneedle
Quarterly Report December 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.

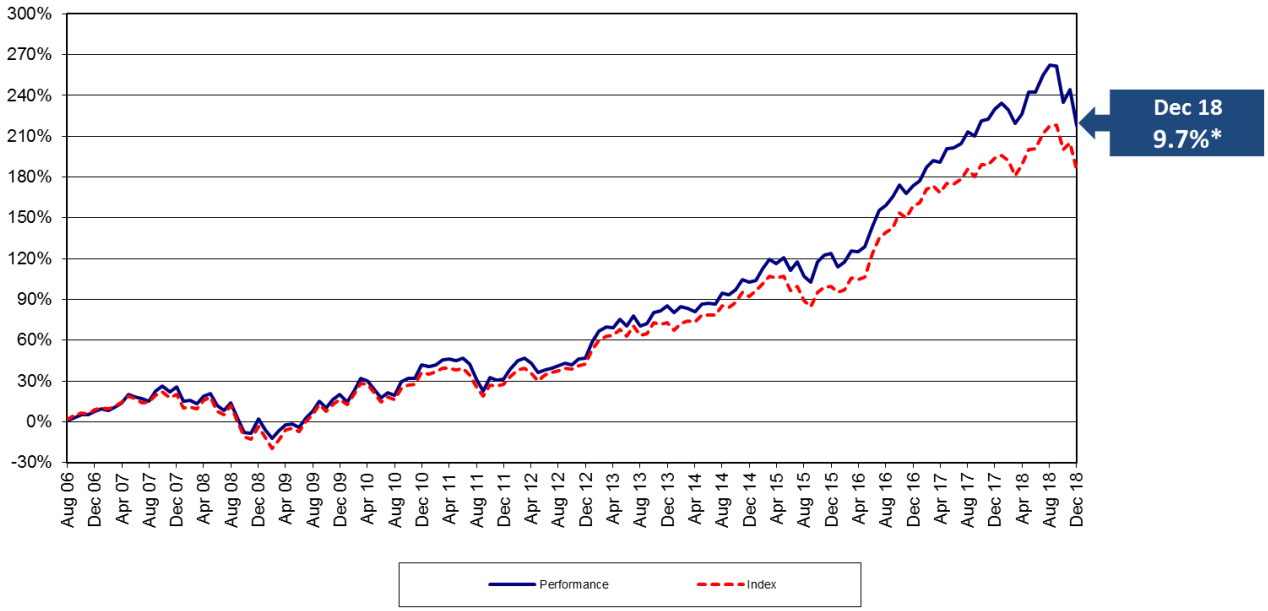
Portfolio Valuation

Value at 30.09.18	Value at 31.12.18
£150,700,695	£132,269,695

Performance

Gross of fees, the fund lagged its benchmark in the fourth quarter. Rotations out of high-duration growth stocks – and the outperformance of cheaper, defensive segments – worked against the investment approach. The zero weight in utilities detracted most in terms of allocation, while energy and healthcare holdings underperformed. By contrast, industrials underweight added value, as did positions in financials and technology.

Columbia Threadneedle Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Columbia Threadneedle	(12.2)	(3.8)	14.4	11.3	9.7
MSCI ACWI	(10.6)	(3.3)	12.5	10.5	8.8
Relative Performance	(1.9)	(0.5)	1.6	0.8	0.9

* annualised, inception date 01/08/2006

Turnover

Holdings at 30.09.18	Holdings at 31.12.18	Turnover in Qtr %	Turnover in Previous Qtr %
77	76	6.7	3.3

Purchases and Sales

Positions were initialled in financial information services provider S&P Global, publishing software company Adobe and consumer credit-rating agency TransUnion. S&P's diversified sources of revenue growth, compelling margin outlook and strong track record of execution leaves it well placed to outperform. The outlook for Adobe's transition to a subscription-based cloud delivery model is positive and should enable it to capitalise on enterprises shifting away from legacy solutions. TransUnion's strong competitive position in a global oligopoly should enable it to continue delivering industry-leading organic growth.

To fund these purchases, investment bank Goldman Sachs was exited. After the stock performed strongly in October, capital was reallocated towards positions with more attractive risk/reward profiles as news flow around the Malaysia Development Berhad case escalated.

Top 5 Contributions to Return

PT Bank Rakyat	0.38%
HDFC Bank	0.27%
CME Group	0.16%
Tencent Holdings	0.07%
OSRAM Licht	0.06%

Bottom 5 Contributions to Return

Amazon.com	(0.82%)
Diamondback Energy	(0.60%)
Halliburton Company	(0.58%)
EOG Resources	(0.57%)
Activision Blizzard	(0.52%)

Top 10 Holdings

1	Alphabet	£5,198,843
2	Microsoft	£4,314,643
3	Amazon	£4,104,121
4	JPMorgan Chase	£3,766,013
5	Mastercard	£3,426,802
6	Visa	£3,343,496
7	HDFC Bank	£3,280,095
8	Alibaba	£3,074,380
9	Unilever	£3,034,538
10	Ping An	£2,972,875

Hymans Robertson View

Columbia Threadneedle Global Equity are rated 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 December 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.

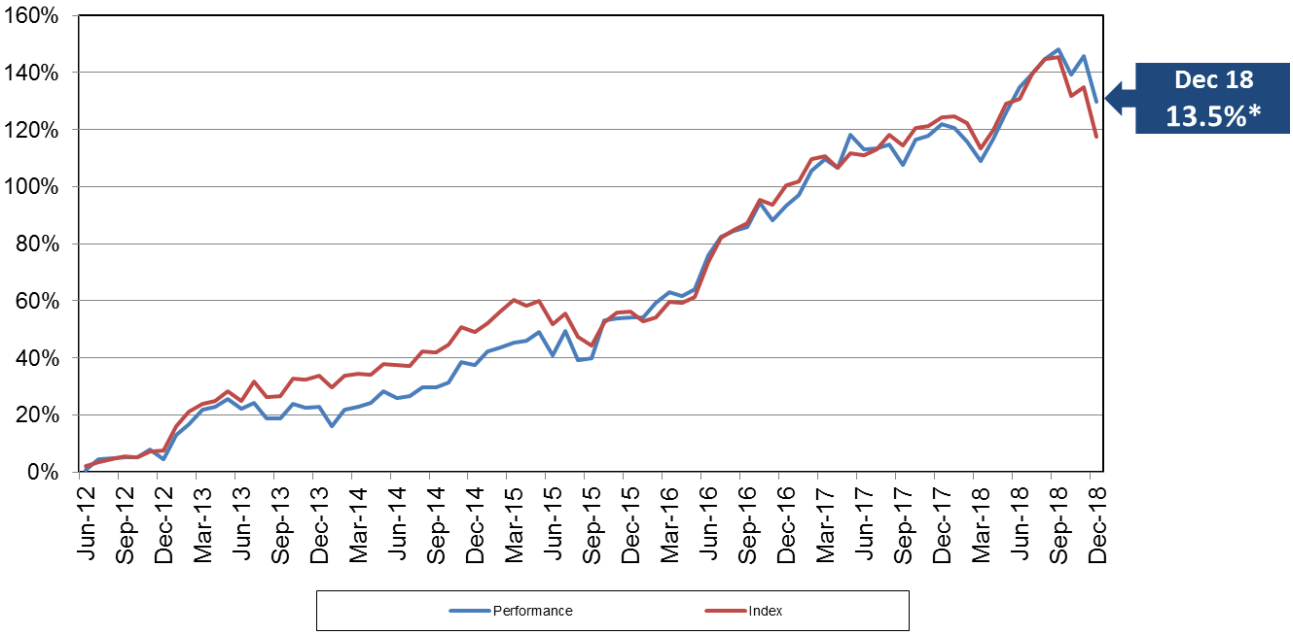
Portfolio Valuation

Value at 30.09.18	Value at 31.12.18
£212,166,714	£196,420,114

Performance

The portfolio outperformed in relative terms over the quarter, returning -7.44% versus -11.35% for the index. The quarters outperformance was driven by both sector allocation and stock selection. The large overweight in consumer staples was the main cause of the favourable sector allocation, while outperformance in information technology, communication services and industrials comfortably outweighed the effect of underperformance in consumer staples to deliver strong stock selection.

Morgan Stanley Global Brands Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley Global Brands	(7.4)	3.5	14.2	13.3	13.5
MSCI World Index	(11.4)	(3.0)	11.6	10.2	12.5
Relative Performance	4.4	6.8	2.4	2.8	0.8

*annualised, inception date 18/06/2012

Purchases and Sales

The fourth quarter was a relatively quiet quarter for the portfolio, with no new buys or final exits. For the year as a whole, the bulk of the activity was valuation driven, with profits being taken in information technology communication services and consumer discretionary. The recipients of the funds were consumer staples and health care.

Top Contributors to Return

Twenty-First Century Fox	0.42%
Coca-Cola	0.20%
Church & Dwight	0.14%

Bottom Contributors to Return

Reckitt Benckiser	(1.30%)
British American Tobacco	(1.09%)
SAP	(0.79%)

Top Ten Holdings

Company	Industry	% Weighting
Reckitt Benckiser	Household Products	8.40
Twenty-First Century Fox	Entertainment	7.23
Microsoft Corp	Software	7.12
Unilever	Personal Products	5.26
Visa	IT Services	4.82
SAP	Software	4.28
Accenture	IT Services	4.20
Philip Morris	Tobacco	3.87
Coca-Cola Company	Beverages	3.84
Baxter International	Health Care Equipment & Supplies	3.73

Hymans Robertson View

Morgan Stanley Global Franchise (Brands) strategy is rated 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 December 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 30.09.18	Value at 31.12.18
£437,235,675	£392,746,958

Performance

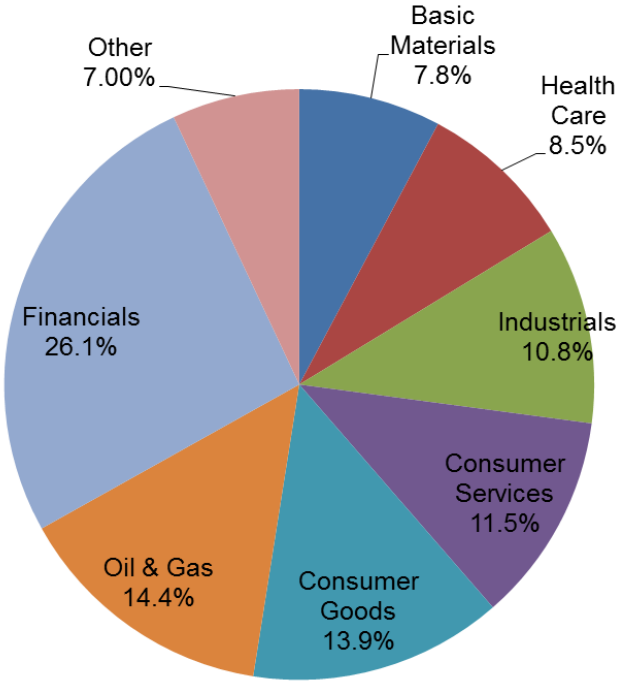
Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
LGIM	(10.1)	(9.4)	N/A	N/A	0.3
Benchmark	(10.2)	(9.4)	N/A	N/A	0.1
Relative Performance	0.0	0.0	N/A	N/A	0.1

*annualised, inception date February 2017

Top Ten Holdings	
Company	**% Weighting**
Royal Dutch Shell	9.2
HSBC Holdings	6.2
BP	4.6
AstraZeneca	3.6
Glaxosmithkline	3.5
Diageo	3.2
British American Tobacco	2.7
Unilever	2.2
Rio Tinto	2.0
Vodafone Group	2.0
Total	**39.2**

Whole Fund Sector Breakdown



Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report December 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	**30.09.18 £**	**31.12.18 £**
Corporate Bond All Stocks Index Fund	67,750,334	70,035,194
Over 5 Years UK Index-Linked Gilt Index Fund	41,190,052	39,805,842
All Stocks UK Gilts*	27,068,271	27,743,408
Cash (residual)	1	1
Total	**136,008,658**	**137,584,346**

*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	1.2	(0.6)	6.7	6.8	6.5
Composite Benchmark	1.1	(0.7)	6.6	6.7	6.5
Relative Performance	0.1	0.1	0.1	0.1	0.1

*annualised since inception 28/07/10

Hymans Robertson View

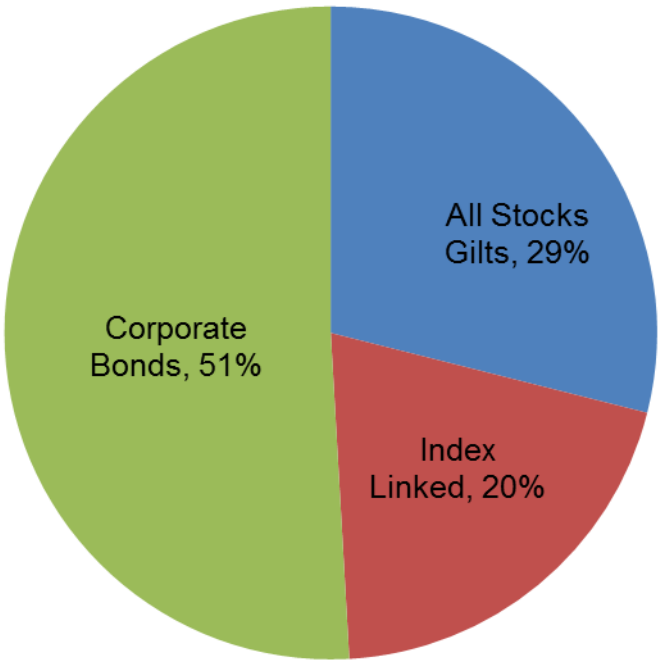
We rate BlackRock's index-tracking equity capability at 'Preferred'. There were no significant developments over the quarter.

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 31 December 2018.



Lincolnshire Pension Fund
Passive Bonds – Blackrock interim
Quarterly Report December 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 30.09.18	Value at 31.12.18
£136,948,000	£137,042,880

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	0.0	n/a	n/a	0.9
Benchmark	0.1	0.0	n/a	n/a	0.8
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 December 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.

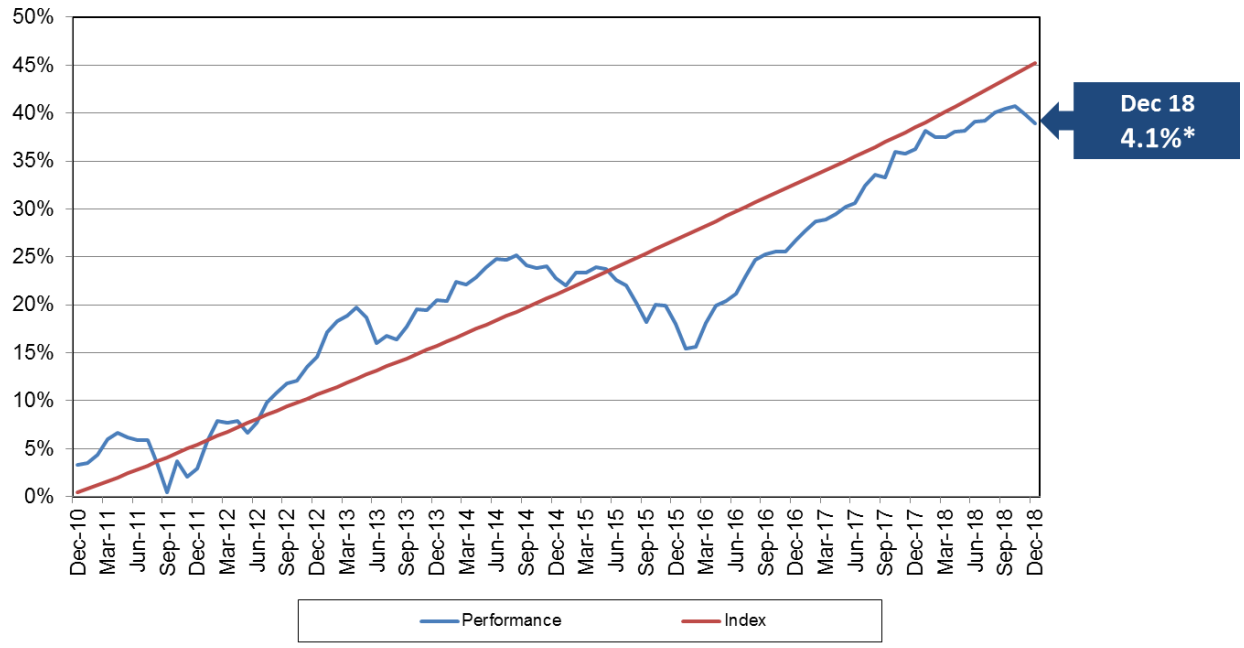
Portfolio Valuation

Value at 30.09.18	Value at 31.12.18
£293,974,628	£294,067,078

Performance

The total alternatives portfolio (including legacy private equity holdings) returned -0.43% during the fourth quarter. Positive contributions from the private market investments were not enough to offset declines across all other asset classes. Manager selection, particularly in hedge funds, senior loans, and real estate securities, added to returns, while tactical decisions modestly detracted.

Morgan Stanley AIP Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley	(1.1)	1.9	5.6	2.9	4.1
3 Month LIBOR + 4%	1.2	4.9	4.6	4.6	4.7
Relative Performance	(2.3)	(2.8)	0.9	(1.7)	(0.5)

* 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.

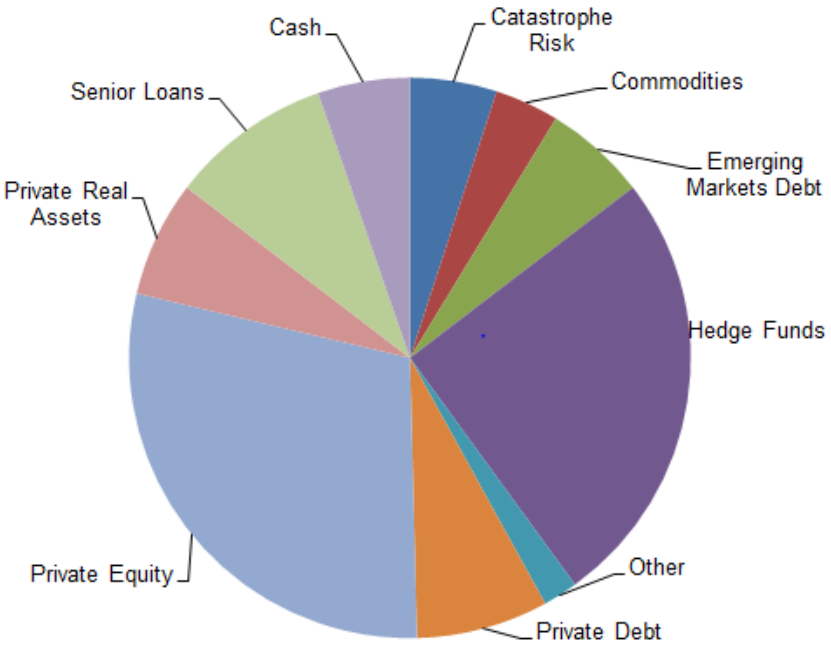
- **Discovery** These are new opportunities of investments and can include Frontier Markets, Distressed Opportunities and Volatility.

The table and pie chart below show the strategy and asset class positions of the Morgan Stanley portfolio as at 31 December 2018.

Strategy

Alpha	30.39%
Credit	15.17%
Real Assets	48.44%
Cash	6.00%

Asset Class



Portfolio Outlook

Going into 2019, there continue to be headwinds of slowing growth, tighter monetary policy and political uncertainty. The U.S. approach to trade policy has dampened sentiment, hurt U.S. capex and slowed growth prospects around the globe, worsening the situation in a number of key economies. Meanwhile, China's recent attempts to reduce leverage – a sensible policy with unfortunate timing – are at the root of the weakness there. It is not difficult to find dysfunctional policies in Europe, with Brexit in the U.K., a populist government bringing back fiscally unsustainable policies in Italy, riots in France and loss of political stability in Germany. This conjunction of dysfunctional policies has created a lot of volatility and corrected much of the excesses in pricing, but forward-looking volatility is unlikely to be as high. This backdrop is more supportive for alternatives.

This portfolio remains defensively positioned and relies on value creation from hedge funds and private markets. During the quarter, a private debt co-investment in a music publishing and production company with intellectual property rights to over 75,000 songs was made. The royalty stream associated with this content is considered to be of very high quality and is expected to benefit from the positive tailwinds in the music streaming sector. Other opportunities in private debt that can offer uncorrelated returns with sustainable cash yields continue to be pursued.

In real assets a commitment to a real estate fund that focuses on opportunistic investments in commercial and residential assets in the US was finalised. A further co-investment with this manager is being evaluated, and more broadly reflects a medium term preference across real assets for opportunities in capital constrained segments with earnings growth potential and limited sensitivity to macro factors.

In private equity, the acquisition of a distressed logistics investment with structural features that are expected to offer attractive returns was finalised. The approach in private equity is similarly cautious in relation to macro sensitivity, favouring opportunities that allow asset by asset diligence and stress testing for cyclical downturn robustness.

Hymans Robertson View

Morgan Stanley is rated at 'Suitable' 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 downgraded the strategy to 'Suitable'.

Risk Control

Portfolio volatility since inception is 3.52%, within the guidelines specified by the mandate.

5. Environmental, Social and Governance (ESG) Indices for Investing

5.1 The Pensions Committee at its training meeting in February received a presentation from Legal & General Investment Managers (LGIM) on the use of Environmental, Social and Governance (ESG) Indices, particularly focusing on low carbon targets. The presentation detailed the work LGIM already undertake in respect of ESG factors for our passive UK equity holdings with them. They also provided the Committee with details of how investors with passive holdings could further build in ESG factors to their investing. This included using:

- Standard indices, plus specific customisation (first generation);
- Standard ESG indices (second generation); or
- An investor led options (third generation).

5.2 The Committee where then shown how each of these approaches could be applied and the benefits each approach brings.

5.3 The Committee are asked to consider, following the training received, if they wish officers to undertake further investigations into ESG indices which could be used for the Fund's passive UK equity holdings, and bring back to this Committee proposals during the financial year 2019/20.

Conclusion

Over the quarter, the Fund produced a negative return of (6.88%), underperforming the benchmark which returned (6.15%).

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 Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**21 March 2019**
Subject:	**Valuation Process**

Summary:

This report details the process that the Fund's Actuary, Hymans Robertson, in conjunction with officers, is proposing to use for the 2019 Triennial Valuation.

Recommendation(s):

That the committee:
1) note the report; and
2) approve the 2019 Valuation process.

Background

1. The LGPS Regulations require that a valuation of the Fund's assets and liabilities is undertaken every three years by the Fund's appointed Actuary. This is known as the Triennial Valuation and the output provides a funding level percentage (value of assets compared to value of liabilities) and sets the contribution rates (both primary and secondary) that each Fund employer is required to pay for the next three years.

2. The Committee received presentations and training on the Valuation process from the Fund's Actuary on 13 December 2018 and 26 February 2019. This detailed:

   - An overview of how Lincolnshire Pension Fund is funded;
   - Why a valuation is carried out;
   - What assumptions are included;
   - The role of the Committee in the valuation process;
   - How employer contributions are set;
   - The Funding Strategy Statement (FSS);
   - How key assumptions are set; and
   - The timeline and tasks required to complete the Valuation.

3. This paper is provided to enable the Committee to consider and approve the <u>process</u> of the Valuation, with the two areas being how the key assumptions

are set and the contribution strategy for employers which feeds into the development of the FSS.

4. A further paper will be brought to the July meeting of the Committee detailing the actual assumptions proposed by the Actuary to be used in the Valuation, following further discussion with officers and advisors, for the Committee to approve. The FSS, detailing how contributions are set and the overall funding strategy will be brought in draft to the January 2020 meeting of the Committee, ahead of being circulated to all Fund employers for consultation and then to the March 2020 meeting for final approval.

5. Each of the two areas of the process is explained in the paragraphs below for the Committee to consider.

Setting the assumptions

6. The key assumptions are shown in the table below, alongside the proposed process for setting them:

Assumption	Process for setting
Discount Rate (long-term investment return)	The projected investment returns over the first 20 years are created using a risk-based approach encompassing stochastic modelling over 5000 different scenarios. From year 20 onwards the expected investment return is expressed as a "risk-free" rate of return plus a margin of expected asset out-performance. This margin in based on the additional return that could be expected from the Fund's investment strategy allowing a prudent assumption of the likelihood of achieving this (say 66%).
Salary growth assumption	This applies to the final salary element of an individual's pension, so will have a reducing impact over time as the CARE scheme benefits become a greater part of the overall pension. The Actuary has discussions with officers and employers to identify a reasonable assumption.
Pensions increase assumption (RPI-CPI gap)	Annual pension increases and CARE increases are determined by consumer price index (CPI) inflation. To establish a long term CPI assumption, the actuary uses a market expectation for RPI and applies a discount based upon the historical deviation between RPI and CPI. This was 1% in the 2016 valuation and it is expected to remain at the same level.
Longevity assumption	The assumption regarding improvements in longevity is based upon latest industry standards and information derived from the Fund’s membership of Club Vita (provided by the Fund actuary), such as observed mortality rates.

Employer contribution setting and FSS

7. All employers are required to pay cash into the Fund to reflect the future liabilities their scheme members build up each day (the primary rate) and any mismatch between the current value of their assets and their historical liabilities (the secondary rate). The employer contribution setting process has a three step approach:

- What is the employer's funding target?
- How long do we want to give the employer to get to that target?
- How sure do we want to be that the employer hits the target?

8. Different approaches are required for different employers, and work is undertaken by officers to understand the risks of each employer and the strength of their covenants. Examples of the considerations and implications are shown in the table below:

Feature	Implications
Guarantor or security	Allows greater flexibility around contributions (treated as lower risk)
Maturity	More mature = higher % payroll required (better to pay secondary rate as £)
Term	Contractors aim to be fully funded at end of contract (depending upon contract terms)
Planning to exit?	Non-contractor heading for cessation – plan contributions accordingly
Open or closed?	If closed then heading to cessation – plan contributions accordingly
Changes at employer	If significant may trigger review of contributions outside of valuation period
Funding position	Is there a deficit? What is the cashflow position – is the employer's asset share shrinking?

9. Once this risk profiling has been undertaken employers are allocated a rating. This provides the Fund with an objective and transparent approach to risk based contribution setting.

10. Once employer contribution rates have been drafted by the Actuary and proposed rates for the three years to March 2023 have been sent to employers, Employer Surgeries are organised to enable one-to-one discussions with the Actuary and Officers where requested.

11. The final step in agreeing the rates is that all employers are required to sign a declaration form committing them to paying the required contributions over the next three years.

12. This approach is formalised in the Funding Strategy Statement, which will be brought in draft version to the Committee in January 2020 before being circulated to all employers for consultation. Any comments are then fed back to the Committee in March 2020 for formal approval of the final document.

Conclusion

13. The Triennial Valuation process is a statutory requirement to provide a funding level for the Pension Fund and contribution rates for the employers to pay over the following three years. Officers work very closely with the Fund Actuary throughout the process of completing the valuation, calculating the employer rates and preparing the FSS.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Background Papers

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

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

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:	**21 March 2019**
Subject:	**Lincolnshire Pension Fund Policies Review**

Summary:

This report brings to the Committee the main policies of the Pension Fund for review.

Recommendation(s):

That the Committee note the report and approve:

1) the Fund's Investment Strategy Statement (ISS);
2) the Fund's Communications Policy;
3) the Fund's Governance Compliance Statement;
4) the Fund's Stewardship Code Statement; and
5) the Fund's Breaches Reporting Policy.

Background

1. Under the various Local Government Pension Scheme Regulations, the Pensions Committee, as the Administering Authority of the Lincolnshire Pension Scheme, is required to produce and maintain a number of key policy documents. Policies are brought to the Committee annually, and the last comprehensive review was July 2018. This report presents the latest version of these policies for them to be formally endorsed by the Committee.

Policies for Approval

2. The key policies to be reviewed and approved are set out as Annexes to this report. Any significant changes will be brought to the Committee's attention and explained during the meeting.

Appendix A – Investment Strategy Statement

3. The Investment Strategy Statement (ISS) sets out the Committee's approach to the investment of the Fund's assets, in accordance with the guidance issued by the Secretary of State.

4. Updates are:

- Updating the approach to pooling to reflect Border to Coast going live.
- The removal of South Yorkshire Passenger Transport Pension Fund as one of the pooling partners.
- Updated the Stewardship principles in line with the revised Stewardship Code, at appendix D of this paper.

Appendix B – Communications Policy

5. The Communications Policy sets out how the Fund intends to communicate with members, prospective members and employers, including the format, frequency and method of distributing any information or publicity. The Lincolnshire Pension Fund works with West Yorkshire Pension Fund to deliver the administration service to the scheme members and employers.

6. Updates are:

- Amendments to number of employers and scheme members.
- Addition of Mid-Life courses for active members.
- Addition of Training Webinars for employers.

Appendix C - Governance Policy and Compliance Statement

7. The Governance Policy sets out the arrangements for the management of the Pension Fund, and the Compliance Statement sets out the extent that this policy complies with best practice, on a comply or explain basis.

8. Within the compliance statement, the areas where the Fund is only partially compliant are detailed below:

- Principle A – Structure – (b) – the Committee does not include representatives for pensioner or deferred members.

- Principle B – Representation – (a) - the Committee does not include representatives for pensioner or deferred members.

- Principle E – Training/Facility Time/Expenses – (c) – the Committee has an annual training plan at Committee level, but not for individual members.

- Principle H – Scope – (a) – The Committee does not have an independent observer for administration and governance issues.

9. Updates are:

- Updated to reflect the changes in the Constitution to the Committee's responsibilities as a result of asset pooling.

Appendix D - Stewardship Code Statement

10. The Stewardship Code Statement sets out how the Lincolnshire Pension Fund complies with the Financial Reporting Council's (FRC) UK Stewardship Code. The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire and operates on a 'comply or explain' basis. Since September 2016 the FRC has rated all statements as either Tier 1 – fully meets the requirements of the Code, or Tier 2 – does not fully meet the requirements. Lincolnshire's statement has been rated as Tier 1.

11. Updates have been made to align the statement with the Responsible Investment Policy and the changes in voting following the termination of Manifest Voting Agency. Updates are:

- Principle 1
  - Disclosing the Responsible Investment Policy that the Fund has.
  - Amending the LAPFF attendee from a member of the Committee to an Officer.
  - Amending the voting process to reflect it being undertaken by managers.
- Principle 3
  - Removing references to direct voting.
- Principle 4
  - Amendment of US law firm for shareholder litigation.
- Principle 5
  - Amending the contact for LAPFF meetings.
  - Addition of Border to Coast for enabling collaborative working.
- Principle 6
  - Amending the voting process to reflect it being undertaken by managers.
  - Disclosing the Corporate Governance and Voting Guidelines Policy that the Fund has.
- Principle 7
  - Amending the voting process to reflect it being undertaken by managers.

12. The Stewardship Code is currently out for consultation with a number of revisions with the aim to increase demand for more effective stewardship and investment decision-making which is aligned to the needs of institutional investors and clients. Once the new version is finalised and published, the Fund will review its statement and amend where necessary.

Appendix E – Breaches Reporting Procedure

13. The Pension Regulator's Code of Practice requires all LGPS Funds to have a published procedure as to how breaches of the code will be dealt with and reported. The procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Lincolnshire Pension Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoiding placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

14. Updates are:

- Amending references to the County Finance Officer to the Director of Resources.

Appendix F – Pension Fund Code of Conduct and Conflicts of Interest

15. The Pension Regulator's Code of Practice requires all LGPS Funds to have a published procedure as to how breaches of the code will be dealt with and reported. The procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Lincolnshire Pension Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoiding placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

16. Updates are:

- Amending the requirement of Committee members to complete a conflict of interest declaration only if they have not completed a Pecuniary Interests Disclosure.

Funding Strategy Statement

17. The FSS sets out the Fund's approach to managing its solvency and is generally updated every three years, in line with the Triennial Valuation. It is the framework that guides the Fund Actuary and informs the employers. This will be updated as part of the 2019 Valuation process and will be brought to this Committee in January 2020 for discussion, ahead of consultation with Fund employers, and then in March 2020 for approval.

Conclusion

18. In accordance with the various Local Government Pension Scheme Regulations, the Fund has prepared a number of key policy documents. The ISS, Communications Policy, Governance Policy and Compliance Statement, Stewardship Code Statement, Breaches Reporting Procedure

and Code of Conduct and Conflict of Interest Policy have been appended to this report for review and approval by the Pensions Committee.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	LPF – Investment Strategy Statement
Appendix B	LPF - Communications Policy
Appendix C	LPF – Governance Compliance Statement
Appendix D	LPF – Stewardship Code Statement
Appendix E	LPF – Breaches Reporting Procedure
Appendix F	LPF – Pension Fund Code of Conduct and Conflicts of Interest

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

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Lincolnshire Pension Fund

Investment Strategy Statement

INVESTMENT STRATEGY STATEMENT

INTRODUCTION

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

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

The ISS, which was last approved by the Committee on 19th July 2018, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Fund is also required to maintain a Funding Strategy Statements ("FSS") in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended). The FSS, which was last approved by the Pensions Committee on 19th July 2018, complies with these Regulations.

INVESTMENT STRATEGY

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

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

Investment of money in a wide variety of investments

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

The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives, either directly or through pooled investments. The Fund may also make use of derivatives, either directly or in

pooled investments, for the purpose of efficient portfolio management or to hedge specific risks.

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

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

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

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

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

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

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

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

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

The suitability of particular investments and types of investments

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

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

The approach to risk

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

The principal risks affecting the Fund are set out below:

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

	or increase the value of the Fund's liabilities.	regulations and guidance and will participate in consultations where appropriate.
Governance	The administering authority is unaware of changes to the Fund's membership which increases the value of its liabilities.	The Fund regularly monitors membership information and communicates with employers.

Approach to pooling investments

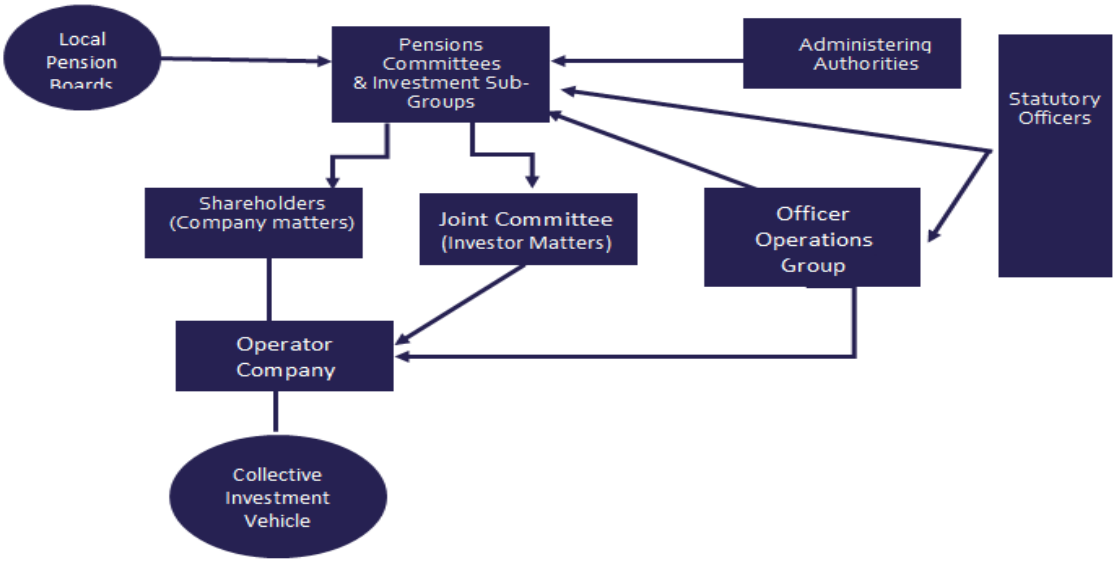
In order to satisfy the requirements of the "Local Government Pension Scheme: Investment Reform and Guidance" issued by the Department for Communities and Local Government ("DCLG") in November 2015, the Pension Fund has elected to become a shareholder in Border to Coast Pensions Partnership Limited (Border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

Border to Coast is a partnership of the administering authorities of the following LGPS Funds:

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

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

The governance structure of Border to Coast is as follows:



The Fund will hold Border to Coast to account through the following mechanisms:

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

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

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

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

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

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

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

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

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

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

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

The Fund has published its Responsible Investment Policy and Voting Guidelines on the shared website at www.wypf.org.uk.

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

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

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

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

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

The Lincolnshire Pension Fund takes its responsibilities as a shareholder seriously, and has a Responsible Investment Policy that is aligned with our asset pool, Border to Coast. This can be found on the Pension Fund's shared website at http://www.wypf.org.uk/Member/Publications/PolicyStatements/Lincolnshire/PolicySt

atements_Lincoln_Index.aspx. It seeks to adhere to the Stewardship Code where possible, and expects its appointed asset managers to do so too. Resources do not currently allow for a dedicated role to oversee LPF's RI responsibilities at a Fund level, however the asset pooling arrangements currently being implemented will enable a more active role in the future.

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

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

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

Voting is carried out at by the external fund managers, who are expected to vote in line with best practice. Managers report detail of voting undertaken quarterly to officers, and the Fund reports quarterly to the Pensions Committee in summary on all voting activity undertaken.

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

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

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

Principle 3 - Institutional investors should monitor their investee companies.

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

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

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

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

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

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

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

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

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

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

The asset pooling arrangements with Border to Coast currently being implemented will enable additional collaborative working.

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

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

Responsibility for the exercise of voting rights is delegated to the Fund's appointed asset managers. The Fund has a Corporate Governance Voting Guidelines and Voting Guidelines policy that can be found on the Pension Fund's shared website at http://www.wypf.org.uk/Member/Publications/PolicyStatements/Lincolnshire/PolicyStatements_Lincoln_Index.aspx. This is aligned to the Border to Coast policy.

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

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

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

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

Data to produce these reports is taken from the Fund's external managers, and from reports produced by LAPFF.

Compliance and monitoring

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

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

Approved by Lincolnshire Pension Committee xxxxxxx

Communication Policy Statement

Lincolnshire Pension Fund

COMMUNICATION POLICY STATEMENT

Lincolnshire County Council, as administering authority for the Local Government Pension Scheme, is required by statute to publish a communications policy statement. The Fund communicates with over 260 employers and over 75,000 scheme members, in addition to a large number of other interested parties.

The Regulations governing the Local Government Pension Scheme are laid before parliament by the Ministry of Housing, Communities and Local Government. One of the key requirements they make on all Administering Authorities is to prepare, maintain and publish a written statement setting out the information below:-

a) The Fund must now prepare, maintain and publish a written statement setting out its policy concerning communications with

- members;
- representatives of members;
- prospective members; and
- employing authorities.

b) In particular, the statement must set out the Fund's policy on

i. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities (including non-Scheme Employers);
ii. the format, frequency and method of distributing such information or publicity; and
iii. the promotion of the Scheme to prospective members and their employing authorities.

The day-to-day administration of the Local Government Pension Scheme is carried out on behalf of the County Council by West Yorkshire Pension Fund (WYPF), in a shared service arrangement. Communication material is produced by WYPF in collaboration with the Pensions Team in Lincolnshire. All arrangements for forums, workshops and meetings covered within this statement are made in partnership with WYPF.

The Fund communicates with all stakeholders, as defined in specific legislation, and listed above.

Communication is increasingly distributed via electronic means, with all documents available on a dedicated Pensions website (www.wypf.org.uk).

WYPF provide a dedicated enquiry phone numbers and emails for both scheme members and employers for pension related enquiries. For scheme members it is 01274 434999 and pensions@wypf.org.uk, and for employers it is 01274 434900 and wypf.pfr@wypf.org.uk.

The appropriately qualified staff from the County Council, WYPF or external advisers will deliver presentations to groups of stakeholders and conduct individual meetings.

The Fund's objective in respect of communication is to comply with relevant legislation and ensure relevant individuals and employers receive accurate and timely information about their pension arrangements. Methods of communication are set out in the table below.

Communications events - Scheme Members

Communication	Format	Frequency	Method of Distribution
LGPS active members (including representatives of retired members)	Newsletter	2 per year	Mail
	www.wypf.org.uk	Constant	Web
	Contact centre - Bradford	8.45 to 4.30 Monday to Friday	Telephone E-mail Face to face
	County Offices, Lincoln	8.00 to 5.00 Monday to Friday	Face to face
	Social media	Constant	Web
	Annual benefit statement	1 per year	Mail
	Roadshows	Quarterly	Face to face
	Mid-Life course	Monthly under trial	Face to face
	Pre-retirement course	Monthly	Face to face
LGPS deferred members (including representatives of deferred members)	www.wypf.org.uk	Constant	Web
	Contact Centre - Bradford	8.45 to 4.30 Monday to Friday	Telephone E-mail Face to face
	County Offices, Lincoln	8.00 to 5.00 Monday to Friday	Face to face
	Social media	Constant	Web
	Newsletter	1 per year	Mail
LGPS pensioner members (including representatives of retired members)	www.wypf.org.uk	Constant	Web
	Contact centre - Bradford	8.45 to 4.30 Monday to Friday	Face to face Telephone E-mail
	County Offices, Lincoln	8.00 to 5.00 Monday to Friday	Face to face

	Pension advice slips	As and when net pension varies by 25p or more	Mail
	P60	1 per year	Mail
	Social media	Constant	Web
	Newsletter	1 per year	Mail

Communications events - Employers

Communication	**Format**	**Frequency**	**Method of Distribution**
Employers	Pension Fund Representatives	8.30 to 4.30 Monday to Friday	Face to face Telephone E-mail
	Website	Constant	Web
	Fact card	1 per year	Mail
	Fact sheets	Constant	Web
	Employer guide	Constant	Web/electronic document
	Ad hoc training	As and when required	Face to face
	Update sessions	2 per year	Meeting
	Annual meeting	1 per year	Meeting
	Manuals/toolkits	Constant	Web/electronic document
	Social media	Constant	Web
	Workshops	5 per year	Face to face
	Introduction to Pensions	Bi-monthly	Face to face
	Training webinars	Constant	Web
	Online training video	Constant	Web

Reviewed xxxxxxx by the Pensions Committee

Governance Policy and Compliance Statement

Lincolnshire County Council, as administering authority (and Scheme Manager) for the Local Government Pension Scheme, is required by statute to publish a governance compliance statement. The Council has elected to do this by publishing a concise Governance Policy Statement and then to outline, as required by legislation, the extent to which that statement and the underlying practices demonstrate compliance with best practice guidance as published by the Department for Communities and Local Government. This latter aspect constitutes the Governance Compliance Statement.

The Governance Policy and Compliance Statements are set out in turn below.

GOVERNANCE POLICY STATEMENT

The County Council has delegated its pension fund administering authority functions to a Pensions Committee and the Executive Director of Finance and Public Protection. The Public Service Pensions Act (2013) required all administering authorities to introduce a local Pension Board to assist the Scheme Manager.

Pensions Committee

The Pensions Committee has 11 members in total, 8 of which are County Councillors and 3 co-opted members. All the members have full voting rights.

The 8 County Councillors represent the political balance of the Council.

The 3 co-opted members comprise:

- 1 representative from the other local authorities within the County,
- 1 representative for non Local Authority employers, and
- 1 Trade Union representative, reflecting the interests of scheme members.

Under the County Council's Constitution, the Pensions Committee exercises the following functions, to;

- Drawing upon appropriate professional advice, to set investment policies for the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, and approval of the Investment Strategy Statement.
- To review the performance of Border to Coast Pensions Partnership Limited and its sub-funds, legacy fund managers and associated professional service providers.

- To approve the annual Report and Statement of accounts of the fund.

- To consider any other matters relevant to the operation and management of the fund.

- As necessary and appropriate issue instructions to the Council's representative as shareholder of Border to Coast Pensions Partnership Limited on matters affecting the exercise of the Council's rights as shareholder in the company.

- To respond to any relevant consultations impacting upon the benefit provisions of the Local Government Pension Scheme.

In fulfilling its functions the Committee shall have regard to the advice of the Lincolnshire Local Pension Board established in accordance with the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 and shall receive and consider recommendations from the Border to Coast Pensions Partnership Joint Committee.

The Pensions Committee has four regular meetings, two manager monitoring meetings and two training meetings each year. In addition, one or more special meetings may be held to appoint new investment managers or other professional advisers.

The Pensions Committee's regular quarterly meetings are open to the public and agendas, reports and minutes are made available through the County Council's website. An annual report on the management of the fund is provided to all scheme employers with an abbreviated version distributed to scheme members.

Executive Director of Finance and Public Protection

The Executive Director of Finance and Public Protection is responsible for the day-to-day administration of the benefits and assets of the pension scheme, specifically to:

- authorise payment of statutory pensions and allowances,

- undertake or arrange for all necessary transactions associated with the management of the assets of the Pension Fund, and

- agree appropriate means of securing external representation on the Pensions Committee, in consultation with relevant external bodies.

Lincolnshire Pension Board

The Lincolnshire Pension Board will ensure the Scheme Manager effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pensions Regulator. The Board will also ensure that it complies with the knowledge and understanding requirements in the Pensions Regulator's Code of Practice.

In addition to the local structure, the Lincolnshire Pension Board is accountable to the Pensions Regulator and the National Scheme Advisory Board.

The Pensions Regulator will also be a point of escalation for whistle blowing or similar issues (supplementary to the whistle blowing policy and anti-fraud and corruption policy operated by the administering authority, which operate to include all of the functions of the Council and its advisers).

The role of the Lincolnshire Pension Board is set out below:

- Assist Lincolnshire County Council as Scheme Manager;
- To secure compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;
- To secure compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator; and
- In such other matters as the scheme regulations may specify.

The terms of reference for the Board are available on the Funds shared website with WYPF at www.wypf.org.uk.

The Lincolnshire Pension Board consists of five members:

- two employer representatives (to represent all employers within the Scheme)
- two scheme members representatives (to represent all members of the Scheme (active, deferred and pensioner))
- an independent member (to act as Chairman)

The employer and scheme member representatives can vote. The Independent Chairman cannot vote.

The Lincolnshire Pension Board has a minimum of four meetings each year. In addition, Board members must attend regular training events.

The Lincolnshire Pension Board meetings are open to the public and agendas, reports and minutes are made available through the Funds shared website with WYPF at www.wypf.org.uk. An annual report on the work of the Board is included in

the Fund's annual report, which is published on the Council's website and provided to all scheme employers with an abbreviated version distributed to scheme members.

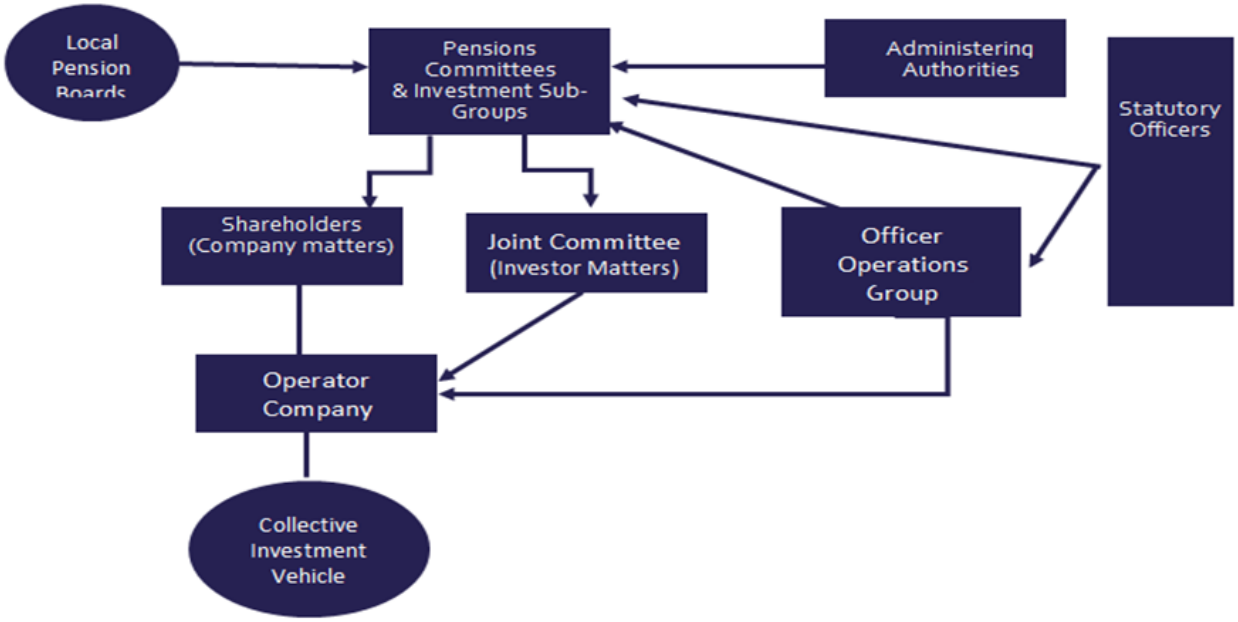
Any complaint or allegation of breach of due process brought to the attention of the Lincolnshire Pension Board shall be dealt with in accordance with the Code of Practice as published by the Pensions Regulator.

Any questions about the governance of the Lincolnshire Local Government Pension Fund should be addressed to Jo Ray, Pension Fund Manager (email: jo.ray@lincolnshire.gov.uk or telephone 01522 553656).

Asset Pooling Governance

In response to the change in regulations, LGPS Funds have to pool the investment of their assets. Lincolnshire Pension Fund is a Partner Fund in the Border to Coast Pensions Partnership Limited (Border to Coast), one of the eight assert pool created.

The diagram below shows the governance structure for Border to Coast.



The Fund will hold Border to Coast to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of Border to Coast (LCC S151 Officer).

- A representative on the Joint Committee who will monitor and oversee the investment operations of Border to Coast (Pensions Committee Chairman).

- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group (Pension Fund Manager).

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

Reviewed xxxxxxx by the Pensions Committee

Lincolnshire Pension Fund

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
A - Structure	**a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.**	Yes	See terms of reference for the Pensions Committee in the Policy Statement above.
	b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Partial	The Council has not, to date, seen the need to establish a secondary committee/panel. It will, however, keep this aspect under review and does establish working groups from the Committee to deal with specific issues. Pensioner and deferred beneficiaries are not presently represented directly on the Committee – see B a. below.
	c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not Relevant	As discussed above, no such forum has been established as yet.
	d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not Relevant	As discussed above, no such forum has been established as yet.
B - Representation	**a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee**	Partial	The Committee has 11 members, all with voting rights, of which 8 are County Council Councillors. Other members include one

	structure. These include :- • **Employing authorities (including non-scheme employers, e.g. admitted bodies);** • **Scheme members (including deferred and pensioner scheme members),** • **Where appropriate, Independent professional observers, and** • **Expert advisors (on an ad hoc basis)**		representing other local authorities (district councils) and one representing small scheduled bodies, currently from an Internal Drainage Board. Member related issues are dealt with by having a trade union representative on the Committee. Given the statutory guarantee that exists in respect of member benefits, this is felt to be sufficient representation. The Council will review this aspect periodically. The Committee have appointed an independent investment advisor who attends all Committees.
	b. That where lay members sit on the main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the Committee have full voting rights and equal access to information, training, etc.
C – Selection and Role of Lay Members	**a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.**	Yes	Nationally customised training is available to all members and this is supplemented by locally provided induction sessions for new members of the Committee. In addition, the Committee agrees an annual training plan with specific topics covered on set dates.
	b. That at the start of any meeting, committee members are invites to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	The declaration of member's interests is a standard item on the agenda of the Pensions Committee.

D - Voting	**a. That the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.**	Yes	Full voting rights are given to all members of the Committee.
E – Training/Facility Time/Expenses	**a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.**	Yes	See C a. above. All expenses incurred by members of the Pensions Committee are either met by the body they represent or directly by the Fund itself.
	b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	All members are treated equally in every respect.
	c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	The Committee agrees an annual training plan with specific topics covered on set dates. All training undertaken by members of the Pensions Committee is recorded and additional training opportunities are regularly brought to the attention of the Committee, either in monthly update letters or in reports taken to Committee.
F – Meetings - Frequency	**a. That an administering authority's main committee meet at least quarterly.**	Yes	See Compliance Policy Statement above.

	b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not Relevant	As discussed above, no such forum has been established as yet.
	c. That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not Relevant	Three added members exist and have equal rights with all mainstream members in all respects.
G – Access	**a. That, subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.**	Yes	All members are treated equally in every respect.
H – Scope	**a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.**	Partial	The terms of reference of the Pensions Committee were changed a few years ago to include benefit related matters which up until that time had been dealt with elsewhere within the governance arrangements of the Council. A report on the administration of the scheme is taken to each quarterly committee meeting. At present the Council does not believe there is a strong argument in favour of appointing an independent professional observer on administration/governance issues in addition to the independent advisor already in place

			in respect of investment matters.
I - Publicity	**a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.**	Yes	The County Council publishes the many governance documents and communicates regularly with employers and scheme members.

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Stewardship Code Statement

Lincolnshire Pension Fund
Stewardship Code Statement

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

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

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

The Lincolnshire Pension Fund takes its responsibilities as a shareholder seriously, and has a Responsible Investment Policy that is aligned with our asset pool, Border to Coast. This can be found on the Pension Fund's shared website at http://www.wypf.org.uk/Member/Publications/PolicyStatements/Lincolnshire/PolicyStatements_Lincoln_Index.aspx. It seeks to adhere to the Stewardship Code where possible, and expects its appointed asset managers to do so too. Resources do not currently allow for a dedicated role to oversee LPF's RI responsibilities at a Fund level, however the asset pooling arrangements currently being implemented will enable a more active role in the future.

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

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

The Fund reports quarterly to the Pensions Committee on the engagement work undertaken by LAPFF and an officer regularly attends the LAPFF meetings. The Fund

also attends the LAPFF Annual Conference to ensure a full understanding and input into the work programme of LAPFF.

Voting is carried out at by the external fund managers, who are expected to vote in line with best practice. Managers report detail of voting undertaken quarterly to officers, and the Fund reports quarterly to the Pensions Committee in summary on all voting activity undertaken.

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

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

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

Principle 3 - Institutional investors should monitor their investee companies.

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

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

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

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

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

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

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

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

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

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

The asset pooling arrangements with Border to Coast currently being implemented will enable additional collaborative working.

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

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

Responsibility for the exercise of voting rights is delegated to the Fund's appointed asset managers. The Fund has a Corporate Governance Voting Guidelines and Voting Guidelines policy that can be found on the Pension Fund's shared website at http://www.wypf.org.uk/Member/Publications/PolicyStatements/Lincolnshire/PolicyStatements_Lincoln_Index.aspx. This is aligned to the Border to Coast policy.

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

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

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

The Fund reports quarterly to the Pensions Committee on stewardship activity through a specific section on voting undertaken each quarter, in the Fund Update. This includes details of engagement activity undertaken through the Local Authority Pension Fund Forum. On an annual basis the Fund includes a section on Stewardship Responsibilities in its Annual Report and Accounts, detailing voting activity and highlighting the key

engagements over the year through its membership of LAPFF. These are available on the Council's website.

Data to produce these reports is taken from the Fund's external managers, and from reports produced by LAPFF.

Reviewed xxxxx by the Pensions Committee

Reporting Breaches Procedure

1. Introduction

1.1 This document sets out the procedures to be followed by certain persons involved with the Lincolnshire Pension Fund, the Local Government Pension Scheme managed and administered by Lincolnshire County Council, in relation to reporting breaches of the law to the Pensions Regulator.

1.2 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

1.3 This Procedure document applies, in the main, to:

- all members of the Lincolnshire Pension Board and Pensions Committee;
- all officers involved in the management of the Pension Fund ;
- personnel of the shared service pensions administrator providing day to day administration services to the Fund, and any professional advisers including auditors, actuaries, legal advisers and fund managers; and
- officers of employers participating in the Lincolnshire Pension Fund who are responsible for pension matters.

2. Requirements

2.1 This section clarifies the full extent of the legal requirements and to whom they apply.

2.2 **Pensions Act 2004**
Section 70 of the Pensions Act 2004 (the Act) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such a scheme an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme, to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:
  (a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and
  (b) the failure to comply is likely to be of material significance to The Pensions Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

2.3 **The Pension Regulator's Code of Practice**

Practical guidance in relation to this legal requirement is included in The Pension Regulator's Code of Practice including in the following areas:

- implementing adequate procedures.
- judging whether a breach must be reported.
- submitting a report to The Pensions Regulator.
- whistleblowing protection and confidentiality.

2.4 **Application to the Lincolnshire Pension Fund**

This procedure has been developed to reflect the guidance contained in The Pension Regulator's Code of Practice in relation to the Lincolnshire Pension Fund and this document sets out how the Board and Committee will strive to achieve best practice through use of a formal reporting breaches procedure.

3 The Lincolnshire Pension Fund Reporting Breaches Procedure

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Lincolnshire Pension Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

3.1 **Clarification of the law**

Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004:
  www.legislation.gov.uk/ukpga/2004/35/contents
- Employment Rights Act 1996:
  www.legislation.gov.uk/ukpga/1996/18/contents
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations):
  www.legislation.gov.uk/uksi/2013/2734/contents/made
- Public Service Pension Schemes Act 2013:
  www.legislation.gov.uk/ukpga/2013/25/contents
- Local Government Pension Scheme Regulations (various):
  http://www.lgpsregs.org/timelineregs/Default.html (pre 2014 schemes)
  http://www.lgpsregs.org/index.php/regs-legislation (2014 scheme)

- The Pensions Regulator's Code of Practice: http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-publicservice-pension-schemes.aspx
  In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the code on 'Maintaining contributions'.

Further guidance and assistance can be provided by the Director of Resources and the Executive Director of Finance and Public Protection, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence).

3.2 **Clarification when a breach is suspected**

Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Where a breach is suspected the individual should carry out further checks to confirm the breach has occurred. Where the individual does not know the facts or events, it will usually be appropriate to check with the Director of Resources, the Executive Director of Finance and Public Protection, a member of the Pensions Committee or Pension Board or others who are able to explain what has happened. However there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

3.3 **Determining whether the breach is likely to be of material significance**

To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

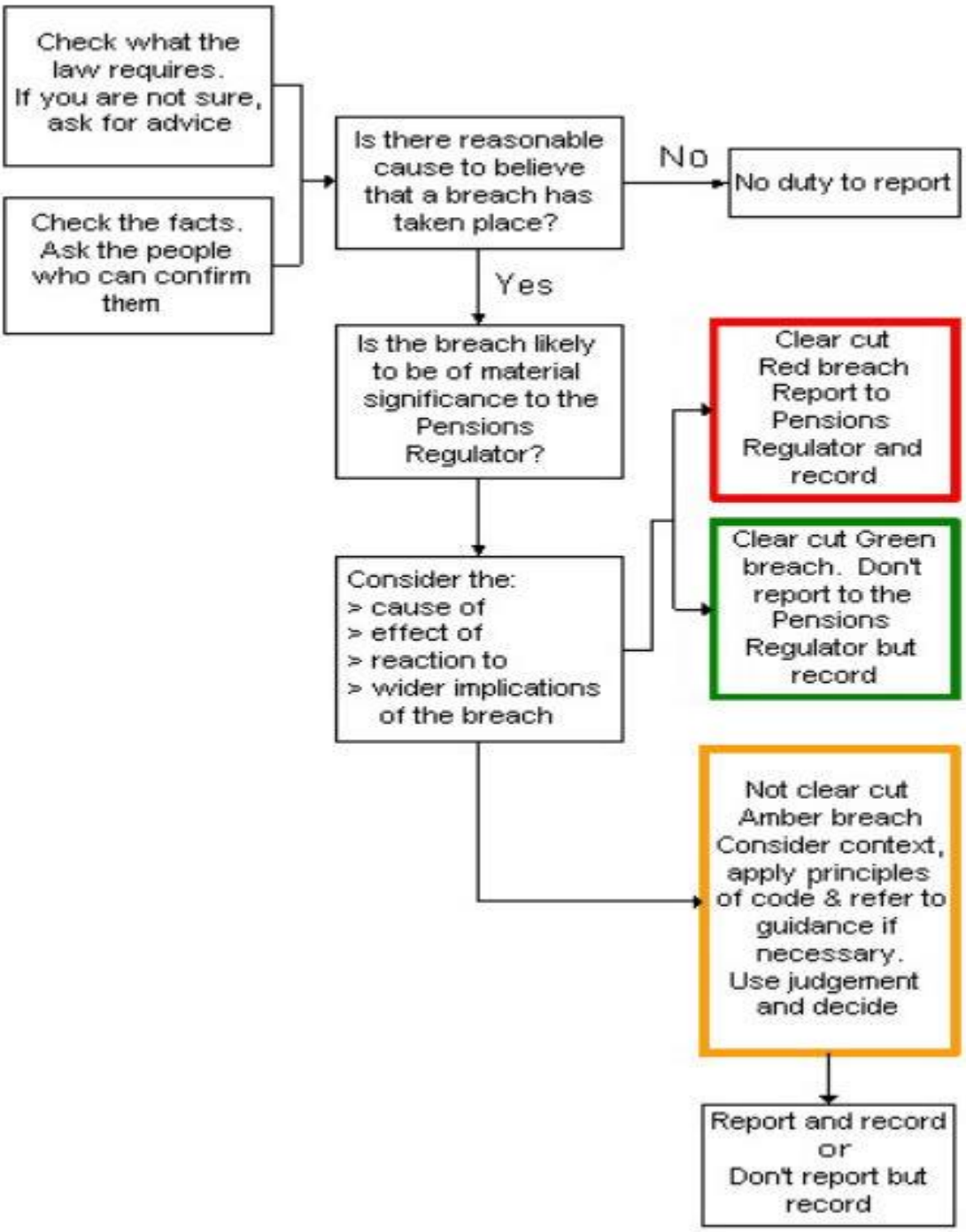
- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

Further details on the above four considerations are provided in Appendix A to this procedure.

The individual should use the traffic light framework described in Appendix B to help assess the material significance of each breach and to formally support and document their decision.

3.4 A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore requires to be reported.

Decision-tree: deciding whether to report



3.5 **Referral to a level of seniority for a decision to be made on whether to report**

Lincolnshire County Council has a designated Monitoring Officer to ensure the County Council acts and operates within the law. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to The Pensions Regulator, where appropriate. If breaches relate to late or incorrect

payment of contributions or pension benefits, the matter should be highlighted to the Director of Resources or the Executive Director of Finance and Public Protection at the earliest opportunity to ensure the matter is resolved as a matter of urgency. Individuals must bear in mind, however, that the involvement of the Monitoring Officer is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to The Pensions Regulator.

The matter should not be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation (as highlighted in section 2). If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly in more serious breaches.

3.6 **Dealing with complex cases**

The Director of Resources or the Executive Director of Finance and Public Protection may be able to provide guidance on particularly complex cases. Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - http://www.lgpsregs.org/). If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Board meeting.

3.7. **Timescales for reporting**

The Pensions Act and Pension Regulators Code require that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not rely on waiting for others to report and nor is it necessary for a reporter to gather all the evidence which The Pensions Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on “reasonable cause to believe” and on “material significance” should be consistent with the speed implied by ‘as soon as reasonably practicable’. In particular, the time taken should reflect the seriousness of the suspected breach.

3.8 **Early identification of very serious breaches**

In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, The Pensions Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert The Pensions Regulator to the breach.

3.9 **Recording all breaches even if they are not reported**

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). Lincolnshire County Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports to the Director of Resources or the Executive Director of Finance and Public Protection. Records of unreported breaches should also be provided as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each Pension Committee, and this will also be shared with the Pension Board.

3.10 **Reporting a breach**

Reports must be submitted in writing via The Pensions Regulator's online system at www.tpr.gov.uk/exchange, or by post, email or fax, and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call. Reporters should ensure they receive an acknowledgement for any report they send to The Pensions Regulator. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by The Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (Lincolnshire Pension Fund);
- description of breach(es);
- any relevant dates;
- name, position and contact details;
- role in connection to the scheme; and
- employer name or name of scheme manager (the latter is Lincolnshire County Council).

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to The Pensions Regulator;
- scheme address (provided at the end of this procedures document);
- scheme manager contact details (provided at the end of this procedures document);
- pension scheme registry number (PSR – 10051252); and
- whether the breach has been reported before.

The reporter should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

3.11 **Confidentiality**

If requested, The Pensions Regulator will do its best to protect a reporter's identity and will not disclose information except where it is lawfully required to do so. If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.

3.12 **Reporting to Pensions Committee and Pension Board**

Where any breaches have been reported, a report will be presented to the Pensions Committee and the Pension Board on a quarterly basis setting out:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates;
- in relation to each breach, details of what action was taken and the result of any action (where not confidential);
- any future actions for the prevention of the breach in question being repeated; and
- highlighting new breaches which have arisen in the last year/since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings). An example of the information to be included in the quarterly reports is provided in Appendix C to this procedure.

3.13 **Review**

This Reporting Breaches Procedure was originally developed in June 2015. It will be kept under review and updated as considered appropriate by the Director of Finance or the Executive Director of Finance and Public Protection. It may be changed as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the procedure.

Further Information

If you require further information about reporting breaches or this procedure, please contact:

Jo Ray - Pension Fund Manager
Email: jo.ray@lincolnshire.gov.uk
Telephone: 01522 553656
Lincolnshire Pension Fund, Lincolnshire County Council, Newland, Lincoln, LN1 1YL

Designated officer contact details:
1) Director of Resources – Andrew Crookham
Email: andrew.crookham@lincolnshire.gov.uk

Telephone: 01522 553602

2) Executive Director of Finance and Public Protection – Pete Moore
Email: pete.moore@lincolnshire.gov.uk
Telephone: 01522 553602

3) Monitoring Officer – David Coleman
Email: David.Coleman@lincolnshire.gov.uk
Telephone: 01522 552134

Appendix A

Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

The cause of the breach
Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- acting, or failing to act, in deliberate contravention of the law;
- dishonesty;
- incomplete or inaccurate advice;
- poor administration, i.e. failure to implement adequate administration procedures;
- poor governance; or
- slow or inappropriate decision-making practices.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake.
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant.

The effect of the breach
Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements.
- Conflicts of interest of Committee or Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements.
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being

properly identified and managed and/or the right money not being paid to or by the scheme at the right time.

- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement.
- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time.
- Misappropriation of assets, resulting in scheme assets not being safeguarded.
- Other breaches which result in the scheme being poorly governed, managed or administered.

The reaction to the breach

A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify affected scheme members where it would have been appropriate to do so.

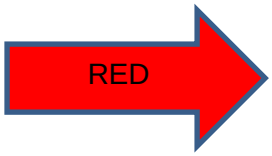
The wider implications of the breach

Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

Appendix B

Traffic light framework for deciding whether or not to report

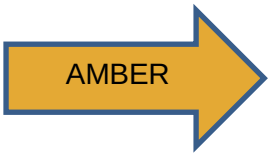
It is recommended that those responsible for reporting use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated below:



Where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance.

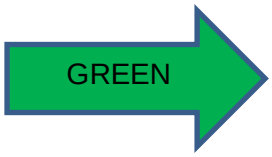
These must be reported to The Pensions Regulator.

Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.



Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right. You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However the breach was caused by a system error which may have wider implications for other public service schemes using the same system.



Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance. These should be recorded but do not need to be reported.

Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

All breaches should be recorded even if the decision is not to report.

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this is framework is provided by The Pensions Regulator at the following link:

http:// www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx

Lincolnshire Pension Fund

Appendix C

Example Record of Breaches

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	Outstanding actions

*New breaches since the previous meeting should be highlighted

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Code of Conduct and Conflict of Interest Policy

1. Code of conduct

1.1 As members of a publicly funded body with a responsibility to discharge public business, members the Lincolnshire Pension Board and Pensions Committee should have the highest standards of conduct.

1.2 Members should have regard to the Seven Principles of Public life:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

1.3 All Lincolnshire Pension Board and Pensions Committee members must undertake to act in accordance with the following:

- You must act solely in the public interest and should never improperly confer an advantage or disadvantage on any person or act to gain financial or other material benefits for yourself, your family, a friend or close associate.

- You must not place yourself under a financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties.

- You must make all choices on merit and must be impartial and seen to be impartial, when carrying out your public duties.

- You must co-operate fully with whatever scrutiny is appropriate to your role.

- You will on occasions be privy to confidential and sensitive information, such as personal information about someone, or commercially sensitive information which, if disclosed, might harm the commercial interests of the Council or another person or organisation. This information must not be revealed without proper authority.

- You must, when using or authorising the use by others of the resources of your authority, ensure that such resources are not used improperly for political purposes (including party political purposes) and you must have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986.

- You must promote and support high standards of conduct when serving in your public post, in particular as characterised by the above requirements, by leadership and example.

- You will sign adherence to the Conflict of Interest Declaration and declare any further potential conflicts of interest that may arise once appointed as a member.

- You should comply with the Lincolnshire Pension Fund Code in addition to existing compliance with the Member or Officer Code of Conduct.

2. Conflict of interest

2.1 The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a "conflict of interest", which is defined in Section 5(5) as a "financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme."

2.2 A conflict of interest exists where there is a divergence between the individual interests of a person and their responsibility towards the Lincolnshire Pension Fund, such that it might be reasonably questioned whether the actions or decisions of that person are influenced by their own interests. A conflict of interest would prejudice an individual's ability to perform their duties and responsibilities towards the Pension Fund in an objective way. Examples of potential conflicts of interest for all those involved in managing the Pension Fund, are listed at appendix A.

2.4 All prospective Pension Board members are required to complete the Lincolnshire Pension Board Conflict of interest declaration before they are appointed to the Pension Board, attached at appendix B. All Pensions Committee members are also required to complete a declaration if they have not completed a Pecuniary Interests Disclosure.

2.5 All appointments to the Pension Board should be kept under review by the Executive Director of Finance and Public Protection.

2.5 It is the duty of any appointed Pension Board or Pensions Committee member to declare any potential conflict of interest. For the Pension Board, this declaration should be made to the Chair of the Lincolnshire Pension Board in the first instance or to the Scheme Manager, and recorded in a register of interests. For Pensions Committee members, this declaration should be

made in the normal way, as set down in the Council's Conflict of Interest Policy.

2.7 Any potential conflict of interests shall be identified and monitored in a register of interests (attached at appendix C). The register of interests should be circulated to the Lincolnshire Pension Board, Pensions Committee and Scheme Manager for review and publication.

2.8 If any member suspects any conflict of interest it should report its concerns to the Scheme Manager.

2.9 When seeking to prevent a potential conflict of interest becoming detrimental to the conduct and decisions of the Pension Board or Pensions Committee, members or officers of the Pension Fund should consider obtaining legal advice when assessing its course of action and response, and may wish to consult the Chief Legal Officer in the first instance.

2.10 Education on identifying and dealing with conflicts of interest will be included as part of the training requirement in the Knowledge and Understanding policy.

3. Alleged breaches of the Code of Conduct and conflict of interest policy

3.1 A process for dealing with the consideration of any alleged breaches, to include any sanctions to be applied, will be agreed by the Scheme Manager, the Lincolnshire Pension Board and the Pensions Committee.

Examples of Potential Conflicts of Interest

a) An elected member on the Pension Committee is asked to provide views on a funding strategy which could result in an increase in the employer contributions required from the employer he or she represents.

b) A member of the Pension Committee is on the board of a Fund Manager that the Committee is considering appointing.

c) An officer of the Fund or member of the Pension Committee accepts a dinner invitation from a Fund Manager who has submitted a bid as part of a tender process.

d) An employer representative on the Pension Board is employed by a company to which the administering authority has outsourced its pension administration services and the Local Pension Board is reviewing the standards of service provided by that company.

e) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.

f) An officer of the Fund is asked to provide guidance to the Local Pension Board on the background to an item considered at the Pension Committee. This could be a potential conflict as the officer could consciously or sub-consciously avoid providing full details, resulting in the Board not having full information and not being able to provide a complete view on the appropriateness or otherwise of that Pension Committee item.

g) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Council. The Executive Director of Finance and Public Protection, who has responsibility for the Council budget, is expected to approve the report to go to the Pension Committee, which, if agreed, would result in a material reduction in the recharges to the Council from the Fund.

h) Officers of the Fund are asked to provide a report to the Pension Board or Pension Committee on whether the administration services should be outsourced which, if it were to happen, could result in a change of employer or job insecurity for the officers.

i) An employer representative employed by the administering authority and appointed to the Pension Board to represent employers generally could be conflicted if he or she only acts in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the pension board to represent the entire scheme membership could be conflicted

if he or she only acts in the interests of their union and union membership, rather than all scheme members.

j) A Fund adviser is party to the development of a strategy which could result in additional work for their firm, for example, delegated consulting of fund monies or providing assistance with monitoring the covenant of employers.

k) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pension Committee or Local Pension Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Board.

Appendix B

Declaration of Interests relating to the management of Lincolnshire Pension Fund administered by Lincolnshire County Council

I, ……[insert full name], am:

Tick as appropriate

- an officer involved in the management ☐
- Pension Board Member ☐
- Pensions Committee Member ☐

of Lincolnshire Pension Fund and I set out below under the appropriate headings my interests, which I am required to declare under Lincolnshire Pension Fund Conflicts of Interest Policy. I have put "none" where I have no such interests under any heading.

Responsibilities or other interests that could result in a conflict of interest (please list and continue overleaf if necessary):

A) Relating to me

B) Relating to family members or close colleagues

Declaration of Other Appointments:

In addition to the declaration overleaf, I list below any appointments that I hold that may be considered as potentially related:

Undertaking: I declare that I understand my responsibilities under the Lincolnshire Pension Fund Conflicts of Interest Policy. I undertake to notify the Pensions Fund Manager of any changes in the information set out above.

Signed _____Date _____

Name (CAPITAL LETTERS) _____

Lincolnshire Pension Fund - Register of Potential and Actual Conflicts of Interest

All reported conflicts of interest will be recorded in the minutes and a register of conflicts will be maintained and reviewed annually by Lincolnshire County Council, the Administering Authority.

Date identified	Name of Person	Role of Person	Details of Conflict	Actual or Potential	How notified? (1)	Action taken (2)	Follow up Required	Date Resolved

(1) E.g. Verbal declaration at meeting, written conflicts declaration, etc.
(2) E.g. Withdrawing from a decision making process, left meeting, etc.

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**21 March 2019**
Subject:	**MHCLG Statutory Guidance on Asset Pooling Consultation**

Summary:

This report proposes a response to the Government's draft statutory guidance on asset pooling that is currently under consultation.

Recommendation(s):

That the committee:

1) note the report;
2) consider the points raised in this paper; and
3) delegate authority for the Executive Director of Finance and Public Protection, in consultation with the Chairman and Vice Chairman of the Pensions Committee, to respond to the consultation.

Background

1. The Government first published guidance (non-statutory) on asset pooling in November 2015 (attached at Appendix B). The key focus of this guidance was that the 89 LGPS Funds across England and Wales should create vehicles to pool their investment assets that would meet the criteria of:

   - Asset pools that achieve the benefits of scale (greater than £25bn);
   - Strong governance and decision making;
   - Reduced costs and excellent value for money; and
   - An improved capacity and capability to invest in infrastructure.

2. This led to the creation of the eight asset pools that now exist: London CIV, Brunel, LPP, Wales, Access, Northern, Central and Border to Coast (Lincolnshire Pension Fund's (LPF's) asset pool). The guidance was not prescriptive as to how these pools should be set up, and the eight pools have all been created differently based on the decisions and requirements of the underlying funds.

3. In January 2019, MHCLG published its draft statutory guidance on asset pooling. This sets out the requirements on administering authorities, replacing previous guidance, and builds on previous Ministerial

communications and guidance on investment strategies. The consultation is open for 12 weeks (closing on 28 March). It is deemed an informal consultation which is addressed to "*interested parties only, including the Scheme Advisory Board, Pensions Committees, Local Pension Boards, the pool Joint Committees or equivalent, the Cross Pool Collaboration Group, the pool operating companies where owned by participating funds, CIPFA and ALATS*". This consultation is unusual in that it has no questions to respond to, rather just views are invited.

4. The document has had much discussion across the LGPS and Teresa Clay (Head of Local Government Pensions at MHCLG) was invited to attend the Cross Pool Collaboration Group (CPCG) meeting held last week to provide some further background and hear informal feedback from the representatives from the pools.

5. Key points from the presentation by Teresa Clay were:

Background

- All eight pools now operational
- Major challenge ahead to complete transition and deliver full benefits of reform
- Current basis in non-statutory guidance and Ministerial statements
- Collective understanding has grown and developed over last three years

Aims

- Set out up to date list of requirements on statutory basis
- Establish common terminology
- Clarify position on questions raised by funds and pools

Levels of requirements in the guidance

- Must – (4 of these) – requirement: only one way to comply
- Should – (36 of these) – requirement: more than one way to comply
- May – (27 of these) – option: permitted or available, depends on facts and circumstances

6. The intentions of the guidance, as presented by Teresa Clay, are set out below, followed by a brief commentary in italics as to whether this is an issue or concern for the Fund:

Structure and scale

- Must pool assets
    - *this is the understanding from the 2015 guidance*
- Must appoint pool company or companies regulated by the FCA
    - *Border to Coast is an FCA regulated company*
- Should review services and procurement and balance of active and passive management
    - *Service providers are regularly reviewed and the active or passive decision is part of the strategic asset allocation setting process*

Governance

- Must establish a pool governance body
    - *Border to Coast has a Joint Committee on which the 12 Chairs of the Partner Fund Pension Committees sit*
- Fund committees and pool governance bodies should take long term view of implementation and costs, including benefits across the pool
    - *Agree with the long term view – as a pension fund we are long term*
- Should decide balance between strategic and tactical asset allocation with involvement of pool company
    - *The definition of strategic and tactical differs across funds and is regularly discussed with Border to Coast and the partner funds*

Transition of assets to the pool

- Should transition assets quickly and effectively, with involvement of pool
    - *Concern raised here – effectively and efficiently rather than quickly*
- May charge to the fund payments made by a pool member to meet its agreed share of costs
    - *Initial principle agreed with Border to Coast Partner Funds on equitable sharing of transition costs*
- May retain existing assets on temporary basis but should keep under review
    - *Expectation for LPF is to transition all assets possible over the medium term*

Making new investments outside the pool

- Should normally make all new investments through the pool company
    - *Where structures are available*
- May make local investments but should not normally exceed 5% of total assets
    - *LPF does not make local investments so not an issue*

Infrastructure investment

- No target or requirement to invest in UK or overseas infrastructure
    - *As per the 2015 guidance*
- Should set ambition for infrastructure investment
    - *Contradictory to the point above*
- May invest in local areas but investment decisions should be made at pool level
    - *What is local to a pool?*
- Includes all forms of residential property
    - *Not within the normal definition of infrastructure*

Reporting

- Should report investment costs and performance in line with CIPFA guidance from 2018-19

    - *The CIPFA Annual Report guidance which details how these should be set out has not yet been published and may not be available in time*
- Should ensure that pool company and investment managers follow SAB Code of Transparency
    - *Border to Coast will only appoint managers who have signed up to the code and have themselves signed up to it*
- Should explain differences between fund, pool and SAB reports in narrative
    - *Fund and Pool reports need to meet different requirements (company reporting vs. CIPFA reporting requirements) so will not be comparable*

7. The key concern across the LGPS Funds and the asset pools (as shared at the CPCG) is that whilst the intentions are generally agreeable, the translation of them into the guidance is poor: further clarity is required in some areas, there are a number of inconsistencies, some statements are very unhelpful and some elements do not need to be included.

8. MHCLG have requested that all responses indicate which section of the guidance is being commented on, therefore a detailed response will be required.

9. The key areas that officers recommend LPF responding on are shown below:

- 2.1 – Clarity - definition of local asset contradicted at 6.2.
- 3.2 – Further clarity on the decision to use internal or external management.
- 3.6 – Removal of the requirement to benchmark to passive and the push towards it.
- 4.3 – Incorrect assumption that all pension committee members are elected members.
- 4.4 – Clarity on how the funds should take account of the benefits across the scheme as a whole, and how this fits with their fiduciary duty to the Fund.
- 4.5 and 4.6 – References to the role of the Local Pension Board in pool governance should be removed. Their responsibilities are clearly set out in the Public Service Pensions Act 2013 and the LGPS 2013 Regulations.
- 5.1 – Removal of the references to transitioning quickly and for listed assets over a relatively short period.
- 5.3 – Clarity on inter-authority payments in sharing costs.
- 6.1 – Removal of expectation to make all new investments through the pool from 2020 – what are "limited circumstances"?
- 6.2 – Removal of reference to local investments – these are included in the Investment Regulations.

- 6.3 – Clarity on investing in a pool other than their own – intention to create competition? Not all pools set up to enable this and it could impact business models.
- 7 – Detailed section on Infrastructure investment is confusing. Definition not required in this guidance as included in CIPFA guidance.
- 8 – Reporting section is far too detailed and only needs to refer to CIPFA Guidance.
- 8.8 – pool members have no say over the format of the Pool company accounts.
- 8.9 – clarity on the requirement to report failures to SAB and MHCLG.
- There are now no references to scale requirements in the guidance.

10. In addition to the above there is a concern that the guidelines are now too prescriptive in a number of areas and a "one size fits all" approach is now required.

11. Delegated authority is requested for the Executive Director of Finance and Public Protection, in consultation with the Chairman and Vice Chairman of the Pensions Committee, to respond to the consultation following comments from this Committee.

Conclusion

12. The draft statutory guidance on asset pooling currently out for consultation is very detailed and a step change from the guidance issued in 2015. Whilst the intentions may be generally agreeable, the translation into a guidance document that funds must adhere to is a cause for concern. It is expected that there will be a high number of responses to the consultation.

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	**MHCLG Statutory Guidance on Asset Pooling**
Appendix B	**Asset Pooling Guidance 2015**

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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Local Government Pension Scheme

Statutory guidance on asset pooling

Contents

Foreword

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* issued in November 2015.

2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

'Pool' the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool
'Pool member' an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance
'Pool governance body' the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)
'Pool company' the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members
'Pool fund' a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)
'Pool vehicle' an investment vehicle (including pool funds) made available to pool members by a regulated pool company
'Pooled asset' an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle
'Retained asset' an existing investment retained by a pool member during the transition period
'Local asset' a new investment by a pool member which is not a pooled asset

3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:

- reduced investment costs without affecting gross risk-adjusted returns
- reduced costs for services such as custody, and for procurement
- strengthened governance and stewardship and dissemination of good practice
- greater investment management capacity and capability in the pool companies, including in private markets
- increased transparency on total investment management costs
- diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:

- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external
- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

Regular review of services and procurement
3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks (www.nationallgpsframeworks.org) where appropriate.

Regular review of active and passive management
3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

4 Governance

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits

are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

Strategic and tactical asset allocation
4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy.*

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

5 Transition of assets to the pool

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

Temporary retention of existing assets

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

Regular review of retained assets

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

6 Making new investments outside the pool

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- *Substantially backed by durable physical assets;*
- *Long life and low risk of obsolescence;*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;*
- *Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;*
- *Returns to show limited correlation to other asset classes.*

Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.

Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
- asset transition during the reporting year
- transition plans for local assets
- pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
- ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report.*

For the purpose of defining those assets which are classed as being within an asset pool, 'pooled assets' are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control.

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.

8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

Department for
Communities and
Local Government

Local Government Pension Scheme: Investment Reform Criteria and Guidance

November 2015
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

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Ministerial Foreword

At the summer Budget 2015, the Chancellor announced our intention to invite administering authorities to bring forward proposals for pooling Local Government Pension Scheme investments, to deliver significantly reduced costs while maintaining overall investment performance.

We have been clear for some time that the existing arrangements for investment by the Local Government Pension Scheme are in need of reform, and the announcement made plain our expectation that authorities would be ambitious when developing their proposals. The publication of these criteria and their supporting guidance marks a significant milestone on the road to reform, placing authorities in a strong position to take the initiative and drive efficiencies in the Scheme, and ultimately deliver savings for local taxpayers.

The Scheme is currently organised through 89 separate local government administering authorities and a closed Environment Agency scheme, which each manage and invest their assets largely independently. Recognising the potential for greater efficiency in this system, the coalition government first began to consider the opportunity for collaboration in 2013 with a call for evidence. Since then, we have been exploring the opportunities to improve; gathering evidence, testing proposals, and listening to the views of administering authorities and the fund management industry.

The Chancellor's announcement draws on this earlier work and in particular the consultation, *Opportunities for collaboration, cost savings and efficiencies,* published in May 2014 by the coalition government. More than 200 consultation responses and papers were received and analysed, leading to the development of a framework for reform that has administering authorities at its centre. The criteria published today make clear the Government's expectation for ambitious proposals for pooling, and invite authorities to lead the design and implementation of their own pools. The criteria have been shaped and informed by earlier consultations, as well as several conversations with administering authorities and the fund management industry which took place over the summer.

Working together, authorities have a real opportunity to realise the benefits of scale that should be available to one of Europe's largest funded pension schemes. The creation of up to six British Wealth Funds, each with at least £25bn of Scheme assets, will not only drive down investment costs but also enable the authorities to develop the capacity and capability to become a world leader in infrastructure investment and help drive growth. I know that many authorities have already started to consider who they will work with and how best to achieve the benefits of scale. These early discussions place those authorities on a strong footing to deliver against our criteria, and I look forward to seeing their proposals develop over the coming months.

Marcus Jones

Criteria

1.1 In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Authorities are now invited to submit proposals for pooling which the Government will assess against the criteria in this document. The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.

1.2 The following criteria set out how administering authorities can deliver against the Government's expectations of pooling assets.

1.3 It will be for authorities to suggest how their pooling arrangements will be constituted and will operate. In developing proposals, they should have regard to each of the four criteria, which are designed to be read in conjunction with the supporting guidance that follows. Their submissions should describe:

A. Asset pool(s) that achieve the benefits of scale: The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported. Authorities should explain:

- The size of their pool(s) once fully operational.
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.
- The type of pool(s) they are participating in, including the legal structure if relevant.
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

B. Strong governance and decision making: The proposed governance structure for the pools should:

i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;

ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability. Authorities should explain:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any environmental, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.
- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.
- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

C. **Reduced costs and excellent value for money:** In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

As part of their proposals, authorities should provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013.
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
- A detailed estimate of savings over the next 15 years.

- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

D. **An improved capacity to invest in infrastructure:** Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class. Authorities should explain:

- The proportion of their fund currently allocated to infrastructure, both directly and through funds, or "fund of funds".
- How they might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or "fund of funds" arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

Addressing the criteria

Requirements and Timetable

2.1 Authorities are asked to submit their initial proposals to the Government to LGPSReform@communities.gsi.gov.uk by 19 February 2016. Submissions should include a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Authorities can choose whether to make individual or joint submissions, or both, at this first stage.

2.2 Refined and completed submissions are expected by 15 July 2016, which fully address the criteria in this document, and provide any further information that would be helpful in evaluating the proposals. At this second stage, the submissions should comprise:

- for each pool, a joint proposal from participating authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
- for each authority, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings, the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.

Assessing the proposals against criteria

2.3 The Government will continue to engage with authorities as they develop their proposals for pooling assets over the coming months. The initial submissions will be evaluated against the criteria, with feedback provided to highlight areas that may fall outside of the criteria, or where additional evidence may be required.

2.4 Once submitted, the Government will assess the final proposals against the criteria. A brief report will be provided in response, setting out the extent to which the criteria have been met and highlighting any aspects of the guidance that the Government believes have not been adequately addressed. In the first instance, the Government will work with authorities who do not develop sufficiently ambitious proposals to help them deliver a more cost effective approach to investment that draws on the benefits of scale. Where this is not possible, the Government will consider how else it can drive value for money for taxpayers, including through the use of the "backstop" legislation, should this be in place following the outcome of the consultation described below.

Transitional arrangements

2.5 Plans should be made to transfer assets to the pools as soon as practicable. Analysis commissioned by the Government from PricewaterhouseCoopers (PwC) indicates that, even those pooling mechanisms requiring supporting infrastructure, such as collective investment vehicles, could be established within 18 months. It is expected that liquid assets are transferred into the pools over a relatively short timeframe, beginning from April 2018. It is recognised that illiquid assets are likely to transition over a longer period of time. For the avoidance of doubt, investments with high penalty costs for early

exit should not be wound up early on account of the pooling arrangements, but should be transferred across as soon as practicable, taking into account value for money considerations. Any assets that are held outside of the pool should be kept under review to ensure that arrangement continues to provide value for money.

2.6 While authorities will need to be mindful of their developing pooled approach, they should continue to manage both their investment strategies and manager appointments as they do now until the new arrangements are in place. In keeping with the investment regulations, they are still responsible for keeping both under regular review.

Support to develop proposals

2.7 To help authorities develop proposals quickly and efficiently, the Government has made available PwC's detailed technical analysis of the different collective investment vehicles and their tax arrangements at: https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance. This paper is provided for information only. It does not represent the view of Government, and authorities should seek professional advice as needed when developing their proposals. Authorities are also strongly encouraged to learn from those who have already begun to develop collective investment vehicles, such as the London Boroughs or Lancashire and the London Pension Fund Authority.

Legislative context

2.8 At the July Budget 2015, the Chancellor also announced the Government's intention to consult on "backstop" legislation that would require those administering authorities who do not come forward with sufficiently ambitious proposals to pool their assets with others. That consultation has now been published and is available on the Government's website at: https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme.

2.9 The consultation proposes to introduce a power for the Secretary of State to intervene in the investment function of an administering authority where it has not had sufficient regard to guidance published by the Secretary of State. The intervention should be proportionate and subject to both consultation and review.

2.10 The draft regulations include a provision for the Secretary of State to issue guidance. Subject to the outcome of the consultation, authorities would then need to have regard to that guidance when producing their investment strategy. The Government proposes to issue this document as Secretary of State's guidance if the draft regulations come into effect. The guidance will be kept under review and may be updated, for example if the proposals for pooling that come forward are not sufficiently ambitious.

2.11 The consultation also proposes to replace and update the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to make significant investment through pooled vehicles possible.

Supporting guidance

3.1 This guidance is to assist authorities in the design of ambitious proposals for pooling investments and to provide ongoing support as they seek to ensure value for money in the long term. It will be kept under review to ensure that it continues to represent best practice.

A. Asset pool(s) that achieve the benefits of scale

Headline criterion: The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported.

3.2 The consultation, *Opportunities for collaboration, cost savings and efficiencies*, set out strong evidence that demonstrated how using collective investment vehicles and pooling investments can deliver substantial savings for the Local Government Pension Scheme without affecting investment performance. Additional advantages to pooling, which should further reduce costs and improve decision making in the long term, include:

- Increasing the range of asset classes to be invested in directly,
- Strengthening the governance arrangements and in-house expertise available to authorities,
- Improving transparency and long-term stewardship, and
- Facilitating better dissemination of best practice and performance data between authorities.

The case for collective investment

3.3 Published in May 2014, the analysis in the Hymans Robertson report evidenced that using collective investment vehicles could deliver savings. In the case of illiquid assets alone, they found that £240m a year could be saved if investments were channelled through a Scheme wide collective investment vehicle rather than the existing "fund of funds" approach.[1]

3.4 A review of the academic analysis available also supports the case for larger investment pools. For example, Dyck and Pomorski's paper, *Is Bigger Better? Size and performance in pension fund management*, established that larger pension funds were able to operate at lower cost than their smaller counterparts, through a combination of

[1] Hymans Robertson report: *Local Government Pension Scheme structure analysis,* p.3 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307926/Hymans_Robertson_report.pdf

improved negotiating power, greater use of in-house management, and more cost effective access to alternative assets like infrastructure.[2]

A third to a half of the benefits of size come through cost savings realized by larger plans, primarily via internal management. Up to two thirds of the economies come from substantial gains in both gross and net returns on alternatives.

3.5 A number of respondents to the May 2014 consultation also set out the case for larger funds being able to access lower cost investments. London Councils, for example, estimated that savings of £120m a year could be delivered if £24bn was invested through the London collective investment vehicle (CIV), as a result of reduced investment management fees, improved performance, and enhanced efficiency.

3.6 Formal mechanisms of pooling, such as collective investment vehicles, offer additional benefits to alternative arrangements such as procurement frameworks. For example, Hymans Robertson explained that larger asset pools would increase the opportunities for buy and sell transactions to be carried out within the Scheme, reducing the need to go to the market and so minimising transaction costs. Their analysis found that this could reduce transaction costs, which erode the value of assets invested, by £190m a year.[3]

3.7 Pooling investments will also create an opportunity to improve transparency and information sharing amongst authorities. By having a single entity responsible for negotiating with fund managers and reporting performance, authorities can see what they are paying and generating in returns and how it compares with other authorities. Similarly, Lancashire County Pension Fund and the London Pension Fund Authority, who are developing a pool for assets and liabilities, anticipate economies of scale driving improved performance. They have recently estimated that by pooling they can achieve enhanced investment outcomes of £20-£30m a year from their current levels.[4]

Achieving appropriate scale

3.8 The Government expects all administering authorities to pool their investments to achieve economies of scale and the wider benefits of sharing best practice.

3.9 A move to larger asset pools would also be in keeping with international experience. For example, in Ontario, smaller public sector pension funds are being required to come together to form pools of around $50bn Canadian (approximately £30bn at the time the proposal was made). Similarly, Australian pension funds have been consolidating in recent years, where a formal review in 2010 recommended that each MySuper pension fund be required to consider annually whether they have sufficient scale and membership to continue as a separate pension fund.[5]

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[2] Dyck and Pomorski, *Is bigger better? Size and Performance in Pension Plan Management*, pp.14-15
[3] Hymans Robertson report, pp.14-15
[4] Sir Merrick Cockell, writing in the *Pensions Expert* on 30 September 2015
[5] Government Response to the Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, Recommendation 1.6,

3.10 The May 2014 consultation sought views on the number of collective investment vehicles to be established. Respondents stressed the importance of balancing the need for scale with local input and practical governance arrangements. It was also argued that while larger asset pools would deliver greater savings, the potential difficulties of successfully investing large volumes of assets in a single asset class, particularly active strategies for listed assets, should also be taken into account. However, while individual managers may restrict the value of assets they are prepared to accept or are able to invest, the selection of a few managers for each asset class would help to mitigate this risk.

3.11 Having reflected on the views expressed in response to the consultation and the experience of pension funds internationally, the Government believes that in almost all cases, fewer, larger assets pools will create the conditions for lower costs and reduce the likelihood of activity being duplicated across the Scheme, for example by minimising pooled vehicle set-up and running costs. It therefore expects authorities to collaborate and invest through no more than six large asset pools, each with at least £25bn of Local Government Pension Scheme assets under management once fully operational.

3.12 However, the Government recognises that there may be a limited number of bespoke circumstances where an alternative arrangement may be more appropriate for a particular asset class or specific investment. As set out below, this may include pooling to invest in illiquid assets like infrastructure, direct holdings in property and locally targeted investments.

Investment in infrastructure and other illiquid or alternative assets

3.13 The Hymans Robertson report highlighted illiquid or alternative assets as an area for significant savings for the Scheme. They found that in 2012-2013, illiquid asset classes like private equity, hedge funds and infrastructure represented just 10% of investments made, but 40% of investment fees. They also demonstrated that changing the way these investments are made, moving away from “fund of funds” to a collective investment vehicle, could save £240m a year.[6]

3.14 The Government expects the pooling of assets to remove some of the obstacles to investing in these asset classes in a cost effective way. A separate criterion has been included on infrastructure, although similar benefits exist for other alternative or illiquid assets, such as private equity, venture capital, debt funds and new forms of alternative business finance. In light of this, authorities should consider how best to access these asset classes in a more cost-effective way. Regionally based pools, such as the London boroughs’ collective investment vehicle, would allow authorities to make best use of existing relationships, while a single national pool for infrastructure or illiquid assets would deliver even greater scale and opportunity for efficiency.

3.15 A considerable shift in asset allocation would be needed to develop a pool of £25bn for investment in infrastructure and other illiquid or alternative assets, such as private equity or venture capital. The Government recognises that such a significant movement in

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http://strongersuper.treasury.gov.au/content/Content.aspx?doc=publications/government_response/recommendation_response_chapter_1.htm

[6] Hymans Robertson report, p.24

asset allocation is unlikely in the near term. As such, should authorities elect to develop a single asset pool for illiquid investments or infrastructure, the Government recognises that a value of assets under management less than £25bn might be appropriate.

Investments outside of the pools

3.16 The Government's presumption is that all investments should be made through the pool, but we recognise that there may be a limited number of existing investments that might be less suitable to pooled arrangements, such as local initiatives or products tailored to specific liabilities. Authorities may therefore wish to explore whether to retain a small proportion of their existing investments outside of the pool, where this can demonstrate clear value for money. Any exemptions should be minimal and must be set out in the pooling proposal, alongside a supporting rationale.

Property

3.17 As of the 31 March 2014, authorities reported that they were investing around 2.5% of their assets in directly held property, with a further 4.1% invested through property investment vehicles.[7] However, the amount invested varies considerably between authorities, with some targeting investment of around 10% of their assets in direct holdings, for example.

3.18 A number of consultation responses stressed the importance of retaining direct ownership of property outside of any pooled arrangement, a view echoed in our discussions with interested parties over the summer. Directly held property is used by some authorities to match a particular part of an authority's liabilities, or to generate regular income. If these assets were then pooled, while the authority would receive the benefits of the pooled properties, there is a risk that this would not match the liability or cash-flow requirements that had underpinned the decision to invest in a particular property.

3.19 In light of the arguments brought forward by authorities and the fund management industry, the Government is prepared to accept that some existing property assets might be more effectively managed directly and not through a pool at present. However, pools should be used if new allocations are made to property, taking advantage of the opportunity to share the costs associated with the identification and management of suitable investments.

3.20 Where authorities invest more than the reported Scheme average of 2.5% in property directly, they should make this clear in their pooling submission.

Addressing the criterion

3.21 When developing their proposals for pooling, authorities should set out:

- The size of their pool(s) once fully operational.
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.

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[7] Scheme Advisory Board, Annual Report http://www.lgpsboard.org/index.php/investment-performance-2014

- The type of pool(s) they are participating in, including the legal structure if relevant.
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

B. Strong governance and decision making

Headline criterion: The proposed governance structure for the pools should:

i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;

ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability.

3.22 A number of consultation responses stressed the importance of establishing strong governance arrangements for pools. Securing the right balance between local input and timely, effective decision making was viewed as essential, but also a significant challenge. The management and governance arrangements of each pool will inevitably be defined by the needs of those participating. However, there are some underlying principles that the Government believes should be incorporated.

Maintaining democratic accountability

3.23 The May 2014 consultation was underpinned by the principle that asset allocation should remain with the administering authorities. Consultation respondents were strongly in favour of retaining local asset allocation, noting that each fund has a unique set of participating employers, liabilities, membership and cash-flow profiles, which need to be addressed by an investment strategy tailored to those particular circumstances.

3.24 Respondents also highlighted the transparency and accountability benefits offered by local asset allocation. If councillors are responsible for setting the investment strategy, then local taxpayers, who in part fund the Scheme through employer contributions, have an opportunity to hold their decisions directly to account through local elections. As one consultation response explained:

> The accountability of Members of the employing authorities playing a part in deciding locally how the assets of the Pension Fund are allocated is important. Employer contributions are paid, in the main, by local council tax payers who in turn vote for their local councillors. Those councillors should have the autonomy to make decisions relating to the investment strategy of that Pension Fund.

3.25 The Government agrees that this democratic link is important to the effective running of the Scheme and should not be wholly removed by the pooling of investments. As set out below, determining the investment strategy and setting the strategic asset allocation should remain with individual authorities. When developing a pool, authorities should ensure that there remains a clear link through the governance structure adopted, between the pool and the pensions committee. For example, this might take the form of a shareholding in the pool for the authority, which is exercised by a member of the pension committee.

Strategic asset allocation

3.26 Establishing the right investment strategy and strategic asset allocation is crucial to optimising performance. It is increasingly accepted that strategic asset allocation is one of the main drivers of investment returns, having far greater an impact than implementation decisions such as manager selection.

3.27 The majority of respondents to the May 2014 consultation supported local asset allocation, but discussions with interested parties over the summer have highlighted a lack of consensus as to what constitutes strategic asset allocation. Definitions have ranged from selecting high level asset classes such as the proportions in bonds, equities and property; to developing a detailed strategy setting out the extent and types of investments in each of the different equity or bond markets.

3.28 Informed by these discussions with fund managers and administering authorities, the Government believes that pension committees should continue to set the balance between investment in bonds and equities, recognising their authority's specific liability and cash-flow forecasts. Beyond this, it will be for each pool to determine which aspects of asset allocation are undertaken by the pool and which by the administering authority, having considered how best to structure decision making in order to deliver value for money. Authorities will need to consider the additional benefits of centralising decision making to better exploit synergies with other participating authorities' allocations and further drive economies of scale. When setting out their asset allocation authorities should be as transparent as possible, for example making clear the underlying asset class sought when using pooled funds.

Effective and timely decision making

3.29 Authorities should draw a distinction between locally setting the strategic asset allocation and centrally determining how that strategy is implemented. The Government expects that implementation of the investment strategy will be delegated to officers or the pool, in order to make the most of the benefits of scale and react efficiently to changing market conditions. As one consultation response suggested:

> We believe that high-level decisions about Fund objectives, strategy and allocation are best made by individual Funds considering their better knowledge of their liabilities, risk and return objectives and cash flow requirements. More detailed asset allocation decisions should however be centralised to achieve better economies of scale, and to allow more specialist management.

3.30 Authorities will need to revisit and review their decision-making processes as part of their move towards pools. For example, in order to maximise savings, manager selection will need to be undertaken at the pool level. Centralising manager selection would allow the pool to rationalise the number of managers used for a particular asset class. The resulting larger mandates should then allow the pool to negotiate lower investment fees. This approach would also give local councillors more time to dedicate to the fundamental issue of setting the overarching strategy.

3.31 A number of authorities have already delegated hiring and dismissing mangers to a sub-committee comprised predominantly of officers. This has allowed these authorities to

react more quickly to changes in the market, taking advantage of opportunities as they arise. Similarly, delegating implementation decisions to the pool will allow the participating authorities to benefit not only from more streamlined decision making, but also from effecting those decisions at scale.

3.32 The creation of pools will necessarily lead to a review of decision making within each authority. The Government expects to see greater consolidation where possible. However, as a minimum, we would expect to see the selection of external fund managers and the implementation of the investment strategy to be carried out at the pooled level.

Responsible investment and effective stewardship

3.33 In June 2011, the Government invited Professor John Kay to conduct a review into UK equity markets and long-term decision making. The Kay Review considered how well equity markets were achieving their core purposes: to enhance the performance of UK companies and to enable savers to benefit from the activity of these businesses through returns to direct and indirect ownership of shares in UK companies. The review identified that short-termism is a problem in UK equity markets.[8]

3.34 Professor Kay recommended that Company directors, asset managers and asset holders adopt measures to promote both stewardship and long-term decision making. In particular, he stressed that 'asset managers can contribute more to the performance of British business (and in consequence to overall returns to their savers) through greater involvement with the companies in which they invest.'[9] He concludes that adopting such responsible investment practices will prove beneficial for investors and markets alike.

3.35 In practice, responsible investment could involve making investment decisions based on the long term, as well as playing an active role in corporate governance by exercising shareholder voting rights. Administering authorities will want to consider the findings of the Kay Review when developing their proposals, including what governance procedures and mechanisms would be needed to facilitate long term responsible investing and stewardship through a pool. The UK Stewardship Code, published by the Financial Reporting Council, also provides authorities with guidance on good practice in terms of monitoring, and engaging with, the companies in which they invest.

Enacting an environmental, social and corporate governance policy

3.36 The investment regulations currently require authorities to set out within the statement of investment principles the extent to which social, environmental or corporate governance considerations are taken into account in the selection, retention and realisation of investments. The draft regulations published alongside this document do not propose to amend this principle.

3.37 These policies should be developed in the context of the liability profile of the Scheme, and should enhance the authority's ability to manage down any funding deficit and ensure that pensions can be paid when due. Indeed, environmental, social and

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[8] *The Kay Review of UK Equity Markets and Long-Term Decision Making*, pp. 9-10 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253454/bis-12-917-kay-review-of-equity-markets-final-report.pdf

[9] The Kay Review, p.12

corporate governance policies provide a useful tool in managing financial risk, as they ensure that the wider risks associated with the viability of an investment are fully recognised.

3.38 As the Law Commission emphasised in its 2014 report on the fiduciary duty of financial intermediaries, the law generally is clear that schemes should consider any factors financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long-term, dependent on the time horizon over which their liabilities arise.

3.39 The Law Commission also clarified that, although schemes should make the pursuit of a financial return their predominant concern, they may take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

3.40 The Government's intention is to issue guidance to authorities to clarify that such considerations should not result in policies which pursue municipal boycotts, divestments and sanctions, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. Investment policies should not be used to give effect to municipal foreign or munitions policies that run contrary to Government policy.

3.41 Authorities will need to determine how their individual investment policies will be reflected in the pool. They should also consider how pooling could facilitate implementation of their environmental, social and corporate governance policy, for example by sharing best practice, collaborating on social investments to reduce cost or diversify risk, or using their scale to improve capability in this area.

Addressing the criterion

3.42 When developing their proposals for pooling, authorities will need to set out:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any ethical, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.

- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.

- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

C. Reduced costs and excellent value for money

Headline criterion: In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

3.43 As set out in the July Budget 2015 announcement, the Government wants to see authorities bring forward proposals to reform the way their pension scheme investments are made to deliver long-term savings for local taxpayers. Authorities are invited to consider how they might best deliver value for money, minimising fees while maximising overall investment returns.

Scope for savings

3.44 Pooling investments offers an opportunity to share knowledge and reduce external investment management fees, as the fund manager is able to treat the authorities as a single client. There is already a considerable body of evidence in the public domain to support authorities in developing their proposals for investment reform and this continues to grow with new initiatives emerging from local authorities:

- **Passive management:** Hymans Robertson showed that annual fee savings of £230m could be found by moving from active to passive management of listed assets like bonds and equities, without affecting the Scheme's overall return.[10]
- Their analysis suggested that since passive management typically results in fewer shares being traded, turnover costs, which are a drag on the performance achieved through active management, might be reduced by £190m a year.[11]
- **Collective investment:** Hymans Robertson also demonstrated that £240m a year could be saved by using a collective investment vehicle instead of "fund of funds" for illiquid assets like infrastructure, hedge funds and private equity.[12]
- Similarly, the London Pension Fund Authority has estimated that they have reduced their external manager fees by 75% by bringing equity investments in-house, and hope to expand this considerably as part of their collective investment vehicle with Lancashire County Pension Fund.[13]

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[10] Hymans Robertson report, p. 12
[11] Hymans Robertson report, pp. 14-15
[12] Hymans Robertson report, p. 3
[13] Chris Rule, LPFA Chief Investment Officer, reported in *Pension Expert* on 1 October 2015

- **Sharing services and procurement costs:** The National Procurement Framework has also helped authorities to address some of the other costs associated with investment, such as legal and custodian fees, reporting measurable savings of £16m so far.[14]

3.45 As Hymans Robertson's analysis shows, just tackling the use of "fund of funds" for illiquid assets like infrastructure could save around £240m a year, with clear opportunities to go further. It is in this context that the Government is encouraging authorities to bring forward their proposals for collaboration and cost savings. Although a particular savings target has not been set, the Government does expect authorities to be ambitious in their pursuit of economies of scale and value for money.

In-house management

3.46 Some authorities manage all or the majority of their assets internally and so can already show very low management costs. In these cases, a move to a collective investment vehicle with external fund managers is unlikely to deliver cost savings from investment fees alone. However, there are wider benefits of collaboration which authorities with in-house teams should consider when developing their proposals for pooling. A pool of internally managed assets could lead to further reductions in costs, for example by sharing staff, research and due diligence checks; it may improve access to staff with stronger expertise in particular asset classes; and could introduce greater resilience in staff recruitment, retention and succession planning. Alternatively, newly created pools might wish to work with existing in-house teams to build up expertise and take advantage of their lower running costs.

Active and passive management

3.47 The May 2014 consultation considered the use of active and passive management by the Local Government Pension Scheme. Active management attempts to select fund managers who actively choose a portfolio of assets in order to deliver a return against a specific investment target. In practice, this is often used to try and outperform a benchmark, for that class of assets over a specific period. In contrast, passive management tracks a market and aims to deliver a return in line with that market.

3.48 The consultation demonstrated that when considered in aggregate, the Scheme had been achieving a market return over the last ten years in each of the main equity markets. This suggested that collectively the Scheme could have delivered savings by using less costly passive management for listed assets like bonds and equities, without affecting overall performance. While the majority of consultation responses agreed that there was a role for passive management in a balanced portfolio, most also argued that authorities should retain the use of active management where they felt it would deliver higher net returns.

3.49 In response to that consultation, the Government has now invited authorities to bring forward proposals for pooling investments to deliver economies of scale. The extent to which passive management is used will remain a decision for each authority or pool,

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[14] National LGPS Frameworks website, http://www.nationallgpsframeworks.org/national-lgps-frameworks-win-lgc-investment-award

based on their investment strategy, ongoing performance and ability to negotiate lower fees with fund managers. However, in light of the evidence set out in the Hymans Robertson report and the May 2014 consultation, authorities are encouraged to keep their balance of active and passive management under review to ensure they are delivering value for money. For example, should their net returns compare poorly against the index in a particular asset class over the longer term, authorities should consider whether they are still securing value for money for taxpayers and Scheme members.

3.50 When determining how to measure performance, authorities are encouraged to consider setting targets for active managers that are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

Improving the transparency of costs

3.51 In addition to the fees paid to asset managers, there are considerable hidden costs of investment that are difficult to identify and so often go unreported by investors. In the case of the Local Government Pension Scheme, Hymans Robertson showed that investment costs in 2012-13 were at least £790m a year, in contrast to the £409m reported by the authorities.[15] Even the £790m understated the total investment costs as it excluded performance fees on alternative assets such as private equity and hedge funds (it included performance fees on traditional assets) and turnover costs (investment performance figures include the impact of turnover costs).

3.52 To really drive savings within the Scheme, it is essential that these hidden costs are better understood and reported as transparently as possible. Although many of these costs are not paid out in cash, they do erode the value of the assets available for investment and so should also be scrutinised and the opportunities for savings explored.

3.53 The Chartered Institute of Public Finance and Accountancy (CIPFA) has already made some changes to their guidance, Accounting for Local Government Pension Scheme management costs 2014, to encourage authorities to explore these costs and report some through a note to the accounts. For example, these include performance fees and management fees on pools deducted at source. Authorities should have regard to this guidance and ensure that they are reporting costs as transparently as possible.

3.54 In addition, the Scheme Advisory Board is commissioning advice to help authorities more accurately assess their transparent and hidden investment costs. Once available, authorities should take full advantage of this analysis when developing their proposals.

Addressing the criterion

3.55 As set out above, there is a clear opportunity for authorities to collaborate to deliver hundreds of millions in savings in the medium term. Although there is no overall savings target for the Scheme, the Government expects authorities to take full advantage of the benefits of pooling to reduce costs while maintaining performance.

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[15] Hymans Robertson report, pp.10-11

3.56 To support the delivery of savings authorities bringing forward proposals are asked to set out their current investment costs in detail, and demonstrate how these will be reduced over time and the savings forecast. Where possible, costs should be reported back to 2012-2013 so that any cost reductions already achieved as a result of procurement frameworks and early fee negotiations are transparently captured.

3.57 Authorities are encouraged to provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013.
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
- A detailed estimate of savings over the next 15 years.
- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

D. An improved capacity and capability to invest in infrastructure

Headline criterion: Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.

3.58 Investment in infrastructure is increasingly being seen as a suitable option for pension funds, particularly amongst larger organisations. This may in part be the result of the typically long term nature of these investments, which may offer a useful match to the long term liabilities held by pension funds.

International experience

3.59 Multiple large international pension funds are investing a significant proportion of their assets in infrastructure. A recent OECD report, which analysed a sample of global pension funds as at 2012, showed that some Canadian and Australian funds (with total assets of approximately £35-40bn in 2014 terms) were investing up to 10-15% in this asset class.[16] The report also noted that those funds with the largest infrastructure allocations were investing directly, and that such investment was the result of the build up of sector-specific knowledge, expertise and resources.[17] This experience might be demonstrated through an organisation's ability to manage large projects, as well as the associated risk.

3.60 Figures published by the Scheme Advisory Board for the 2013 Annual Report show that around £550m, or 0.3%, of the Scheme's total assets of £180bn was invested in infrastructure.[18] This falls some way behind other large pension funds that have elected to invest in this area, such as those noted above and the Ontario Teachers Pension Plan which invested 6.1% according to the same 2014 report.

Creating the opportunity

3.61 The Scheme's current structure, where assets are locked into 90 separate funds, reduces scale and makes significant direct infrastructure investment more difficult for administering authorities. As a result, authorities may determine that they are unable to invest in infrastructure, or may invest indirectly, through the "fund of funds" structure. Such arrangements are expensive, as the Hymans Robertson report demonstrated and this paper sets out in paragraph 3.13.

3.62 Developing larger investment pools of at least £25bn will make it easier to develop or acquire improved capacity and capability to invest in infrastructure. In so doing, it should be possible to reduce the costs associated with investment in this area. This is likely to be the case particularly if authorities pool their infrastructure investment nationally, where the

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[16] OECD, *Annual Survey of Large Pension Funds: report on pension funds' long-term investments*, p.32, available at: http://www.oecd.org/daf/fin/private-pensions/LargestPensionFunds2012Survey.pdf
[17] OECD report, p.14
[18] Scheme Advisory Board annual report http://www.lgpsboard.org/index.php/scheme-investments

resultant scale may allow them to buy-in or build-up in-house expertise in relevant areas, such as project and risk management.

3.63 In considering such investment, administering authorities might want to reflect on the wide range of assets that might be explored, such as railway, road or other transport facilities; utilities services like water and gas infrastructure; health, educational, court or prison facilities, and housing supply. Authorities should also examine the benefits of both:

- Greenfield infrastructure – projects involving the construction of brand new infrastructure, such as a new road or motorway junction to unlock a housing development, or the recent investment of £25m by the Greater Manchester Pension Fund to unlock new sites and build 240 houses; and
- Brownfield infrastructure – investing in pre-existing infrastructure projects, such as taking over the running of (or the construction of a new terminal building at) an airport.

3.64 As set out above, investment in infrastructure represents a viable investment for pension funds, offering long term returns to match their liabilities. Authorities will need to make their investments based on an assessment of risk, return and fit with investment strategy. However, the creation of large pools will make greater investment in infrastructure a more realistic prospect, opening up new opportunities to develop or buy-in the capacity and capability required.

3.65 In developing their proposals for pooling, authorities should take the opportunity to review their asset allocation decisions and consider how they can be more ambitious in their infrastructure investment. The Government believes that authorities can play a leading role in UK infrastructure and driving local growth, and encourages authorities to compare themselves against the example set by the leading global pension fund investors in their approach to allocating assets in this area.

Addressing the criterion

3.66 Authorities should identify their current allocation to infrastructure, and consider how the creation of up to six pools might facilitate greater investment in this area. When developing proposals, authorities should explain:

- The proportion of their fund currently allocated to infrastructure, both directly and through fund, or “fund of funds”.
- How they might develop or acquire the capability and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or “fund of funds” arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

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