

Lincolnshire Pension Fund

Statement of Investment Principles

July 2015

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1. INTRODUCTION

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Regulations) require Lincolnshire County Council, acting as administering authority to the Lincolnshire Pension Fund, to prepare and publish a Statement of Investment Principles (SIP) to describe the key issues that govern the investment of Pension Fund money.
- 1.2 The SIP is published on the Pension Fund's shared website at www.wypf.org.uk.
- 1.3 The Pensions Committee (the Committee) act with the delegated authority of Lincolnshire County Council, and consists of eight County Councillors, one District Council representative, one non Local Authority employer representative and one employee representative. All members of the Committee have full voting rights. The Committee meet at least quarterly.
- 1.4 Investments are monitored on a regular basis by the Committee, supported by advice from Executive Director of Finance and Public Protection and professional advisers as required.
- 1.5 The Committee has agreed a long term strategic asset allocation benchmark, reflecting the outcome of the Asset Liability Modelling following the Triennial Actuarial Valuation of the Fund. This is reviewed every three years, after each Valuation.
- 1.6 The Committee are responsible for the ongoing monitoring and review of all investments, service providers and Fund administration.
- 1.7 The SIP is reviewed annually and revised if necessary. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the SIP will be updated within six months from the date of any material change in the information detailed in this document.

2 FUND OBJECTIVES

2.1 Primary Objective

The primary objective of the Fund is to ensure that there are sufficient resources available to pay current pensions and to build up assets to provide adequate security to make future pension payments.

As required by the Regulations, an Actuary conducts a triennial valuation to assess to what extent the Fund's assets match its pension obligations and then determines appropriate levels of contributions for the various employers participating in the Scheme.

2.2 Funding Objective

The Pension Fund, in collaboration with the Fund's Actuary, has produced a Funding Strategy Statement (FSS) which is published on the Pension Fund's shared website at www.wypf.org.uk, or is available in hard copy by request (see contact details on page 7).

The purpose of the Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The FSS sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis. The FSS is reviewed every three years alongside the Actuarial Valuation.

3 INVESTMENT OBJECTIVES

The Fund's investment objective is to achieve a level of return from the assets that will, as a minimum, meet the investment return assumptions made by the Actuary in the triennial valuation. In order to achieve this long term objective, the following has been agreed by the Pensions Committee.

3.1 Investment Policy

The Committee will ensure that one or more investment managers are appointed to manage and invest Fund money, and that they are authorised under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Committee, after seeking appropriate advice, will formulate a policy for investment, called the strategic benchmark, and in doing so consider the variety and suitability of investments. The Fund's strategic benchmark is shown in appendix A. The Fund has an objective to achieve a return of 1% above the return of the strategic benchmark, per annum, over the long term. This objective is being reviewed, given the changes in asset allocation over the last few years.

3.2 Investment Managers

The Managers appointed to manage the Fund's assets are detailed in appendix B. A management agreement is in place for each specialist mandate, detailing performance targets and benchmarks.

3.3 Custody and Stock-Lending

The Fund has appointed JPMorgan as Global Custodian for all listed assets. The Custodian is responsible for the safekeeping of the Fund's assets.

The Fund participates in a collateralised stock-lending programme managed by the Custodian. This is restricted to an overall limit of £220 million and an individual counterparty limit of £33 million, within the 25% maximum allowed in the Regulations.

3.4 Allowable Investments

All investments made by the Fund are in accordance with those permitted under the Regulations. These include equities, bonds, property and a range of alternative investments including private equity. The types of investments held by the current managers are detailed in appendix B.

3.5 Balance Between Types of Investment

The overall strategy of the Fund, to produce the Strategic Benchmark, is reviewed every three years alongside the Actuarial Valuation. An asset liability study was undertaken following the 2013 Valuation.

The study addresses the long term strategy for the Fund, taking into consideration the liability profile of the Fund, the current solvency level and the risk tolerance of the Committee.

All recommendations of changes to the Strategic Benchmark are agreed by the Pensions Committee, before being implemented over an agreed period of time.

3.6 Risk

The Pensions Committee's appetite for risk is factored into the Asset Liability Study mentioned above, and the overall acceptable level of risk for the Fund is used to allocate funds between different asset classes.

Each asset class, and within that each manager, operates within a tolerance range to ensure that the Fund does not deviate too far from the agreed Strategic Benchmark, whilst allowing for a degree of flexibility.

The appointment of more than one manager diversifies the manager risk within asset classes, and each manager is expected to maintain a degree of diversification within their investment portfolio. This is monitored by the Pensions Committee.

3.7 Expected Returns

The Strategic Benchmark is expected to produce a return in excess of the investment return assumed in the Actuarial Valuation, over the longer term. The assumptions used in the latest Valuation are shown in appendix C. Individual manager performance against benchmark and target, as well as the overall return to the Fund, is regularly monitored by the Pensions Committee.

3.8 Realisation of Investments

The Pension Fund is currently cash positive, in that it has excess cash paid into the Fund each month from contributions and investment income after all pensions are paid. The Fund expects to be cash positive for the short to medium term.

The majority of the Fund's investments are quoted on major stock markets and can be realised quickly, in normal market conditions, if required. More illiquid investments, such as property and private equity make up a smaller proportion of the Fund. The mix of liquid and illiquid investments is one consideration in preparing the Strategic Benchmark.

4 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC'S)

All local government pension funds have an in-house AVC scheme where scheme members can invest money, deducted directly from salaries, through an AVC provider. The Fund has appointed Prudential to act as its' provider and a comprehensive range of investment funds is offered.

Information about AVC's is available on the Pension Fund's shared website at www.wypg.org.uk.

5 PENSION FUND CASH

There are two aspects to cash management within the Pension Fund:

5.1 Cash Held in the Pension Bank Account

The cash held in the Pension Fund Bank account is managed by the Lincolnshire County Council (LCC) Treasury Team. This cash is managed in accordance with the LCC Treasury Management Strategy. A Service Level Agreement is in place between the Pension Fund and LCC detailing how risk and return are apportioned.

5.2 Cash Held in the Custodian Bank Accounts

Each investment manager in the Fund with a segregated account will have a number of bank accounts (of various currencies) with the Fund's Custodian. Cash held in these accounts is either frictional, and arises due to timing issues of purchases, sales or income received; or as a strategic decision by the investment manager. Maximum cash limits are agreed with managers in their Investment Management Agreements, and managers have the discretion as to how this cash is dealt with. Other cash is held by the Custodian to fund investment draw-downs (e.g. for property investments), or currency hedging outflows.

Cash balances at the Custodian are monitored daily.

6 OTHER ISSUES

6.1 Corporate Governance

The Pensions Committee agree that the adoption of good practise in Corporate Governance will improve the management of companies and thereby increase long term shareholder value.

The Fund votes on all UK, developed Europe, US, Canada and Japanese company holdings. Votes are filed via a third party agent, Manifest Voting Agency, in accordance with a template agreed by the Pensions Committee. The votes cast are reported to the Pensions Committee on a quarterly basis, and this information is available on the Lincolnshire County Council website in the relevant Committee documents.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation of 64 public sector Pension Funds based in the UK. LAPFF exists to promote the investment interests of Local Authority Pension Funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance in the companies in which they invest.

The Fund has produced a Stewardship Code statement (available on the Pension Fund website) in compliance with the Financial Reporting Council's Stewardship code, and encourages its external managers and service providers to produce their own codes.

6.2 Socially Responsible Investing

Whilst the Fund does not have an explicit policy on socially responsible investing (SRI), most of the fund is managed externally by managers who incorporate a strategic commitment to SRI. Their decision-making process on investments takes into account social, ethical, environmental and governance issues because, as investors, they seek strong, sustainable companies with

good all-round credentials. Many of these managers are signed up to the UN Principles of Responsible Investment (PRI), which provides a framework for investors to consider environmental, social and corporate governance issues.

6.3 Compliance with the Myners Principles

The Myners report on Institutional Investment in the UK was published in 2001, and included ten principles of good investment practice. The Local Government (management and Investment of Funds) (Amendment) Regulations 2002 required administering authorities to publish the extent to which they complied with these principles.

In 2007, a review was conducted to assess the progress made throughout the pensions industry since the introduction of the Myners principles in 2001. The outcome of this review was reported by the Treasury in 2008, and the ten principles were updated to reflect the findings.

The outcome was a set of six principles, which have been modified in the context of the LGPS, to replace the original ten principles. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require the administering authority to publish the extent to which they comply with these six principles. This is shown at appendix D.

7 CONTACT DETAILS

For further information on any of the subjects contained in the Statement of Investment Principles, please contact:

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Reviewed 16th July 2015 by the Pensions Committee

APPENDIX A – STRATEGIC BENCHMARK

Asset Class	Manager Allocation %	Asset Class Strategic Benchmark %
UK Equities Passive - Internally Managed	20.0	20.0
Global Equities Enhanced Passive ex. UK– Invesco Active – Neptune Active – Schroders Active – Threadneedle Active – Morgan Stanley	20.0 5.0 5.0 5.0 5.0	40.0
Property		11.5
Bonds Passive – Blackrock Absolute Return - Goodhart	6.75 6.75	13.5
Alternatives Absolute Return - Morgan Stanley	15.0	15.0

The Fund has an active currency overlay programme in place with two managers, Record Currency Management and HSBC Trinkaus & Burkhardt, for the Invesco Enhanced Index Global ex UK Equities mandate.

Passive means trying to match the return of a specified index.

Enhanced Passive means trying to outperform an index by a small amount.

Active means trying to outperform an index by a considerable amount, with perhaps little or no regard to the index.

Absolute return means trying to provide a positive return over and above a cash return.

APPENDIX B – INVESTMENT MANAGER ARRANGEMENTS AND OTHER SERVICE PROVIDERS

Manager	Asset Class	Index	Mandate	Relative Targets against index (3yr rolling basis before fees)*	Fee basis
Internal Team	UK Equities	MSCI UK IMI	Passive	+/- 0.5% p.a.	In-house
Invesco	Global ex UK Equities	MSCI World ex UK	Enhanced Passive	+1% p.a.	% of assets and performance fee
Neptune	Global Equities	MSCI AC World	Active	+2% to +4% p.a.	% of assets and performance fee
Schroders	Global Equities	MSCI AC World	Active	+2% to +4% p.a.	% of assets and performance fee
Threadneedle	Global Equities	MSCI AC World	Active	+2% p.a.	% of assets
Morgan Stanley	Global Equities	MSCI World	Active	n/a*	% of assets
Blackrock	Bonds	50% iBoxx Sterling Non Gilt 30% FTS Govt IL > 5yr 20% JPM GBI Global ex UK	Passive	0% p.a.	% of assets
Goodhart	Bonds	3mth LIBOR	Absolute Return	+3% p.a.	% of assets and performance fee
Various Unit Trusts	Property	IPD	Active	Fund specific	% of assets
Various Funds / Fund of Funds	Specialist Property	Fund specific	Active	Fund specific	% of assets
Morgan Stanley	Alternative Investments	3mth LIBOR	Absolute Return	+4% p.a.	% of assets and performance fee

* - The Morgan Stanley Global Franchise strategy seeks to generate attractive long term returns by investing in high quality franchises characterised by dominant intangible assets, high barriers to entry and strong free cash flow generation. To achieve this objective, the investment process focuses on minimising the absolute risks associated with the portfolio holdings. Whilst the portfolio construction process is benchmark agnostic, the strategy is expected to outperform broadly based benchmarks such as the MSCI World Index over a full market cycle with less than average absolute volatility.

OTHER SERVICE PROVIDERS

Service Provider	Mandate	Fee Basis
Currency Overlay Record Currency Managers HSBC Trinkaus & Burkhardt	Manage the currency risk for a specific Global equity portfolio, to return 1% p.a. on a rolling three-year basis	% of assets
Custodian JP Morgan	Custody of all listed assets	Fee based in part on fixed rates per transaction and in part by percentage of assets
Investment Consultant Hymans Robertson	Investment advice to Pensions Committee	Indexed rates for specific types of work
Actuary Hymans Robertson	Actuarial advice	Indexed rates for specific types of work
Voting Adviser Manifest	Advice and vote processing for UK, developed Europe, US, Canada and Japan listed equities	Indexed fixed fee

APPENDIX C – ACTUARIAL ASSUMPTIONS (2013 VALUATION)

Assumption	Derivation	Rate at 31 March 2013	
		Nominal	Real
Price Inflation (CPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date	2.5%	-
Pay increases	Assumed to be 2% p.a. in excess of price inflation	3.8%	1.3%
“Gilt-based” discount rate	The yield on fixed interest (nominal) and index-linked (real) Government bonds	3.0%	0.5%
Funding basis discount rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	4.6%	2.1%

APPENDIX D – COMPLIANCE WITH THE SIX MYNERS PRINCIPLES OF GOOD INVESTMENT PRACTISE

	Principle	Compliance Statement
1	<p>EFFECTIVE DECISION MAKING</p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	<p>The Pensions Committee of the County Council is delegated with the responsibility for determining the Pension Fund's investment policy, appointing and reviewing managers and advisers, and for considering any other matters relevant to the Fund's management.</p> <p>The Pensions Committee makes decisions after advice from one or more of the Executive Director of Finance and Public Protection, the Fund Actuary and the Independent Advisor.</p> <p>Committee members are encouraged to attend the LGE Fundamentals training course, and are invited to the LGE Annual Conference, to keep up-to date with developments in the Local Government pension world.</p> <p>An annual training plan is agreed by the Pensions Committee, setting out what training will be covered over the coming year and relating it back to the CIPFA Pension Finance Knowledge and Skills Frameworks. Knowledge and skills are acquired and maintained through the regular Pensions Committees, as well as through additional training sessions targeting specific areas and attendance at seminars and conferences.</p>
2	<p>CLEAR OBJECTIVES</p> <p>An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the</p>	<p>The overall objective for the Fund is to achieve a return of 1% (currently being reviewed) above the return of the strategic benchmark, per annum, over the long term.</p>

	<p>attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</p>	<p>The Pension Fund is seeking to ensure that there are sufficient resources available to pay current pensions and to build up assets to provide adequate security to make future pension payments.</p> <p>This is done whilst considering the affordability and sustainability of contributions, both from the employer and the employee, and is achieved by regular actuarial valuations and Asset Liability Modelling.</p> <p>The Fund's Funding Strategy Statement can be found on the Pension Fund's shared website at www.wypf.org.uk.</p>
3	<p>RISK AND LIABILITIES</p> <p>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implications for the local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<p>The Fund's actuary undertakes a triennial valuation of the Fund, measuring the gap between the Fund's assets and its' liabilities. Interim valuations are also prepared for the larger employers in the Fund.</p> <p>Following each triennial valuation, the Fund's consultant undertakes Asset Liability Modelling to ensure that the investment strategy is fit for purpose.</p> <p>The Fund is a member of Hymans Robertson's Club Vita, which looks at the longevity risk specific to the Lincolnshire Fund.</p>
4	<p>PERFORMANCE ASSESSMENT</p> <p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</p>	<p>All investment managers are measured against specific targets, which are based on the Fund's bespoke strategic benchmark.</p> <p>Fund and individual investment manager performance is reported to the Pensions Committee on a monthly and quarterly basis. Investment managers report in person to the Pensions Committee at least</p>

		<p>once every year. Officers from the Investment Team regularly discuss performance with all investment managers, and meet with them at least once every year.</p> <p>The results from an independent performance measurement company are reported quarterly and annually to the Pensions Committee.</p> <p>The Pensions Committee formally reviews the strategic asset allocation on a triennial basis, as a minimum.</p>
<p>5</p>	<p>RESPONSIBLE OWNER</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • Include a statement of their policy on responsible ownership in the statement of investment principles • Report periodically to scheme members on the discharge of such responsibilities. 	<p>The Fund's position on Corporate Governance and Socially Responsible Investment (SRI) is set out in the SIP.</p> <p>The Fund has appointed Manifest Voting Agency to undertake voting services. All votes are cast in accordance with a template agreed by the Pensions Committee, and voting is reported quarterly to the Committee.</p> <p>The Fund has signed up to the Financial Reporting Council's Stewardship code, and a statement is on the Fund's website.</p> <p>The individual fund managers' decision-making process on investments takes into account social, ethical, environmental and governance issues because, as investors, they seek strong, sustainable companies. Many of our managers are signed up to the UN Principles of Responsible Investment (PRI), which provides a framework for investors to consider environmental, social and corporate governance issues.</p>
<p>6</p>	<p>TRANSPARENCY AND REPORTING</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> • Act in a transparent manner, 	<p>The Fund's Governance Policy and</p>

	<p>communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives</p> <ul style="list-style-type: none"> • Provide regular communication to scheme members in the form they consider most appropriate. 	<p>Compliance Statement, Communication Policy Statement and Stewardship Code Statement can be found on the Pension Fund's shared website at www.wypf.org.uk.</p> <p>The Lincolnshire Fund has an Employer's Forum, to ensure that all employers can be updated with the issues concerning the Fund, and can feedback ideas to the Fund. This meets twice a year, and an annual employer meeting is also held.</p> <p>The Fund produces an Annual Report and Accounts, which can also be found on the Pension Fund's shared website at www.wypf.org.uk.</p> <p>The Fund communicates regularly to all scheme members. The Communication Policy detailing scheduled communication can be found on the Pension Fund's shared website at www.wypf.org.uk.</p>
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