Lincolnshire
COUNTY COUNCIL

# Annual Report

# and Accounts

For the Year Ended 31st March

# 2015

## Pension Fund

**LINCOLNSHIRE COUNTY COUNCIL**

**LOCAL GOVERNMENT PENSION SCHEME**

**ANNUAL REPORT FOR THE YEAR ENDED 31st MARCH 2015**

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# MANAGEMENT ARRANGEMENTS

**Administering Authority** Lincolnshire County Council

## Pensions Committee Members at 31st March 2015

**County Councillors**
M G Allan (Chairman)
N I Jackson
B W Keimach
C E D Mair
R J Phillips (Vice Chairman)
S Rawlins
A H Turner

**District Council Representatives**
Cllr M Leaning

**Representatives of Other Employers**
J Grant

**Employee Representative**
A Antcliff (Unison)

## Professional Advisors

**County Council Officers**

| | |
|---|---|
| **Executive Director of Finance and Public Protection** | P Moore BA CPFA |
| **County Finance Officer** | D C Forbes BSc CPFA |
| **Independent Advisor** | P Jones |
| **Fund Actuary** | Hymans Robertson |
| **Fund Consultant** | Hymans Robertson |
| **Voting Advisor** | Manifest Voting Agency |

## External Investment Managers of Segregated Portfolios
(all Global Equities)

Invesco Asset Management Ltd
Neptune Investment Management
Schroder Investment Management Ltd
Threadneedle Asset Management Ltd

| | |
|---|---|
| **Auditors** | KPMG |
| **Investment Custodian** | JP Morgan Securities Services |
| **AVC Provider** | Prudential |
| **Fund Banker** | Barclays |
| **Benefits Administration** | Mouchel Group PLC |

## REPORT OF THE PENSIONS COMMITTEE

### Introduction

The Pensions Committee of Lincolnshire County Council is responsible for the management of the Pension Fund, covering administration, investments and governance. It approves the investment policy of the Fund and monitors its implementation during the year. The Committee generally meets eight times a year, including two manager presentation meetings and two training meetings. Special meetings are convened if considered necessary.

Following the local elections in May 2013, the membership of the Pensions Committee changed considerably, with eight new members to the Committee. Members of the Committee as at 31st March 2015 are listed on page 2.

All members of the Committee can exercise voting rights.

### Corporate Governance and Social Responsibility

The Fund complies with corporate governance best practice by voting its shareholdings at all UK, developed Europe, US, Canada and Japan company meetings. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), an organisation that monitors the governance of companies. The LAPFF seeks to protect and enhance shareholder returns by engaging with companies on a wide range of social, environmental and governance issues. The Fund has produced a Stewardship Code Statement, in accordance with the Financial Reporting Council's Stewardship Code, to explain how it acts as a responsible shareholder. This can be found on the Fund's website (details below).

### Investment Performance

The Fund has an investment objective to meet its liabilities over the long term and to produce a return of 1% p.a. over the return produced by the strategic asset allocation benchmark.

The twelve months to 31st March 2015 produced a positive return to the Fund. Global equity markets rose during the 12 months but this masked a considerable amount of equity market volatility, largely driven by the accelerating slide in oil prices since June 2014. Equity returns, as measured by FTSE, ranged from +27.1% in Japan to +6.6% in the UK. Bond markets delivered strong returns with falling inflation expectations and disappointing economic growth in the Eurozone being the main drivers of performance. Bond returns ranged from +22.8% for UK Gilts and +3.2% for Overseas Bonds. Property delivered a solid return of +18.6%, due to UK commercial property continuing to be highly sought by both overseas and domestic investors due to the relatively high level of current income it generates, the emerging growth in rental levels and continued increase in capital values.

Performance over the year, at 12.3%, marginally under-performed the specific benchmark return of 12.4%, producing a relative under-performance of -0.1%. This compares to a rise in retail prices of 0.9% and a decrease in public sector earnings of -0.9%. Over the last ten years, the Fund's annualised investment performance is a solid 7%, although this is slightly behind the benchmark return of 7.4%.

**Manager Arrangements**

There were no manager changes made during the year.

**Fund Governance and Communication Statements and the Statement of Investment Principles**

The Fund's investments are managed in accordance with the Statement of Investment Principles (SIP).

The Fund's SIP, Governance Compliance Statement, Communications Policy and Funding Strategy statements are all attached at the end of this report. These documents, and other related publications, can also be downloaded from the Pension Fund's website, at www.lincolnshire.gov.uk/pensions.

Hard copies of any of these statements may be obtained from:

Jo Ray, Pensions & Treasury Manager
Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL
(Tel: 01522 553656)
(email: jo.ray@lincolnshire.gov.uk).

**Mark Allan**

**CHAIRMAN**

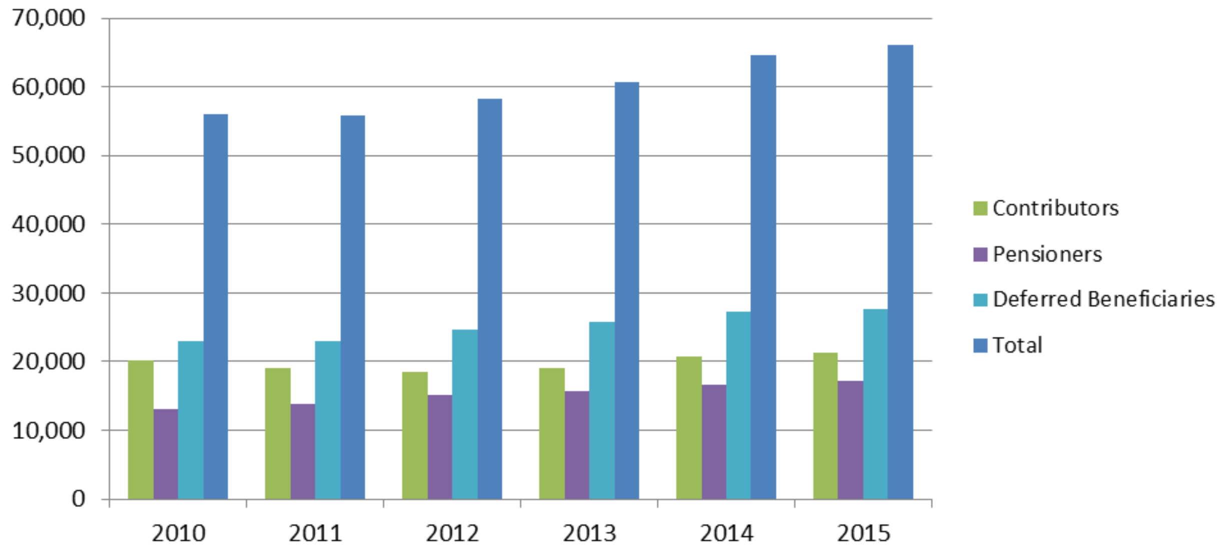
**PENSIONS COMMITTEE**

## MANAGEMENT REPORT OF THE ADMINISTERING AUTHORITY

The Local Government Pension Scheme (LGPS) is a national scheme administered on a local basis by Lincolnshire County Council, providing current and future benefits for over 66,000 scheme members.

### Local Government Pension Scheme Membership

As can be seen from the chart below, the membership is still increasing, and the fall in active membership seen over the last few years has reversed. The Fund has matured considerably over the last five years, with deferred members (those that are no longer in the Scheme but will be entitled to a pension at some point in the future) making up 42% of the overall membership.



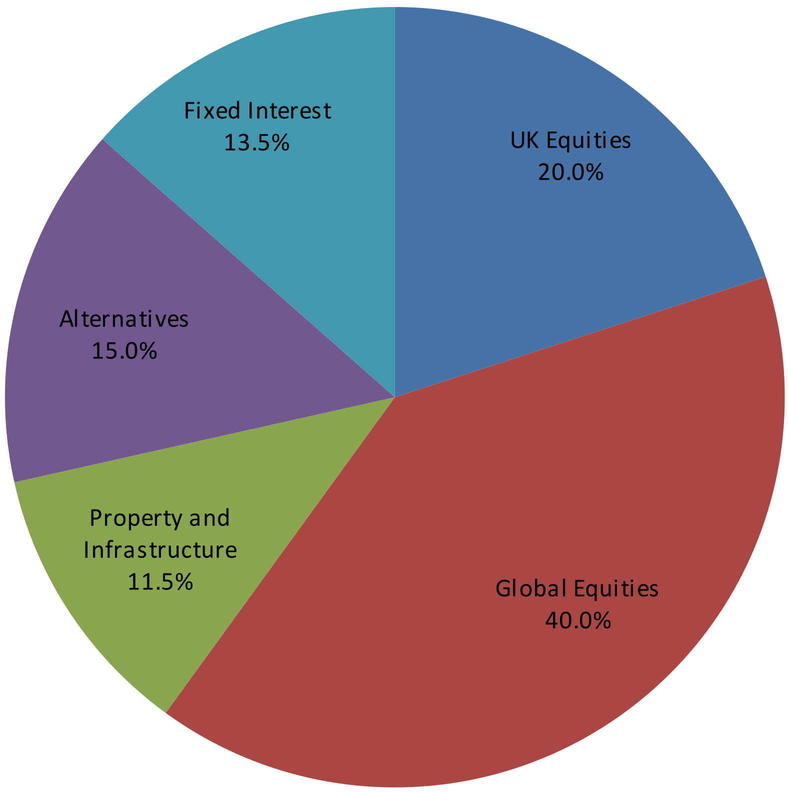

| Year ended 31st March | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Contributors | 19,043 | 18,527 | 19,102 | 20,697 | 21,262 |
| Pensioners | 13,865 | 15,143 | 15,702 | 16,577 | 17,264 |
| Deferred Beneficiaries | 22,931 | 24,620 | 25,799 | 27,246 | 27,577 |
| **Total** | **55,839** | **58,290** | **60,603** | **64,520** | **66,103** |

*(Note: The numbers disclosed in the table above reflect individual pension records within the County Council's database. Current and past members of the LGPS may have more than one pension record as a result, for example, of having more than one part time contract of employment with a Scheme employer.)*

## Investment Policy

The Fund is managed with regard to a strategic asset allocation benchmark. This is reviewed every three years, following the Fund's triennial valuation. The strategic asset allocation is set to provide the required return, over the long term, to ensure that all pension payments can be met. The actual asset allocation may differ from the strategic benchmark within tolerances that are agreed by the Pensions Committee. The distribution of investments is reported to the Pensions Committee monthly and quarterly.

### Strategic Asset Allocation Benchmark




| Asset class | Strategic Benchmark 31st March 2015 % | Actual Asset Allocation 31st March 2015 % |
|---|---|---|
| UK Equities | 20.0 | 19.9 |
| Global Equities | 40.0 | 41.4 |
| **Total Equities** | **60.0** | **61.3** |
| **Property and Infrastructure** | **11.5** | **11.0** |
| **Alternative (incl. Private Equity)** | **15.0** | **14.3** |
| **Fixed Interest** | **13.5** | **13.0** |
| **Cash (incl. current assets)** | **0.0** | **0.4** |
| **Total** | **100** | **100** |

## Investment Performance

The twelve months period ended 31st March 2015 saw the value of the Fund increase by £160m to £1,752m. All managers, other than the absolute return bond portfolio managed by F&C, produced positive absolute returns over the year. The investment return of 12.26% was marginally behind the Fund's specific benchmark return of 12.4%. Over the last ten years, the Fund's annualised investment performance of 7% is slightly behind the benchmark return of 7.4%.

Annual investment performance over the previous ten years is set out in the table below. The Fund's annual return of 12.3% compares to a rise in retail prices of 0.9% and decrease in public sector earnings of -0.9%.

### Investment Performance of the Fund 1st April 2005 to 31st March 2015

| | Lincolnshire Fund Return | Comparative Benchmark Return | Retail Price Inflation | Public Sector Increase in earnings |
|---|---|---|---|---|
| | % | % | % | % |
| 2005/06 | 24.4 | 24.1 | 2.4 | 4.4 |
| 2006/07 | 6.9 | 6.5 | 4.8 | 3.1 |
| 2007/08 | (4.4) | (3.3) | 3.8 | 3.7 |
| 2008/09 | (18.6) | (20.0) | (0.4) | 3.4 |
| 2009/10 | 29.7 | 36.7 | 4.4 | 4.0 |
| 2010/11 | 7.9 | 7.8 | 5.3 | 2.2 |
| 2011/12 | 1.5 | 2.4 | 3.6 | 1.8 |
| 2012/13 | 12.6 | 11.3 | 3.3 | 1.1 |
| 2013/14 | 6.3 | 6.2 | 2.5 | 1.1 |
| 2014/15 | 12.3 | 12.4 | 0.9 | (0.9) |
| | | | | |
| **10 years annualised** | 7.0 | 7.4 | 3.1 | 2.4 |

## Investment Management Arrangements

The arrangements for segregated management of the Fund's assets, in place at 31st March 2015, are set out below. Portfolio values include cash at the balance sheet date.

### Segregated Investment Management Mandates

| Asset Class | Manager | Market value £m's | % of the Fund |
|---|---|---|---|
| UK Equities | Lincolnshire County Council | 345.6 | 19.8 |
| Global Equities - (Ex UK) | Invesco | 362.2 | 20.8 |
| Global Equities – All Countries | Neptune | 92.0 | 5.3 |
| Global Equities – All Countries | Schroders | 90.2 | 5.2 |
| Global Equities – All Countries | Threadneedle | 91.1 | 5.2 |
| | **Total Segregated Equities** | **981.1** | **56.3** |

The Fund also invests in a number of asset classes by means of collective investment vehicles, also known as pooled funds.

### Pooled Funds

| Asset Class | Manager | Market value £m's | % of the Fund |
|---|---|---|---|
| Property and Infrastructure | Franklin Templeton | 11.4 | 0.6 |
| | Igloo | 5.1 | 0.3 |
| | Innisfree | 28.1 | 1.6 |
| | Aviva | 38.2 | 2.2 |
| | Royal London | 19.3 | 1.1 |
| | Rreef | 2.9 | 0.2 |
| | Blackrock | 19.3 | 1.1 |
| | Standard Life | 65.3 | 3.7 |
| | **Total UK Property** | **189.6** | **10.8** |
| Private Equity | Capital Dynamics | 17.3 | 1.0 |
| | Pantheon | 32.4 | 1.8 |
| | Standard Life | 15.7 | 0.9 |
| | EIG | 8.2 | 0.5 |
| | **Total Private Equity** | **73.7** | **4.2** |
| Alternatives | Morgan Stanley | 164.8 | 9.4 |
| | **Total Alternatives** | **164.8** | |
| Global Equities | Morgan Stanley | 88.4 | 5.0 |
| | **Total Global Equities** | **88.4** | |
| Fixed Interest | Blackrock | 116.2 | 6.6 |
| | F&C/Goodhart | 112.4 | 6.4 |
| | **Total Fixed Interest** | **228.5** | **13.0** |

## Stewardship Responsibilities

As a responsible shareholder, the Lincolnshire Pension Fund has produced a Stewardship Code statement in compliance with the Financial Reporting Council's Stewardship code, and encourages its external managers and service providers to produce their own codes.

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 company holdings in the UK, developed Europe, US, Canada and Japan. 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. Over the year, the Fund voted at 778 company meetings, and cast votes in respect of 12,009 resolutions.

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. Further information on the work of the LAPFF can be found on their website at www.lapfforum.org. Highlights for the year include:

- Continued engagement with companies to discuss issues such as remuneration, carbon management, employment standards.

- Lobbies G20 meeting on global tax avoidance. In the light of high profile media examination of the tax affairs pf companies such as Amazon, Apple, Starbucks and Google, politicians of all persuasions from the US, UK and many other countries are under continued pressure to take increased action to reduce the more egregious examples of corporate tax evasion and opacity around their operations.

- Provided a response to the Law Commission fiduciary duty consultation presenting a LGPS perspective on key issues of stewardship, short termism and beneficiaries.

- Following collaborative engagement on board diversity, London Stock Exchange appointed two women to the board.

- Engaged with companies in eleven country domiciles on a wide range of governance and risk management concerns.

## Risk Management

Risk management is an integral element of managing the Pension Fund. The Pension Fund has a risk register which identifies the major risks associated with managing the Fund. This is reviewed by the Pensions Committee annually, and new or increased risks are reported at each quarterly meeting.

The table below highlights the key risks and how they are managed.

| Key risk identified: | A range of controls are in place including: |
|---|---|
| Assets do not cover liabilities | Triennial valuation, diversification of investments, regular monitoring and reporting, professional advisors. |
| The inability to deliver the Pensions Administration Service, due to failure in the outsourced contract. | Performance and management indicators, monthly meetings, internal and external audits, service level agreement and benchmarking. |
| Paying pensions correctly | Process controls, checking, audits, reconciliations, tracing bureau, task management. |
| Collecting contributions correctly | Employer contribution monitoring, annual contribution checks, audits, employer training, reconciliations. |
| Loss of key staff, knowledge and skills | Diversified staff/team, pensions user groups, procedural notes, section meetings, appraisals. |
| The transition to the new Pensions Administration provider for 1st April 2015 | Project board, transition plan, meetings with the new provider. |

Information regarding the risks relating to financial instruments is included within the notes to the accounts, later in this report.

## ACTUARIAL POSITION AND STATEMENT

The employers' contribution rates applying in the year ended 31st March 2015, for employers with more than 100 employees participating in the LGPS, are set out below.

**Employers' Contribution Rates 2014/15**

| Employer | Rate as a % of pay |
|---|---|
| Lincolnshire County Council | 19.7 |
| Boston Borough Council | 16.9 |
| City of Lincoln Council | 16.9 |
| North Kesteven District Council | 16.4 |
| South Holland District Council | 17.5 |
| South Kesteven District Council | 17.0 |
| West Lindsey District Council | 16.1 |
| East Lindsey District Council | 16.0 |
| Lincolnshire Police | 19.9 |
| Magna Vitae | 16.0 |
| G4S | 19.9 |
| Compass Point Business Services | 18.8 |
| Bishop Grosseteste University | 18.0 |
| Boston College | 20.1 |
| Grantham College | 19.4 |
| Lincoln College | 21.1 |
| Stamford College | 20.7 |
| Boston Witham Federation | 20.9 |
| Deepings School (Academy) | 20.9 |
| Lincoln Christ Hospital Academy | 20.9 |
| Priory Federation of Academies | 19.0 |
| Skegness Academy | 20.9 |
| Sleaford St Georges Academy | 22.5 |
| Spalding Sir John Gleed Academy | 20.9 |
| Welton William Farr CE School (Academy) | 22.7 |

The Lincolnshire Pension Fund underwent its triennial valuation as at 31st March 2013. The results from this are published on the Fund's website.

The table below summarises the financial position in respect of benefits earned by members up to this date, compared with the previous valuation.

| | 31st March 2010 | 31st March 2013 |
|---|---|---|
| Past Service Liabilities | £1,585m | £2,092m |
| Market Value of Assets | £1,204m | £1,495m |
| Surplus/(Deficit) | (382) | (597) |
| Funding Level | 75.9% | 71.5% |

# Lincolnshire County Council Pension Fund ("the Fund") Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15.

## Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependents' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 70% chance that the Fund will return to full funding over 20 years.

## Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £1,495 million, were sufficient to meet 71.5% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £597 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

## Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 21 March 2014.

## Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

| Financial assumptions | 31 March 2013 | |
|---|---|---|
| | % p.a. Nominal | % p.a. Real |
| Discount rate | 4.60% | 2.10% |
| Pay increases | 3.80% | 1.30% |
| Pension increases | 2.50% | - |

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

| | Males | Females |
|---|---|---|
| Current Pensioners | 22.2 years | 24.4 years |
| Future Pensioners* | 24.5 years | 26.8 years |

*Future pensioners are assumed to be aged 45 as at the last formal valuation date

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Lincolnshire County Council, the Administering Authority to the Fund.

## Experience over the period since April 2014

Experience has been worse than expected over the year to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been only partially offset by the effect of strong asset returns, meaning that funding levels are likely to have worsened and deficits increase over this period,

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Peter Summers
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
7 July 2015
Hymans Robertson LLP, 20 Waterloo Street, Glasgow,

## INVESTMENT BACKGROUND

### Returns for Major Markets

The twelve months to 31st March 2015 ended with positive returns across asset classes.

Equity markets had a large difference in returns ranging from 6.6% in the UK to 27.1% in Japan.

There was also a divergence across bond assets, with UK Gilts returning 22.8%, whilst Overseas Bonds and UK Corporate Bonds returned 3.2%.

Property had a very good year, returning 18.6% for investors.

**Investment Returns to sterling based investors 1st April 2014 to 31st March 2015**

| Asset Class | Index | Index return to sterling investors % |
|---|---|---|
| **Equities** | | |
| United Kingdom | FTSE All Share | 6.6 |
| Global Equities | FTSE World (ex UK) | 19.9 |
| United States | FTSE North America | 25.1 |
| Europe | FTSE Europe (ex UK) | 7.5 |
| Japan | FTSE Japan | 27.1 |
| Far East | FTSE Pacific (ex Japan) | 12.8 |
| Emerging Markets | FTSE Emerging | 16.5 |
| **Fixed Interest** | | |
| UK Index Linked Gilts | FTSE Index–Linked All Stocks | 18.6 |
| UK Gilts over 15 yrs | UK Gilts and All Stocks | 22.8 |
| Overseas Bonds | JP Morgan World ex UK | 3.2 |
| UK Corporate Bonds | IBoxx Sterling Non-Gilts All Stocks | 3.2 |
| **Property** | IPD Index | 16 .6 |
| **Cash** | LIBID Seven Day Rate (compounded) | 0.4 |

## World Equity Markets

It has been an unusual year for global financial markets characterised by a series of economic, geopolitical, and market shifts. Global equity markets rose during the 12 months to the end of March 2015 but this masked a considerable amount of equity market volatility, largely driven by the accelerating slide in oil prices since June 2014. A surprise surge in production and weaker-than-expected global demand for crude sent oil reserves soaring and prices tumbling which triggered broader turmoil across global financial markets. Energy stocks suffered, as have oil-dependent countries such as Venezuela and Russia.

A brief summary of each quarter of the financial year is shown below.

Q2 2014

Global equities made solid gains over the second quarter, with sentiment driven by the ongoing support from the world's central banks. Janet Yellen, the US Federal Reserve (Fed) chairwoman, bolstered markets when she indicated that interest rates would remain at a record low for some time to come. Not to be outdone, European Central Bank (ECB) President Mario Draghi attempted to kick-start the struggling Euro-zone economy by announcing a series of bold policy measures in June. Equities were further lifted by well-received political elections in emerging markets and buoyant corporate activity from around the world. Meanwhile, geopolitics continued to buffet markets, with the eruption of violence in the Middle East causing the price of oil to spike and prompting investors to take profits.

Q3 2014

Global equities were broadly positive over the quarter, with sentiment driven by ongoing central bank policy support, improving US economic data and a raft of eye-catching M&A deals. The European Central Bank (ECB) was particularly active, cutting interest rates and announcing an asset-purchase scheme. Data from China, however, were mixed. Geopolitics also played their part, with the West imposing ever-stricter sanctions on Russia, civilian protests in Hong Kong and the ongoing conflagration in the Middle East unsettling markets.
Meanwhile, declining commodity prices and a rising US dollar hit a number of emerging nations.

Q4 2014

Despite pronounced bouts of volatility, global equity markets finished ahead for the quarter. Investors had much to consider, from the plunging oil price and ongoing geopolitical tensions, to uneven economic growth and Europe's seemingly inexorable slide into deflation.
Central bank policy also continued to dictate sentiment. The heightened prospect of a US rate hike in the 2015 unnerved some, and caused a sell-off in many emerging markets. By contrast, further stimulus measures in Japan (to the surprise of everyone) and a rate cut in China boosted risk assets. The European Central Bank, meanwhile, continued its slow march towards quantitative easing. In the corporate world, M&A activity remained sprightly, while the latest results season was generally positive.

Q1 2015

Familiar themes dictated sentiment for global equity investors over the first quarter of 2015, including ongoing central bank policy initiatives, the depressed oil price and mixed economic data. The strength of the US dollar was also a major talking point, and proved to be a mixed blessing for investors. Meanwhile, the European Central Bank was back under the spotlight after it launched a €1.1 trillion quantitative easing programme. The move lifted equities globally. However, a victory for the anti-austerity Syriza party in Greece brought the viability of the Eurozone project back into question. Geopolitics remained a feature, as Ukraine/Russia agreed a ceasefire and violence erupted in Yemen.

**Fixed Interest**

A brief summary of each quarter of the financial year is shown below.

Q2 2014

It was a positive quarter for investment grade corporate bonds in both absolute and relative terms. Returns were driven by a further decline in government bond yields across most core markets and credit spread tightening. Central bank policy continued to prove supportive for the asset class. The ECB announced a package of measures aimed at reinvigorating the Euro-zone economy and combating the threat of deflation. US and UK credit also made good progress, although speculation that interest rates would have to rise sooner than expected in the UK proved a headwind during June.

Q3 2014

Government bond markets enjoyed a strong three-month period. Supportive central bank policy and a number of geopolitical concerns ensured demand for developed market government bonds remained strong. Indeed, US Treasury, German bund and UK gilt yields all declined markedly over the period. European government bonds were especially well served by the introduction of a suite of measures by the European Central Bank to try and stimulate the moribund Eurozone economy. Corporate bond markets made good progress. A favourable environment of low interest rates, expansionary monetary policy and positive-but-low economic growth allowed the asset class to deliver solid returns over the period. There were some notable idiosyncratic issues during the period, such as the impact of the crisis in Crimea on the bonds of companies with direct or indirect exposure to Russia and Ukraine.

Q4 2014

The last quarter of 2014 proved eventful for global bond markets. Actual and anticipated intervention by major central banks was one driver of moves in bond yields, while a precipitous decline in the oil price was another. With inflation in most jurisdictions continuing to surprise to the downside, a disinflationary tone pervaded markets and pushed interest rate expectations out further. As a result, core government bonds made good progress. Corporate credit made positive progress but underperformed on a relative basis due to the robust nature of the rally in underlying government bonds. In what was a generally risk-averse period, higher-rated bonds outperformed lower rated issuance, with high yield once again struggling. At a company-specific level, the falling oil price created both winners and losers, with a number of high-profile oil-related companies coming under pressure.

Q1 2015

It was another volatile quarter for core government bond markets. Generally, however, performance was positive despite 2015 starting with yields at already very low levels. The most important development during the period was the decision by the European Central Bank to finally embark on a programme of sovereign bond-buying. This was particularly positive for European bonds. Corporate bonds generally enjoyed a strong three months, with government bond yields falling and credit spreads narrowing – the best possible outcome for the asset class. The exception was Europe where spreads widened. Sterling denominated corporate bonds were particularly strong over the period, outperforming both euro and dollar bonds.

**UK Commercial Property**

A brief summary of each quarter of the financial year is shown below.

Q2 2014

The improving economic backdrop in the UK remains supportive for recovery in commercial real estate. This is resulting in positive returns for investors, who are becoming more confident in the recovery's sustainability. As the recovery develops, investors are also starting to turn their attention from the lower yielding Central London market towards the regions. Opportunities are beginning to arise outside the capital, where there is limited future supply, but demand is picking up as the domestic economy improves. In addition, while liquidity is more constrained regionally, we believe that pricing remains attractive.

Q3 2014

The UK continued to lead the recovery in global real estate markets, supported by improving economic data. Capital values increased, while rental growth began to materialise in most sectors. Offices were the best performing sector, followed by industrials and retail. The Central London office occupier market remained strong, with robust demand and limited supply pushing up rents. Overseas investors were again the most active in the capital, accounting for 72% of take up in the third quarter, up from 68.6% on the previous quarter (CBRE). Encouragingly, though, this improving activity appears to be spreading to the regions as investors look for more affordable investments outside of London and the south east.

Q4 2014

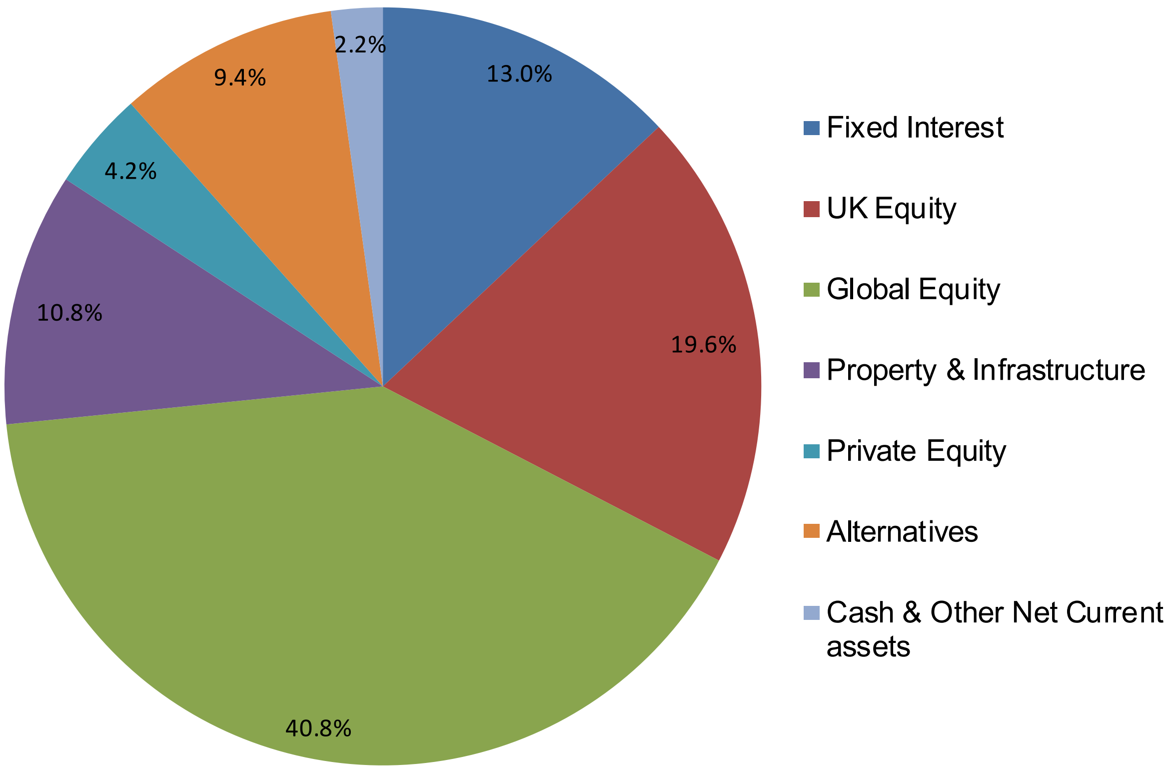
UK commercial real estate continued to lead the global property recovery and ended 2014 strongly. Capital values increased further over the quarter, driven mainly by a competitive investment market. Having initially been led by London, rental growth also improved in most sectors. Rents in the industrials sector strengthened on improved tenant demand and a lack of stock. The retail sector continued to lag behind as it undergoes structural changes. However, there was some emerging evidence that retail rents were beginning stabilise, helped by the improving financial position of consumers. In terms of the investment market, interest in UK real estate showed no signs of abating and remained broad-based, with overseas investors, UK institutions and private companies all active in the sector.

Q1 2015

After a very strong finish to 2014, UK commercial real estate made a steady start to 2015. Both capital values and rents grew over the first quarter albeit at a slower pace than in the last few months of 2014. The markets continue to see capital value growth for secondary property equalise with that of prime property, although there are geographic and sector differences. For example, performance among secondary properties in the office and industrial sectors is catching up with prime, while this has yet to occur in retail. From an investment perspective, there remains strong interest in UK real estate, with ongoing activity from overseas investors, UK institutions and private companies.

**Asset Distribution**

| Asset class | Market Value £000 | 31/3/15 % | 31/3/14 % |
|---|---|---|---|
| Fixed Interest | 228,549 | 13.0 | 12.5 |
| UK Equity | 344,094 | 19.6 | 19.4 |
| Global Equity | 717,029 | 40.8 | 40.6 |
| Property and Infrastructure | 189,640 | 10.8 | 11.0 |
| Private Equity | 73,692 | 4.2 | 5.2 |
| Alternatives | 164,801 | 9.4 | 7.9 |
| Cash & Other Net Current assets | 38,298 | 2.2 | 3.4 |
| **Total** | **1,756,283** | **100** | **100** |



## Top Holdings

Listed below are the top twenty holdings, including pooled investments, as at 31st March 2015. These account for £761m and make up 43.3% of the Fund's investments.

| | Market Value £000 | Proportion of Fund % |
|---|---|---|
| Morgan Stanley Alternatives | 164,801 | 9.4 |
| F&C/Goodhart Absolute Return Bond Fund | 112,371 | 6.4 |
| Morgan Stanley Global Brands Fund | 88,446 | 5.0 |
| Aquila Life Corporate Bond Fund | 58,332 | 3.3 |
| Standard Life Property Fund | 56,624 | 3.2 |
| Aviva Pooled Property Fund | 38,201 | 2.1 |
| Aquila Life Over 5 Year Index Linked Gilt Fund | 34,466 | 1.9 |
| Aquila Life Overseas Bond Fund | 23,380 | 1.3 |
| Royal Dutch Shell A & B Shares | 22,712 | 1.3 |
| HSBC | 20,285 | 1.2 |
| Royal London | 19,324 | 1.1 |
| Blackrock Property Fund | 19,276 | 1.1 |
| Apple | 17,444 | 1.0 |
| BP | 13,951 | 0.8 |
| Innisfree Secondary Fund | 13,686 | 0.8 |
| GlaxoSmithkline | 13,240 | 0.8 |
| British American Tobacco | 11,776 | 0.7 |
| Vodafone | 11,686 | 0.7 |
| Pantheon USA VII | 10,921 | 0.6 |
| Astrazeneca | 10,124 | 0.6 |
| **Total** | **761,046** | **43.3** |

## ADMINISTRATION OF BENEFITS

Lincolnshire County Council has contracted with Mouchel to administer LGPS benefits and other services. The service is monitored through a number of performance indicators. These are detailed in the table below, showing the performance achieved over the last year against the expected performance.

| Service Area | Days to complete | Performance Target (%) | Total cases | Actual Performance (%) |
|---|---|---|---|---|
| Processing new entrants | 18 | 98.5 | 6,109 | 99.0 |
| Transfers – in (calculation) | 30 | 98.5 | 204 | 77.9 |
| Transfers – in (payment received) | 30 | 98.5 | 153 | 100 |
| Transfers – out (calculation) | 30 | 98.5 | 401 | 98.3 |
| Transfers – out (payment made) | 30 | 98.5 | 102 | 100 |
| Actual retirements | 5 | 98.75 | 492 | 99.8 |
| Deferred into payment | 20 | 98.5 | 641 | 98.3 |
| Deferred benefits | 10 | 98.5 | 1,764 | 98.6 |
| Estimates | 10 | 98.25 | 1,488 | 96.7 |
| Death in service | 5 | 98.5 | 12 | 100 |
| Death of a pensioner | 5 | 98.5 | 313 | 95.5 |
| Refunds | 5 | 98.75 | 372 | 96.2 |
| Pension calculations | 10 | 98.5 | 597 | 96.7 |

As can be seen from the table above, only one area is highlighted in red, transfers in, where 77.9% of cases were achieved in 30 days, against a target of 98.5%. Performance is reported quarterly to the Pensions Committee, and monthly meetings are held between LCC and Mouchel to manage any performance issues.

**SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS**
**FROM 1ST APRIL 2014**

Membership of the LGPS is available to all contracted employees of participating employers whether whole time or part time. Casual employees may also be members providing their contract of employment is for a minimum of three months. Whilst membership of the Scheme is not compulsory, employees of Scheme employers who are eligible are deemed to have joined unless they specifically opt out, whilst employees of transferred Admission Bodies are eligible only if they are employed in connection with the service transferred.

National legislation and regulation cover the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits are not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits available are outlined below:

**Contributions**

Employees contribution rates from 1 April 2014 are based on actual pensionable pay using the pay band table below. The bands are increased each April in line with inflation by the Department for Communities and Local Government. The bands, as they stood at 31st March 2014, are shown below.

| **Full Time Equivalent Pay** | **Contribution Rate** |
|---|---|
| Up to £13,600 | 5.5% |
| More than £13,601 and up to £21,200 | 5.8% |
| More than £21,201 and up to £34,400 | 6.5% |
| More than £34,401 and up to £43,500 | 6.8% |
| More than £43,501 and up to £60,700 | 8.5% |
| More than £60,701 and up to £86,000 | 9.9% |
| More than £86,001 and up to £101,200 | 10.5% |
| More than £101,201 and up to £151,800 | 11.4% |
| Over £151,800 | 12.5% |

**Benefits**

The retirement age for scheme members is their Normal Pension Age which is the same as their State Pension Age (but with a minimum of age 65). However, employees may retire and draw their pension at any time between age 55 and 75. If an employee chooses to retire before their Normal Pension Age it will normally be reduced, as it is being paid earlier and if taken later the Normal Pension Age then it will be increased as being paid later. Retirement before age 55, other than on ill-health grounds, is not possible.

## Annual Pensions

Pensions are calculated at a rate of 1/49$^{th}$ of the employee's pensionable pay in each scheme year. Inflation increases will be added to ensure that pension accounts keep up with the cost of living.

## Lump Sum Payments

A member receives a tax free lump of three times their pension on service accrued prior to 1 April 2008. On service from 1 April 2008 there is no automatic lump sum, but members have the option to commute pension at the rate of £12 cash lump sum for every £1 pension given up, subject to maximum tax free lump sum of 25% of capital value of accrued benefits at retirement.

## Ill Health Retirement

There are three tiers of benefits. The benefits are calculated as for normal retirement with additional service under tiers one and two depending on age.

## Death-benefits

Death in service attracts a tax free lump sum of three time's final pensionable pay. An annual pension is payable to a spouse/civil partner/ 'nominated' dependent partner and eligible children, however civil partners and 'nominated' dependent partners pensions are based on post 5$^{th}$ April 1988 membership only. If a member dies within ten years of their retirement, a single lump sum payment is made of ten times the member's annual pension, less any pension paid since retirement. For a member who retired prior to 1$^{st}$ April 2008 and dies within five years of their retirement, a single lump sum payment is made of five times the member's annual pension less any pension paid since retirement. The surviving spouse is entitled to an annual pension based on 1/160ths accrual of the member's membership.

## Supplementary Pensions

Scheme members may purchase additional pension of up to a maximum of £5,000 per annum, in blocks of £250. As an alternative, Scheme members may increase their benefits by paying Additional Voluntary Contributions (AVCs). The AVC provider, appointed by the County Council as the administering authority, is Prudential.

## SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS FROM 1$^{ST}$ APRIL 2008 to 31$^{ST}$ MARCH 2014

LGPS 2014 came into effect from the 1$^{st}$ April 2014. Prior to this the key features were as follows:
Membership of the LGPS is available to all contracted employees of participating employers whether whole time or part time. Casual employees may also be members providing their contract of employment is for a minimum of three months. Whilst membership of the Scheme is not compulsory, employees of Scheme employers who are eligible are deemed to

have joined unless they specifically opt out, whilst employees of transferred Admission Bodies are eligible only if they are employed in connection with the service transferred.

National legislation and regulation cover the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits are not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits available are outlined below:

**Contributions**

Employees contributed between 5.5% and 7.5% of their pensionable pay towards their pension.

**Benefits**

The retirement age for scheme members is 65. However, employees may retire between 60 and 65 but would suffer a reduction to their benefits (unless protected under the 85 year rule). Retirement before age 60, other than on ill-health grounds, is not possible without the permission of the employer.

**Annual Pensions**

Pensions are calculated at a rate of 1/60th (1/80th for service accrued prior to 1 April 2008) of the employee's average 'final' pay in their last twelve months of employment for each year of pensionable service. Pensions for persons aged 55 and over (no age restriction for ill-health) are increased each April in line with inflation.

**Lump Sum Payments**

A member receives a tax free lump of three times their pension on service accrued prior to 1 April 2008. On service from 1 April 2008 there is no automatic lump sum, but members have the option to commute pension at the rate of £12 cash lump sum for every £1 pension given up, subject to maximum tax free lump sum of 25% of capital value of accrued benefits at retirement.

**Ill Health Retirement**

There are three tiers of benefits. The benefits are calculated as for normal retirement with additional service under tiers one and two depending on age.

**Death-benefits**

Death in service attracts a tax free lump sum of three time's final pensionable pay. An annual pension is payable to a spouse/civil partner/ 'nominated' dependent partner and eligible children, however civil partners and 'nominated' dependent partners pensions are based on post 5th April 1988 membership only. If a member dies within ten years of their retirement, a single lump sum payment is made of ten times the member's annual pension, less any pension paid since retirement. For a member who retired prior to 1st April 2008 and dies within five years of their retirement, a single lump sum payment is made of five times the member's annual pension less any pension paid since retirement. The surviving spouse is entitled to an annual pension based on 1/160ths accrual of the member's membership.

### Supplementary Pensions

Scheme members may purchase additional pension of up to a maximum of £5,000 per annum, in blocks of £250. As an alternative, Scheme members may increase their benefits by paying Additional Voluntary Contributions (AVCs). The AVC provider, appointed by the County Council as the administering authority, is Prudential.

## SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS TO 31st MARCH 2008

The department for Communities and Local Government (CLG) issued amended regulations to replace the existing scheme with a 'New Look' scheme from the 1st April 2008. Prior to this the key features were as follows:

Membership of the LGPS is available to all contracted employees of participating employers whether whole time, part time or casual.

National legislation and regulation cover the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits are not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits available are outlined below:

### Contributions

Employees contributed 6% of their pensionable pay towards their pension, the exception being manual workers who were Fund members before 1 April 1998 who pay 5%.

### Benefits

The normal retirement age for Scheme members is 65 but employees in the Scheme prior to 1 April 1998 can retire at 60 provided they have 25 years' service. Retirement before these ages, other than on ill-health grounds, is not possible without the permission of the employer.

### Annual Pensions

Pensions are calculated at a rate of 1/80th of the employee's average 'final' pay in their last twelve months of employment for each year of pensionable service. Pensions for persons aged 55 and over are linked to the movement in inflation.

### Lump Sum Payments

A member receives a tax free lump sum payment in retirement of three times their pension, with an option to take a bigger lump sum by exchanging part of their pension. Up to 25% of the capital value of a member's pension can be taken as tax free cash.

### Ill Health Retirement

Benefits are as for normal retirement but with additional years added dependent on the length of pensionable membership.

### Death-benefits

Death in service attracts a lump sum grant equivalent to up to twice final pensionable pay. An annual pension is payable to the surviving spouse and any eligible children. For death after retirement a single payment is made of five times the member's annual pension (less any pension paid since retirement). The surviving spouse is entitled to an annual pension of up to 50% of the member's pension for the rest of their life.

### Supplementary Pensions

Scheme members may purchase additional membership within the Scheme up to a maximum of 6 2/3rd years. As an alternative, Scheme members may increase their benefits by paying Additional Voluntary Contributions, up to limits prescribed in scheme rules, to an AVC provider appointed by the County Council as the administering authority. The Lincolnshire AVC provider is Prudential plc.

**The principal points of contact in respect of questions about the LGPS are**:

| | |
|---|---|
| **Pension Fund and Investments** | Jo Ray, Group Manager – Pensions & Treasury<br>Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL<br>Tel: 01522 553656<br>Email : jo.ray@lincolnshire.gov.uk |
| **Pensions Administration** | West Yorkshire Pension Fund<br>WYPF, PO Box 67, Bradford, BD1 1UP<br>Tel: 01274 434999<br>Email: wypf@mouchel.com |

## PENSION FUND KNOWLEDGE AND SKILLS – POLICY AND REPORT

As an administering authority of the Local Government Pension Scheme, Lincolnshire County Council recognises the importance of ensuring all staff and members charged with the financial management and decision making with regard to the pension fund, are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. Within the management of the Pension Fund, LCC seeks to appoint individuals who are both capable and experienced, and will provide and arrange training for staff and members involved to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

An annual training plan is agreed by the Pensions Committee each April, setting out what training will be covered over the coming year and relating it back to the CIPFA 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. In addition, all members were offered the opportunity to attend the three-day fundamentals training arranged by the Local Government Association.

The County Finance Officer, the delegated S151 Officer, is responsible for ensuring that policies and strategies are implemented.

**Activity in 2014/15**

A full training plan was taken to Pensions Committee in April 2014 to identify training requirements over the coming year. The training plan was linked to specific areas within the CIPFA Knowledge and Skills Framework.

The 6 areas within the Knowledge and Skills Framework are:

1. Pensions Legislative and Governance Context
2. Pensions Auditing and Accounting Standards
3. Financial Services Procurement and Relationship Management
4. Investment Performance and Risk Management
5. Financial Markets and Products Knowledge
6. Actuarial Methods, Standards and Practices

The table below details the various areas covered in training and Committee presentations during the year, and the areas within the Knowledge and Skills Framework that they relate to.

| Date | Topic | KSF area(s) |
|---|---|---|
| **22nd May 2014**<br>Committee topics | Pension Fund Discretions (LGPS2014)<br>External Manager Presentations | 1<br>4,5 |
| **17th Jul 2014**<br>Committee topics | Independent Advisor Market Update<br>Fund Update<br>Investment Management Report<br>Pensions Administration Report<br>Annual Report and Accounts<br>Internal Manager Presentation<br>Annual Property Report<br>Policies Review Report<br>Risk Register Annual Review<br>Investment Consultant – Asset Liability Study | 4,5<br>1,3,4<br>4,5<br>1<br>2<br>4<br>4,5<br>1<br>1,4<br>4,5 |
| **4th Sep 2014**<br>Training | Safeguarding the Fund's Assets<br>Role of the Pensions Board | 4<br>1 |
| **9th Oct 2014**<br>Committee topics | Independent Advisor Market Update<br>Fund Update<br>Investment Management Report<br>Pensions Administration Report<br>External Manager Presentation<br>Annual Fund Performance Report | 4,5<br>1,3,4<br>4,5<br>1<br>4<br>4 |
| **11th Dec 2014**<br>Committee topics | External Manager Presentations | 4,5 |
| **8th Jan 2015**<br>Committee topics | Independent Advisor Market Update<br>Fund Update<br>Investment Management Report<br>Pensions Administration Report | 4,5<br>1,3,4<br>4,5<br>1 |

| | | |
|---|---|---|
| **5th Feb 2015**<br>Training | Pensions Administration – shared service<br>Investment topic (tba) | 1,4<br>5 |
| **12th Apr 2015**<br>Committee topics | Independent Advisor Market Update<br>Fund Update<br>Investment Management Report<br>Pensions Administration Report<br>Annual Training Paper | 4,5<br>1,3,4<br>4,5<br>1<br>1 |

As the officer responsible for ensuring that the training policies and strategies are implemented, the County Finance Officer can confirm that the officers and members charged with the financial management of and the decision making for the Pension Fund collectively possess the requisite knowledge and skills necessary to discharge those duties and decisions required during the reporting period.

## LINCOLNSHIRE COUNTY COUNCIL PENSION FUND ACCOUNT & NET ASSETS STATEMENT FOR THE YEAR ENDED 31st MARCH 2015

| | See Note | 2013/14 £000 | 2014/15 £000 |
|---|---|---|---|
| **Contributions and Benefits** | | | |
| Contributions Receivable | 8 | 76,984 | 82,503 |
| Transfers in | 9 | 6,732 | 6,372 |
| | | **83,716** | **88,875** |
| Benefits Payable | 10 | 74,244 | 78,057 |
| Leavers | 11 | 3,922 | 34,458 |
| | | **78,166** | **112,515** |
| **Net additions from dealings with fund members** | | **5,550** | **(23,640)** |
| Management Expenses | 12 | **4,568** | **4,807** |
| **Returns on Investments** | | | |
| Investment Income | 13 | 27,815 | 26,619 |
| Profit (Loss) on Forward Deals & Currency Deals | 17 | 3,085 | (4,149) |
| Change in Market Value of Investments | 15 | 64,495 | 170,838 |
| **Net returns on investments** | | **95,395** | **193,308** |
| Net increase in the Fund during the year | | 96,377 | 164,861 |
| Opening net assets of the Fund | | 1,495,045 | 1,591,422 |
| **Closing net assets of the Fund** | | **1,591,422** | **1,756,283** |
| **Net Assets statement as at 31st March 2014** | | | |
| **Investments** | 15 | | |
| Equities | | 880,027 | 972,857 |
| Pooled Investments: | | | |
| Property | | 174,702 | 189,640 |
| Private Equity | | 83,313 | 73,692 |
| Fixed Interest | | 168,971 | 194,083 |
| Index Linked Bonds | | 29,623 | 34,466 |
| Equities | | 74,715 | 88,445 |
| Alternatives | | 125,936 | 164,801 |
| Cash Deposits | | 38,836 | 25,695 |
| Other Investment Balances | 18 | 4,364 | 473 |
| | | **1,580,487** | **1,744,152** |
| **Current Assets and Liabilities** | | | |
| Cash Balances | | 4,630 | 7,855 |
| Debtors | 19 | 6,974 | 4,005 |
| Long Term Debtors | 19 | 2,131 | 2,132 |
| Creditors | 19 | (2,800) | (1,861) |
| | | **10,935** | **12,131** |
| | | **1,591,422** | **1,756,283** |

# Notes to the Pension Fund Account

## 1 Pension Fund Account

The Lincolnshire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme and Lincolnshire County Council is the Administering Authority. Benefits are administered by Mouchel, alongside a Council wide contract. From 1st April 2015 the administration of the Fund will be in a shared service arrangement with West Yorkshire Pension Fund.

The following information is a summary only, and further detail can be found in the Lincolnshire Pension Fund Annual Report 2014/15 (available on the Fund's website at www.lincolnshire.gov.uk/pensions), and in the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

**General**

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined benefit pension scheme to provide pensions and other benefits for pensionable employees of Lincolnshire County Council, the district councils in Lincolnshire and a range of other scheduled and admitted bodies within the county. Teachers, police officers and fire-fighters are not included as they come within other national pension schemes.

The Fund is overseen by the Lincolnshire County Council Pensions Committee.

**Membership**

Membership of the LGPS is automatic for eligible employees, but they are free to choose whether to remain in the scheme or make their own personal arrangements outside of the scheme
.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members.

- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include charitable organisations and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 182 employer organisations in the Fund including the County Council (a list of scheduled employers is shown at note 28) and the membership numbers are shown below:

| | 31 Mar 2014 | 31 Mar 2015 |
|---|---|---|
| Number of employers with active members | 185 | 182 |
| **Number of employees in the scheme** | | |
| Lincolnshire County Council | 10,734 | 10,679 |
| Other employers | 9,963 | 10,583 |
| **Total** | 20,697 | 21,262 |
| **Number of pensioners** | | |
| Lincolnshire County Council | 10,121 | 10,664 |

| | | |
|---|---|---|
| Other employers | 6,456 | 6,600 |
| **Total** | 16,577 | 17,264 |
| **Number of deferred pensioners** | | |
| Lincolnshire County Council | 18,794 | 18,872 |
| Other employers | 8,452 | 8,705 |
| **Total** | 27,246 | 27,577 |

**Funding**
Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31 March 2013, and employer contribution rates were set ranging from 15.1% to 28.7% of pensionable pay. In addition, a number of employers are paying deficit contributions as cash payments.

**Benefits**
Prior to 1st April 2014, pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

| | **Service pre 1st April 2008** | **Service post 31st March 2008** |
|---|---|---|
| Pension | Each year is worth 1/80 x final pensionable salary. | Each year is worth 1/60 x final pensionable salary. |
| Lump Sum | Automatic lump sum of 3/80 x salary.<br>In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum.<br><br>Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

From 1st April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to our shared pensions website, at www.wypf.org.uk .

## 2 Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position at year end as at 31st March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits due. The accounts do not take into account liabilities to pay pensions and other benefits after the period end. These liabilities are dealt with through the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined by these valuations.

The accounting policies set out below have been applied consistently to all periods presented within these financial statements.

## 3 Significant Accounting Policies

### Fund account - revenue recognition

**Contributions income**

- Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.
- Employer deficit funding contributions are accounted for on the day on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than due date.
- Employer augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

**Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the relevant regulations. Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

**Investment Income**

Dividends, interest, stock lending and other investment income have been accrued for in the accounts where amounts were known to be due at the end of the accounting period.

### Fund account - expense items

**Benefits payable**

Pensions and lump sum benefits payable are included in the accounts at the time of payment.

**Taxation**

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

**Management expenses**

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Council discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

**Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

**Oversight and Governance**

All oversight and governance expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

**Investment expenses**

All investment management expenses are accounted for on an accruals basis.

Fees for the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase and decrease as the value of the investments change.

In addition, the Fund has negotiated with the following managers that an element of their fee be performance related:

- Invesco Asset Management - Global Equities (ex UK)
- Schroder Investment Management - Global Equities
- Neptune Investment Management – Global Equities
- Threadneedle Asset Management – Global Equities
- Morgan Stanley Investment Management Ltd - Alternative Investments

Where an investment manager's fee invoice has not been received by the financial year end, an estimate based upon the market value of their mandate is used for inclusion in the Fund accounts.

**<u>Net assets statement</u>**

**Financial assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined as follows:

**Market Quoted investments** – The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

**Fixed Interest Securities** – These are recorded at net market value based on current yields.

**Unquoted Investments** – The fair value of investments for which market quotations are not readily available is determined as follows:

Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Council expects to receive on wind-up, less estimated realisation costs.

Securities subject to takeover offer – the value of the consideration offered under the offer, less realisation costs.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in private equity funds and unquoted limited partnerships are valued based on the Fund's share of the net assets in the private equity or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

Limited partnerships – Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

Pooled investment vehicles – These are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of withholding tax.

Transaction costs are included in the purchase and sale costs of investments and are identified in the notes to the accounts.

**Derivatives**

The Fund uses derivative financial instruments to manage its exposure to certain risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contracts are priced at fair value and open contracts are included within the other investment balances.

The value of futures contracts is determined using the exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with and equal and opposite contract.

**Cash and cash equivalents**

Cash comprises cash in hand and deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimum risk of changes in value.

**Foreign currency transactions**

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31st March 2015 are shown in note 29.

**Financial liabilities**

Financial liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial liability is recognised in the net asset statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

**Prior Period Adjustments**

The Code requires prior period adjustments to be made when material omissions or misstatements are identified (by amending opening balances and comparative amounts for the prior period). Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

The following disclosures will be made:
• the nature of the prior period error;
• for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and
• the amount of the correction at the beginning of the earliest prior period presented.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change. They do not give rise to a prior period adjustment.

**Changes in Accounting Policies**

Changes in accounting policy may arise through changes to the Code or changes instigated by the Council. For changes brought in through the Code, the Pension Fund will disclose the information required by the Code. For other changes we will disclose: the nature of the change; the reasons why; report the changes to the current period and each prior period presented and the amount of the adjustment relating to periods before those presented. If retrospective application is impracticable for a particular prior period, we will disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

## 4 Actuarial Valuation

An actuarial valuation of the Fund undertaken as at 31 March 2013 indicated that the Fund's assets were £1,495m and covered 71.5% of the Funds liabilities. This compared with assets of £1,204m at the valuation as at 31 March 2010, which covered 76% of the Fund's liabilities. The main actuarial assumptions for the 2013 valuation were as follows:

| | Nominal per annum % | Real per annum % |
|---|---|---|
| Investment Return | | |
| - Equities | 4.6 | 2.1 |
| - Bonds | 3.0 | |

| | | |
|---|---|---|
| Rate of Pensionable pay inflation | 3.8 | 1.3 |
| Rate of Price inflation | 2.5 | |

The Fund is valued using the projected unit method, which is consistent with the aim of achieving a 100% funding level. The changes in contribution rates resulting from the actuarial valuation as at 31 March 2013 will be effective from April 2014. The contribution rates have been set by the Actuary to target a funding level, for most employers, on an ongoing basis of 100% over a period of up to 20 years. The next actuarial valuation will be undertaken as at 31 March 2016. A copy of the Fund Valuation report can be obtained from the Council's website.

## 5 Actuarial Present Value of Promised Retirement Benefits

Below is the note provided by the Fund's Actuary, Hymans Robertson, to provide the Actuarial present value of the promised retirement benefits, as required under the Code. The report titled 'Actuarial Valuation as at 31 March 2014 for IAS19 purposes' referred to in the note can be obtained from the Pensions and Treasury Management section at the County Council.

**Pension Fund Accounts Reporting Requirement**

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for Lincolnshire Pension Fund, which is in the remainder of this note.

Balance sheet

| **Year ended** | **31 Mar 2015**<br>**£m** | **31 Mar 2014**<br>**£m** |
|---|---|---|
| Present value of Promised retirement benefits | 2,953 | 2,456 |

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2015 comprises £1,400m in respect of employee members, £557m in respect of deferred pensioners and £996m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £401m.

Financial Assumptions

My recommended financial assumptions are summarised below:

| **Year ended** | **31 Mar 2014**<br>**% p.a.** | **31 Mar 2015**<br>**% p.a.** |
|---|---|---|
| Inflation/Pension Increase rate | 2.8 | 2.4 |
| Salary Increase Rate* | 4.1 | 3.8 |
| Discount Rate | 4.3 | 3.2 |

* Salary increases are 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter.

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| | Males | Females |
|---|---|---|
| Current Pensioners | 22.2 years | 24.4 years |
| Future Pensioners* | 24.5 years | 26.8 years |

*Future pensioners are assumed to be aged 45 at the last formal valuation date.

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

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Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 17 April 2015. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Anne Cranston

Anne Cranston AFA
6 May 2015
For and on behalf of Hymans Robertson LLP

## 6 Assumptions Made and Major Sources of Uncertainly

The accounts contain estimated figures that are based on assumptions made by the council, and other Professionals, about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the accounts for the year ended 31st March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| Actual present value of promised retirement benefits | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on investments. A firm of consulting actuaries are engaged to provide expert advice about the assumptions to be applied. | The effects of changes in the individual assumptions can be measured. For example:<br><br>1) a 0.5% increase in the discount rate assumption would result in a decrease of the pension liability of £282m.<br><br>2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £50m.<br><br>3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £207m.<br><br>4) a one-year increase in assumed |

| | | |
|---|---|---|
| | | life expectancy would increase the liability by approximately £89m. |
| Private Equity | Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total private equity investments in the Fund are £73.7m. There is a risk that these may be over or understated in the accounts. |

**7 Pension Fund Investments 2014/15**

The strategic asset allocation for the investment of the Fund, as agreed by the Pensions Committee, is detailed below.

| **Asset allocation** | |
|---|---|
| UK Equities | 20.0% |
| Global Equities | 40.0% |
| Property | 11.5% |
| Fixed Interest | 13.5% |
| Alternative Investments (incl. Private Equity) | 15.0% |
| | 100.0% |

Surplus funds are invested in a wide variety of UK and overseas companies, Government Securities, property and other investments, in line with a Statement of Investment Principles. The assets are managed in a number of active and passive investment portfolios. Investment performance is monitored by the Pensions Committee of the County Council.

| **Fund manager** | **31-Mar 2014 £m** | **%** | **31-Mar 2015 £m** | **%** |
|---|---|---|---|---|
| **EXTERNALLY MANAGED** | | | | |
| Invesco | 332 | 21 | 362 | 21 |
| Neptune | 79 | 5 | 92 | 5 |
| Schroders | 84 | 5 | 90 | 5 |
| Threadneedle | 87 | 6 | 91 | 5 |
| Morgan Stanley (Global Brands) | 75 | 5 | 89 | 5 |
| Morgan Stanley (Alternatives) | 139 | 9 | 175 | 8 |
| Morgan Stanley (Private Equity) | 87 | 6 | 77 | 7 |
| Blackrock | 98 | 6 | 116 | 7 |
| Goodhart | 101 | 6 | 112 | 6 |
| **INTERNALLY MANAGED** | | | | |
| Pooled Investments: | | | | |
| Property | 179 | 11 | 194 | 11 |
| UK Equity | 317 | 20 | 346 | 20 |

The Pension Fund Statement of Recommended Practice was amended with effect from 2008/09 to require that managers report valuations at closing prices (either bid or last traded), rather than mid prices that had previously been used. The managers within the Pension Fund have reported their year end valuations at either bid or fair value, as detailed in the table below.

| **Fund Manager** | **Valuation Pricing** |
|---|---|
| **EXTERNALLY MANAGED** | |
| Invesco | Bid |
| Neptune | Bid |
| Schroders | Bid |
| Threadneedle | Bid |
| Morgan Stanley | Bid/Fair Value |
| Blackrock | Bid |
| Goodhart | Bid |
| **INTERNALLY MANAGED** | |
| Pooled Investments: | |
| Property | Bid/Fair Value |
| UK Equity | Bid |

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, JP Morgan. The total amount of stock on loan at the year-end was £36,449,527 and this value is included in the net assets statement to reflect the Funds continuing economic interest in the securities on loan. As security for the stocks on loan, the Fund was in receipt of collateral at the year-end valued at £39,913,115, which represented 109.5% of the value of securities on loan.

Income received from stock lending activities, before costs, was £286,900 for the year ending 31 March 2015 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

## 8 Contributions Receivable

Contributions receivable are analysed below:

| | **2013/14 £000** | **2014/15 £000** |
|---|---|---|
| **Employers** | | |
| Normal | 48,015 | 56,897 |
| Deficit Funding | 9,603 | 5,465 |
| Additional - Augmentation | 1,446 | 1,457 |
| | | |
| **Members** | | |
| Normal | 17,786 | 18,577 |
| Additional years | 134 | 107 |
| | **76,984** | **82,503** |

These contributions are analysed by type of Member Body as follows:

| | 2013/14 £000 | 2014/15 £000 |
|---|---|---|
| Lincolnshire County Council | 35,356 | 37,286 |
| Scheduled Bodies | 37,816 | 40,522 |
| Admitted Bodies | 4,812 | 4,695 |
| | **76,984** | **82,503** |

## 9 Transfers In

| | 2013/14 £000 | 2014/15 £000 |
|---|---|---|
| Individual transfers from other schemes | 6,732 | 6,372 |
| Bulk transfers in from other schemes | 0 | 0 |
| | **6,732** | **6,372** |

There were no material outstanding transfers due to the Pension Fund as at 31 March 2015

## 10 Benefits Payable

| | 2013/14 £000 | 2014/15 £000 |
|---|---|---|
| Pensions | 60,641 | 63,097 |
| Commutations & Lump Sum Retirement Benefits | 12,337 | 13,348 |
| Lump Sum Death Benefits | 1,266 | 1,612 |
| | **74,244** | **78,057** |

These benefits are analysed by type of Member Body as follows:

| | 2013/14 £000 | 2014/15 £000 |
|---|---|---|
| Lincolnshire County Council | 37,857 | 41,623 |
| Scheduled Bodies | 31,820 | 32,477 |
| Admitted Bodies | 4,567 | 3,957 |
| | **74,244** | **78,057** |

## 11 Payments to and on account leavers

| | 2013/14 £000 | 2014/15 £000 |
|---|---|---|
| Individual transfers to other schemes | 3,917 | 3,726 |
| Bulk transfers to other schemes | 0 | 30,638 |
| Refunds to members leaving service | 5 | 94 |
| | **3,922** | **34,458** |

Bulk transfers were made out of the Fund in respect of the Probation Service moving to Greater Manchester Pension Fund and the Police Forensics Team moving to Derbyshire Pension Fund.

There were no material outstanding transfers due from the Pension Fund as at 31 March 2015.

## 12 Management Expenses

The analysis of the costs of managing the Lincolnshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The external Audit fee for the year was £29,220 and is included within the oversight and governance costs below.

| | 2013/14 £000 | 2014/15 £000 |
|---|---|---|
| Administrative Costs | 1,079 | 1,289 |
| Investment Management Expenses | 3,051 | 3,127 |
| Oversight and Governance Costs | 438 | 391 |
| Total Management Expenses | 4,568 | 4,807 |

A further breakdown of the investment management expenses is shown below.

The management fees disclosed include all management fees directly incurred by the Fund and include £511,014 (£462,993 in 2013/14) in respect of performance related fees paid / payable to the Fund's investment managers.

| | 2013/14 £000 | 2014/15 £000 |
|---|---|---|
| Management Fees | 2,949 | 3,027 |
| Custody Fees | 102 | 100 |
| Total Investment Management Expenses | **3,051** | **3,127** |

## 13 Investment Income

| | | 2013/14 £000 | 2014/15 £000 |
|---|---|---|---|
| Equities | | 26,520 | 25,369 |
| Pooled Investments | | | |
| | Property | 985 | 895 |
| | Alternatives | 6 | (6) |
| Cash deposits | | 30 | 59 |
| Stock Lending | | 272 | 302 |
| Class Actions | | 2 | 0 |
| | | **27,815** | **26,619** |

Analysis of Investment Income Accrued 31 March 2015

| | UK | Non-UK | Global | Total |
|---|---|---|---|---|
| Equities | 2,552 | 1,346 | 818 | 4,716 |
| Bonds | 0 | 0 | 0 | 0 |
| Property (direct holdings) | 0 | 0 | 0 | 0 |
| Alternatives | 254 | 0 | 0 | 254 |
| Cash and Equivalents | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| **Total** | **2,806** | **1,346** | **818** | **4,970** |

Analysis of Investment Income Accrued 31 March 2014

| | UK | Non-UK | Global | Total |
|---|---|---|---|---|
| Equities | 1,834 | 1,158 | 671 | 3,663 |
| Bonds | 0 | 0 | 0 | 0 |
| Property (direct holdings) | 0 | 0 | 0 | 0 |
| Alternatives | 235 | 0 | 6 | 241 |
| Cash and Equivalents | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| **Total** | **2,069** | **1,158** | **677** | **3,904** |

## 14 Taxes on Income

| | 2013/14 £000 | 2014/15 £000 |
|---|---|---|
| Withholding tax - Equities | 1,060 | 1,114 |
| | **1,060** | **1,114** |

## 15 Investments

| | Value at 31/03/2014 £000 | Purchases at Cost £000 | Sales Proceeds £000 | Change in Market Value £000 | Value at 31/03/2015 £000 |
|---|---|---|---|---|---|
| Equities | 880,027 | 334,616 | 348,703 | 106,917 | 972,857 |
| Pooled Investments | | | | | |
| Property | 174,701 | 3,323 | 10,291 | 21,907 | 189,640 |
| Private Equity | 83,313 | 1,555 | 22,430 | 11,254 | 73,692 |
| Fixed Interest | 168,971 | 21,392 | 1,901 | 5,621 | 194,083 |
| Index Linked Bonds | 29,623 | 1,845 | 3,336 | 6,334 | 34,466 |
| Equities | 74,715 | 0 | 0 | 13,730 | 88,445 |
| Alternatives | 125,936 | 122,982 | 89,192 | 5,075 | 164,801 |
| | **1,537,286** | **485,713** | **475,853** | **170,838** | **1,717,984** |
| Cash Deposits | 38,836 | | | | 25,695 |
| Other Investment Balances | 4,365 | | | | 473 |
| Current Assets & Liabilities | 10,935 | | | | 12,131 |
| | **1,591,422** | **485,713** | **475,853** | **170,838** | **1,756,283** |

| | Value at 31/03/2013 £000 | Purchases at Cost £000 | Sales Proceeds £000 | Change in Market Value £000 | Value at 31/03/2014 £000 |
|---|---|---|---|---|---|
| Equities | 842,804 | 288,543 | 299,287 | 47,967 | 880,027 |
| Pooled Investments | | | | | |
| Property | 155,117 | 13,292 | 5,459 | 11,751 | 174,701 |
| Private Equity | 95,595 | 3,193 | 15,266 | (209) | 83,313 |
| Fixed Interest | 155,540 | 11,624 | 0 | 1,807 | 168,971 |
| Index Linked Bonds | 29,525 | 1,377 | 0 | (1,279) | 29,623 |
| Equities | 74,037 | 0 | 0 | 678 | 74,715 |
| Alternatives | 113,613 | 41,812 | 33,269 | 3,780 | 125,936 |
| | **1,466,231** | **359,841** | **353,281** | **64,495** | **1,537,286** |
| Cash Deposits | 14,696 | | | | 38,836 |
| Other Investment Balances | 5,242 | | | | 4,365 |
| Current Assets & Liabilities | 8,876 | | | | 10,935 |
| | **1,495,045** | **359,841** | **353,281** | **64,495** | **1,591,422** |

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £674,585 (£502,409 in 2013/14). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments. The amount of indirect costs is not separately provided to the scheme.

Geographical Analysis of Fund Assets as at 31 March 2015

| | UK £'000 | Non-UK £'000 | Global £'000 | Total £'000 |
|---|---|---|---|---|
| Equities | 344,094 | 358,688 | 358,521 | 1,061,303 |
| Bonds | 34,465 | 23,380 | 170,703 | 228,548 |
| Property (direct holdings) | 0 | 0 | 0 | 0 |
| Alternatives | 170,750 | 88,606 | 168,777 | 428,133 |
| Cash and Equivalents | 25,695 | 0 | 0 | 25,695 |
| Other | 0 | 0 | 0 | 0 |
| **Total** | **575,004** | **470,674** | **698,001** | **1,743,679** |

Geographical Analysis of Fund Assets as at 31 March 2014

| | UK £'000 | Non-UK £'000 | Global £'000 | Total £'000 |
|---|---|---|---|---|
| Equities | 309,436 | 329,932 | 315,374 | 954,742 |
| Bonds | 29,623 | 18,977 | 149,993 | 198,593 |
| Property (direct holdings) | 0 | 0 | 0 | 0 |
| Alternatives | 152,144 | 101,623 | 130,183 | 383,950 |
| Cash and Equivalents | 38,837 | 0 | 0 | 38,837 |
| Other | 0 | 0 | 0 | 0 |
| **Total** | **530,040** | **450,532** | **595,550** | **1,576,122** |

An analysis of the type of pooled investment vehicles is given below:

| | | 2013/14 £000 | 2014/15 £000 |
|---|---|---|---|
| Property | | | |
| | Unit Trusts | 116,296 | 133,426 |
| | Other managed funds (LLP's) | 58,405 | 56,214 |
| Private Equity | | | |
| | Other managed funds (LLP's) | 83,313 | 73,692 |
| Fixed Interest | | | |
| | Other managed funds | 168,971 | 194,083 |
| Index linked gilts | | | |
| | Other managed funds | 29,623 | 34,466 |
| Equities | | | |
| | Other managed funds | 74,715 | 88,445 |
| Alternatives | | | |
| | Other managed funds | 125,936 | 164,801 |
| **Total Pooled Vehicles** | | **657,259** | **745,127** |

It is required to disclose where there is a concentration of investment (other than in UK Government Securities) which exceeds 5% of the total value of the net assets of the scheme. The three investments that fall into this category as follows:

| Investment | 2013/14 Value (£000) | % of net assets | 2014/15 Value (£000) | % of net assets |
|---|---|---|---|---|
| Goodhart Absolute Return Bond Fund | 100,617 | 6.3 | 112,371 | 6.4 |
| Morgan Stanley Alternative Investments | 125,936 | 7.9 | 164,801 | 9.4 |
| Morgan Stanley Global Brands | 74,715 | 4.7 | 88,445 | 5.0 |

## 16 Analysis of Derivatives

The holding in derivatives is used to hedge exposures to reduce risk in the fund. The use of any derivatives is managed in line with the investment management agreements of the various investment managers.

The only direct derivative exposure that the Fund has is in forward foreign currency contracts. In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

| Settlement | Currency Bought | Local Value 000 | Currency Sold | Local Value 000 | Asset Value £000 | Liability Value £000 |
|---|---|---|---|---|---|---|
| Up to one month | GBP | 49 | AUD | (95) | - | - |
| | GBP | 26 | EUR | (36) | - | - |
| | GBP | 4 | ILS | (23) | - | - |
| | GBP | 53 | JPY | (9,477) | - | - |
| Over one month | | | | | | |
| | CHF | 20,400 | GBP | (14,074) | 156 | - |
| | GBP | 110,908 | EUR | (146,130) | 4,992 | - |
| | JPY | 10,687,000 | GBP | (59,945) | 231 | - |
| | USD | 404,300 | GBP | (259,284) | 13,290 | - |
| | GBP | 17,926 | CHF | (26,400) | - | (498) |
| | EUR | 66,400 | GBP | (51,061) | - | (2,931) |
| | GBP | 97,559 | JPY | (17,528,477) | - | (1,088) |
| | GBP | 374,624 | USD | (583,935) | - | (18,977) |
| **Total** | | | | | **18,669** | **(23,494)** |
| **Net forward currency contracts at 31 March 2015** | | | | | | **(4,825)** |
| **Prior year comparative** | | | | | | |
| **Open forward currency contracts at 31 March 2014** | | | | | **7,463** | **(7,503)** |
| **Net forward currency contracts at 31 March 2014** | | | | | | **(40)** |

## 17 Profit (Loss) on Forward Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of the normal trading of the Fund's managers who manage multi-currency portfolios. It also includes the unrealised loss of £0.5m (unrealised loss of £0.6m in 2013/14) from the Fund's two Currency Overlay Managers.

## 18 Other Investment Balances

| | | 2013/14 £000 | 2014/15 £000 |
|---|---|---|---|
| Dividends Receivable | | 2,991 | 3,830 |
| Recoverable Tax | | 888 | 1,100 |
| Outstanding Foreign Exchange | | (40) | (4,825) |
| Outstanding Stock Lending | | 18 | 30 |
| Unsettled Trades | Purchases | (1,024) | (1,796) |
| | Sales | 1,531 | 2,134 |
| | | **4,364** | **473** |

## 19 Current Assets and Liabilities

Debtors are recorded in the accounts when income due to the Pension Fund, for example from sales of investments or dividend payments, has not actually been received. Debtors include a figure of £2,495,177 for contributions due from employers (2013/14 £4,099,190). Long term debtors are amounts due to the Pension Fund that will not be received within 12 months. The Pension fund only has one long term debtor, the Magistrates Court, who are funding the cost of their pensioner and deferred member liabilities over a 10 year period. Similarly, creditors are recorded where services supplied to the Pension Fund, or purchases of investments have been made by 31 March, but payment is not made until the following financial year.

A thorough reconciliation of the data held on the Pensions Administration system and the pensioner payroll system took place ahead of the move from Mouchel to WYPF for the Pension Administration services. A small number of over and underpayments were identified. Any underpayments were corrected immediately. Overpayments are being addressed on a case-by-case basis. The overall amount is not considered material.

As required by the Code, creditors and debtors are split by type below:

| | 2013/14 £000 | 2014/15 £000 |
|---|---|---|
| **Debtors** | | |
| Central Government Bodies | 745 | 1,683 |
| Other Local Authorities | 4,868 | 1,466 |
| NHS Bodies | 0 | 0 |
| Public Corporations and Trading Funds | 12 | 141 |
| Other Entities and individuals | 1,349 | 715 |
| | **6,974** | **4,005** |
| **Long Term Debtors** | | |
| Central Government Bodies | 2,131 | 2,132 |
| Other Local Authorities | 0 | 0 |
| NHS Bodies | 0 | 0 |
| Public Corporations and Trading Funds | 0 | 0 |
| Other Entities and individuals | 0 | 0 |
| | **2,131** | **2,132** |
| **Creditors** | | |
| Central Government Bodies | (569) | (667) |
| Other Local Authorities | (891) | (87) |
| NHS Bodies | 0 | 0 |
| Public Corporations and Trading Funds | (781) | (1,106) |
| Other Entities and individuals | (559) | (1) |
| | **(2,800)** | **(1,861)** |

## 20 Contingent Liabilities and Contractual Commitments

Investment commitments have been made to a number of pooled vehicles that make private equity or property investments. At the year end, the value of outstanding commitments to the 25 investment vehicles amounted to £24,059,856.

## 21 Contingent Assets

Five admitted body employers in the Fund hold insurance bonds or equivalent cover to guard against the possibility of being unable to meet their pension obligations. These arrangements are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

## 22 Impairment Losses

The Fund has no recognised impairment losses.

## 23 Additional Voluntary Contributions

Scheme members may make additional contributions to enhance their pension benefits. All Additional Voluntary Contributions (AVC) are invested in a range of investment funds managed by the Prudential plc. At the year end, the value of AVC investments amounted to £9,233,388 (£8,675,676 in 2013/14) and member contributions of £1,217,147 (£1,087,950 in 2013/14) were received by the Prudential in the year to 31st March. The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

## 24 Dividend Tax Claims

During the financial year 2006/07, the County Council lodged a number of claims with HM Revenue and Customs for the recovery of dividend tax credits relating to earlier years. The total value of the claims is £793,497 and relates to both Foreign Income Dividends paid by UK companies and certain dividends paid by overseas companies. The claims are based on interpretations of European Union law and a number of recent relevant judgements. The County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2009/10, the County Council lodged a claim with HM Revenue and Customs for the recovery of withholding tax suffered on manufactured overseas dividends. This is a tax imposed on overseas dividends due to the Pension Fund when the stock is on loan to another party, through the stock lending service provided by the Fund's custodian, JP Morgan. The value of the claim is approximately £714,000 and relates to the periods from 2004/05 to 2008/09. In 2010/11 a top-up claim was submitted for the year 2009/10, for approximately £278,000. No additional claims were made in this area in 2012/13, however top-up claims for the period from 1st April 2011 to 31st March 2013 were made in May 2013, for £377,253. As with the tax claim detailed in the paragraph above, the County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2011/12, the County Council lodged a claim with the relevant tax authorities for the recovery of withholding tax suffered on overseas dividends from Spain (approx. £101,000) and Germany (approx. £165,000), covering the periods from 2007-2010. During the financial year 2012/13 the Spanish tax authorities rejected elements of the claim, reducing the value to approximately £70,000, followed by a further rejection of approximately £65,000. In Spain repayments are increasingly being seen and a repayment of €79,565 has been approved by the Spanish Tax Authority with payment due in April 2015. After this repayment, the only quarter outstanding is Q4 2004.

It is expected that resolution of these claims will take a number of years and, if unsuccessful, the Fund could incur a share of the costs of the Commissioners of the Inland Revenue.

## 25 Related Party Transactions

In accordance with Financial Reporting Standard 8 ‘Related Party Disclosures’ material transactions with related parties not disclosed elsewhere are detailed below:-

Under legislation introduced in 2003/04, Councillors have been entitled to join the Scheme, however this changed from the 1st April 2014 and no new Councillors are now able to join the scheme. Councillors who are current members will cease to be in the scheme following the end of their term as Councillor. Committee member M Leaning of the Pensions Committee currently receives pension benefits from the Fund. Committee members M Allan, R Phillips and A Antcliff are contributing members of the Pension Fund as at 31st March 2015.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

The Treasury Management section of the County Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the County Council’s cash and lent out in accordance with the Council’s Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £8,846.5m and interest of £58k was earned over the year.

Lincolnshire County Council paid contributions of £26.7m into the Pension Fund during the year and all payments were received within agreed timescales.

Paragraph 3.9.4.2 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulations 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit Regulations 2005) satisfy the key management and personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of Lincolnshire Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lincolnshire County Council at note 47. This can be found on the Council's website at www.lincolnshire.gov.uk.

## 26 Financial Instruments

### Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading. No financial assets were reclassified during the accounting period.

| | Designated as fair value through profit & loss £000 | 2013/14 Loans & receivables £000 | Financial liabilities at amortised cost £000 | Designated as fair value through profit & loss £000 | 2013/14 Loans & receivables £000 | Financial liabilities at amortised cost £000 |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Equities | 880,027 | | | 972,857 | | |
| Pooled Investments: | | | | | | |
| Property | 174,701 | | | 189,640 | | |
| Private Equity | 83,313 | | | 73,692 | | |
| Fixed Interest | 168,971 | | | 194,083 | | |
| IL Bonds | 29,623 | | | 34,466 | | |
| Equities | 74,715 | | | 88,445 | | |
| Alternatives | 125,936 | | | 164,801 | | |
| Cash | | 43,466 | | | 33,550 | |
| Other Inv. Balances | 12,892 | | | 25,763 | | |
| Debtors | | 9,105 | | | 6,137 | |
| | **1,550,178** | **52,571** | **-** | **1,743,747** | **39,687** | **-** |
| **Financial Liabilities** | | | | | | |
| Other Inv. Balances | (8,527) | | | (25,290) | | |
| Creditors | | | (2,800) | | | (1,861) |
| | **(8,527)** | **-** | **(2,800)** | **(25,290)** | **-** | **(1,861)** |
| | | | | | | |
| | **1,541,651** | **52,571** | **(2,800)** | **1,718,457** | **39,687** | **(1,861)** |

**Net gains and losses on financial instruments**

| | 2013/14 £000 | 2014/15 £000 |
|---|---|---|
| **Financial Assets** | | |
| Fair value through profit & loss | 64,495 | 170,838 |
| Loans and receivables | | |
| Financial liabilities measured at amortised cost | | |
| **Financial Liabilities** | | |
| Fair value through profit & loss | (40) | (4,825) |
| Loans and receivables | | |
| Financial liabilities measured at amortised cost | | |
| | **64,455** | **166,013** |

**Valuation of financial instruments carried at fair value**

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

**Level 1**

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

**Level 2**

Financial instruments at Level 2 are those where quoted prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

**Level 3**

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the managers to the private equity funds in which the Lincolnshire Fund has invested.

These valuations are prepared in accordance with the Private Equity and Venture Capital Valuation Guidelines (US investments), and the International Private Equity and Venture Capital Valuation Guidelines (non US investments) which follow the valuation principles of IFRS and US GAAP. Valuations are shown to the latest valuation date available and adjusted for cash flow where required to 31st March 2015.

The value for the alternatives investments with Morgan Stanley are provided by the underlying managers within the pool of investments and assurance is provided by Morgan Stanley on the quality of the valuations.

The following table provides an analysis of the financial assets and liabilities grouped into Level 1 to 3, based on the level at which fair value is observable.

| **Values at 31st March 2015** | **Level 1 £000** | **Level 2 £000** | **Level 3 £000** | **Total £000** |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Fair value through profit & loss | 1,315,614 | 189,640 | 238,493 | 1,743,747 |
| Loans and receivables | 39,687 | | | 39,687 |
| Financial liabilities measured at amortised cost | | | | |
| **Total Financial Assets** | **1,355,301** | **189,640** | **238,493** | **1,783,434** |
| **Financial Liabilities** | | | | |
| Fair value through profit & loss | | (25,290) | | (25,290) |
| Loans and receivables | | | | - |
| Financial liabilities measured at amortised cost | (1,861) | | | (1,861) |
| **Total Financial Liabilities** | **(1,861)** | **(25,290)** | **-** | **(27,151)** |
| **Net Financial Assets** | **1,353,440** | **164,350** | **238,493** | **1,756,283** |

| **Values at 31st March 2014** | **Level 1 £000** | **Level 2 £000** | **Level 3 £000** | **Total £000** |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Fair value through profit & loss | 1,166,228 | 174,701 | 209,249 | 1,550,178 |
| Loans and receivables | 52,571 | | | 52,571 |
| Financial liabilities measured at amortised cost | | | | |
| **Total Financial Assets** | **1,218,799** | **174,701** | **209,249** | **1,602,749** |
| **Financial Liabilities** | | | | |
| Fair value through profit & loss | | (8,527) | | (8,527) |
| Loans and receivables | | | | |
| Financial liabilities measured at amortised cost | (2,800) | | | (2,800) |
| **Total Financial Liabilities** | **(2,800))** | **(8,527)** | | **(11,327)** |
| **Net Financial Assets** | **1,215,999** | **166,174** | **209,249** | **1,591,422** |

**27 Nature and Extent of Risks Arising from Financial Instruments**

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the Fund. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cashflows.

**Market Risk**

Market risk is the loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future prices and yield movements and the asset mix.

To mitigate market risk, the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories, having taken advice from the Fund's Investment Consultant. The management of the assets is split between a number of managers with different performance targets and investment strategies. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to the Pensions Committee where they are monitored and reviewed.

**Price risk**

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instrument. To mitigate this price risk, each manager is expected to maintain a diversified portfolio within their allocation.

**Price risk - sensitivity analysis**

Following analysis of historical data and expected investment return during the financial year, in consultation with a fund manager, the Fund has determined that the following movements in market price are reasonably possible for the 2013/14 reporting period.

| Asset Type | Potential market movements (+/-) |
|---|---|
| UK Equities | 12.2% |
| Overseas Equities | 10.7% |
| UK Bonds | 7.5% |
| UK Index Linked | 10.00% |
| Overseas Bonds | 9.0% |
| Private Equity | 10.7% |
| Alternative Investments | 10.0% |
| Property | 5.8% |

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits would have been as follows (the prior year comparative is shown below):

| **Asset Type** | **Value at 31/03/2015 £000** | **Percentage Change %** | **Value on Increase £000** | **Value on Decrease £000** |
|---|---|---|---|---|
| Cash deposits | 25,695 | 0.0 | 25,695 | 25,695 |
| UK Equities | 361,374 | 12.0 | 404,739 | 318,009 |
| Overseas Equities | 699,928 | 10.7 | 774,820 | 625,036 |
| UK Bonds | 81,712 | 7.5 | 87,840 | 75,584 |
| UK Index Linked | 34,466 | 10.0 | 37,913 | 31,019 |
| Overseas Bonds | 112,371 | 9.0 | 122,484 | 102,258 |
| Private Equity | 73,692 | 10.7 | 81,577 | 65,807 |
| Alternative Investments | 164,801 | 10.0 | 181,281 | 148,321 |
| Property | 189,640 | 5.8 | 200,639 | 178,641 |
| Dividends Accrued | 3,830 | 0.0 | 3,830 | 3,830 |
| Recoverable Tax | 1,100 | 0.0 | 1,100 | 1,100 |
| Outstanding FX | (4,825) | 0.0 | (4,825) | (4,825) |
| Outstanding Stock Lending | 30 | 0.0 | 30 | 30 |
| Unsettled Purchases | (1,796) | 0.0 | (1,796) | (1,796) |
| Unsettled Sales | 2,134 | 0.0 | 2,134 | 2,134 |
| **Total assets available to pay benefits** | 1,744,152 | | 1,917,462 | 1,570,842 |

| **Asset Type** | **Value at 31/03/2014 £000** | **Percentage Change %** | **Value on Increase £000** | **Value on Decrease £000** |
|---|---|---|---|---|
| Cash deposits | 38,836 | 0.0 | 38,836 | 38,836 |
| UK Equities | 398,530 | 12.2 | 447,151 | 349,909 |
| Overseas Equities | 556,212 | 8.9 | 605,715 | 506,709 |
| UK Bonds | 68,353 | 5.7 | 72,249 | 64,457 |
| UK Index Linked | 29,623 | 7.7 | 31,904 | 27,342 |
| Overseas Bonds | 100,618 | 6.8 | 107,460 | 93,776 |
| Private Equity | 83,313 | 14.6 | 95,477 | 71,149 |
| Alternative Investments | 125,936 | 10.0 | 138,530 | 113,342 |
| Property | 174,702 | 5.8 | 184,835 | 164,569 |
| Dividends Accrued | 2,991 | 0.0 | 2,991 | 2,991 |
| Recoverable Tax | 888 | 0.0 | 888 | 888 |
| Outstanding FX | (40) | 0.0 | (40) | (40) |
| Outstanding Stock Lending | 18 | 0.0 | 18 | 18 |
| Unsettled Purchases | (1,024) | 0.0 | (1,024) | (1,024) |
| Unsettled Sales | 1,531 | 0.0 | 1,531 | 1,531 |
| **Total assets available to pay benefits** | 1,580,487 | | 1,726,521 | 1,434,453 |

**Interest rate risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes to market interest rates. The Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

| Asset Type | 31/03/2014 £000 | 31/03/2015 £000 |
|---|---|---|
| Cash deposits | 38,836 | 25,695 |
| Cash balances | 4,630 | 7,855 |
| Pooled Fixed Interest Securities | 198,594 | 228,549 |
| **Total** | 242,060 | 262,099 |

**Interest rate risk - sensitivity analysis**

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

| Asset Type | Value at 31/03/2015 £000 | Change in Year +1% £000 | -1% £000 |
|---|---|---|---|
| Cash deposits | 25,695 | 25,952 | 25,438 |
| Cash balances | 7,855 | 7,934 | 7,776 |
| Pooled Fixed Interest Securities | 228,549 | 230,834 | 226,264 |
| **Total** | 262,099 | 264,720 | 259,478 |

| Asset Type | Value at 31/03/2014 £000 | Change in Year +1% £000 | -1% £000 |
|---|---|---|---|
| Cash deposits | 38,836 | 39,224 | 38,448 |
| Cash balances | 4,630 | 4,676 | 4,584 |
| Pooled Fixed Interest Securities | 198,594 | 200,580 | 196,608 |
| **Total** | 242,060 | 244,480 | 239,640 |

**Currency risk**

Currency risk represents the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling.
To assist in managing this risk and to reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

The following table summarises the Fund's currency exposure at 31 March 2014 and 31 March 2013.

| Currency Exposure - Asset Type | 31/03/2014 £000 | 31/03/2015 £000 |
|---|---|---|
| Overseas Equities (quoted) | 556,212 | 611,483 |
| **Pooled Investments:** | | |
| Overseas Property | 23,779 | 20,098 |
| Overseas Private Equity | 82,091 | 72,484 |
| Overseas Fixed Interest | 100,617 | 112,371 |
| **Total** | 762,699 | 816,436 |

**Currency risk - sensitivity analysis**

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one standard deviation).

A 10% fluctuation in the currency is considered reasonable based on an analysis of long term historical movements in month-end exchange rates. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| Currency Exposure - Asset Type | Value at 31/03/2015 £000 | Change in Year +10% £000 | Change in Year -10% £000 |
|---|---|---|---|
| Overseas Equities (quoted) | 611,483 | 672,631 | 550,335 |
| **Pooled Investments:** | | | |
| Overseas Property | 20,098 | 22,108 | 18,088 |
| Overseas Private Equity | 72,484 | 79,732 | 65,236 |
| Overseas Fixed Interest | 112,371 | 123,608 | 101,134 |
| **Total** | 816,436 | 898,080 | 734,792 |

| Currency Exposure - Asset Type | Value at 31/03/2014 £000 | Change in Year +10% £000 | Change in Year -10% £000 |
|---|---|---|---|
| Overseas Equities (quoted) | 556,212 | 611,833 | 500,591 |
| **Pooled Investments:** | | | |
| Overseas Property | 23,779 | 26,157 | 21,401 |
| Overseas Private Equity | 82,091 | 90,300 | 73,882 |
| Overseas Fixed Interest | 100,617 | 100,679 | 90,555 |
| **Total** | 762,699 | 838,969 | 683,429 |

**Credit Risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund is exposed to credit risk through securities lending, forward currency contracts and its daily treasury activities.

The securities lending programme is run by the Fund's custodian, JPMorgan, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. To further mitigate risk, JPMorgan provide an indemnity to cover borrower default, overnight market risks, fails on return of loaned securities and entitlements to securities on loan. Securities lending is capped by investment regulations and statutory limits are in place to ensure that no more than 25% of eligible assets can be on loan at any one time.

Forward currency contracts are undertaken by the Fund's two currency overlay managers - Record and HSBC Trinkaus & Burkhardt. The responsibility for these deals therefore rests with the appointed managers. Full due diligence was undertaken prior to the appointment of these managers and they are regularly monitored and reviewed. Both managers are FSA regulated and meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009.

The Pension Fund's bank account is held at Barclays, which holds an A long term credit rating (or equivalent) across three ratings agencies and it maintains its status as a well capitalised and strong financial organisation. The management of the cash held in this account is carried out by the Council's Treasury Manager, in accordance with an agreement signed by the Pensions Committee and the Council. The agreement stipulates that the cash is pooled with the Council's cash and managed in line with the policies and practices followed by the Council, as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services and detailed in its Treasury Management Practices.

**Liquidity risk**
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed equities - instruments that can be liquidated at short notice, normally three working days. As at 31 March 2014, these assets totalled £1,153m, with a further £38.8m held in cash. Currently, the Fund is cash flow positive each month (i.e. the contributions received exceed the pensions paid). This position is monitored regularly and reviewed at least every three years alongside the Triennial Valuation.

An additional area of risk is in the outsourcing of services to third party service organisations.

The main service areas that the Pension Fund outsources, and the controls in place to monitor them, are:

**Pensions Administration**
This service is performed by Mouchel, alongside a Council wide contract. In addition to the contract management that the Council undertakes, regular meetings are held between Fund Officers and the Pensions Manager at Mouchel. The Pension Fund is also a member of the CIPFA benchmarking club for Pensions Administration, to allow service comparisons to be made with other Funds.

**Custody, Accounting and Performance Measurement**

JPMorgan are the Pension Fund's appointed Custodian, with responsibility for safeguarding the assets of the Fund. JPMorgan are a global industry leader, with more than $19 trillion in assets under custody. They have been the Fund's Custodian since 2004, and were reappointed at the end of their seven year contract in March 2011. Monthly reconciliations of holdings are performed to ensure that the Custodians records match those of the Managers. Regular meetings and conference calls are held to discuss performance, and quarterly key performance indicators are produced.

**Fund Management**
The Fund appoints a number of segregated and pooled fund managers to manage portions of the Pension Fund. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009. Managers report performance on a monthly basis to officers and performance is reported to the Pensions Committee on a quarterly basis. All segregated managers present in person to the Committee at least once a year. Regular meetings and discussions are held between officers and managers.

## 28 Scheduled & Admitted Bodies Contributing to the Fund

**County and District Councils**
Lincolnshire County Council
(incl. LCC schools)
Boston Borough Council
East Lindsey District Council
City of Lincoln Council
North Kesteven District Council
South Holland District Council
South Kesteven District Council
West Lindsey District Council

**Internal Drainage Boards**
Black Sluice
Lindsey Marsh
North East Lindsey
South Holland
Upper Witham
Welland and Deeping
Witham First
Witham Fourth
Witham Third

**Parish and Town Councils**
Billinghay PC
Bourne TC
Bracebridge Heath PC
Crowland PC
Deeping St James PC
Gainsborough TC
Greetwell PC
Heighington PC
Horncastle TC
Ingoldmells PC
Langworth PC
Louth TC
Mablethorpe and Sutton TC
Market Deeping TC

**Parish and Town Councils**
Metheringham PC
Nettleham PC
North Hykeham TC
Skegness TC
Skellingthorpe PC
Sleaford TC
Stamford TC

**Academies**
Alford Queen Elizabeth
Boston Grammar
Boston High School
Boston West Academy
Boston Witham Federation
Bourne Abbey C of E
Bourne Academy
Bourne Grammar
Bourne Westfield Primary
Bracebridge Infant and Nursery
Branston Community
Branston Junior Academy
Caistor Grammar
Caistor Yarborough
Carlton Academy
Charles Read Academy
Cordeaux Academy
Ellison Boulters Academy
Ermine Primary
Fosse Way
Gainsborough Benjamin Adlard
Gainsborough Parish Church
Giles Academy
Gipsey Bridge Academy
Grantham Kings School
Grantham Walton Girls
Harrowby C of E Infants
Hartsholme Academy
Heighington Millfield Academy
Hillcrest EY Academy
Hogsthorpe Primary Academy
Horncastle QE Grammar
Huntingtower Community Primary
Huttoft Primary Academy
Ingoldmells Academy
John Spendluffe Tech. College

**Academies**
Kesteven & Sleaford High
Kesteven and Grantham Academy
Kidgate Primary Academy
Kirkby La Thorpe
Lincoln Castle Academy
Lincoln Christs Hospital School
Lincoln Our Lady of Lincoln

Phoenix Family Academy
Priory Federation of Academies
Rauceby C of E
Ruskington Academy
Sir John Gleed
Sir Robert Pattinson Academy
Sir William Robertson
Skegness Academy
Skegness Grammar
Skegness Infant Academy
Skegness Junior Academy
Sleaford Carres Grammar
Sleaford Our Lady of Good Couns
Sleaford St Georges Academy
Sleaford William Alvey
Spalding Grammar
Splisby Eresby
Spilsby King Edward Academy
St John's Primary Academy
Stamford Malcolm Sargent
Stamford Queen Eleanor
Stamford St Augustine's
Stamford St Gilberts
The Deepings Academy
The Phoenix School
Thomas Cowley Academy
Tower Road Academy
Trent Valley Academy
University Academy Holbeach
Utterby Primary
Washingborough Academy
Welton St Mary's C of E
Welton William Farr CE
West Grantham Federation
White's Wood Academy
William Lovell Academy

**Academies**
Witham St Hughs Academy
Woodhall Spa Academy

**Admitted Bodies**
Acis Group
Active Nation
Adults Supporting Adult

Sudbrooke PC
Washingborough PC
Woodhall Spa PC

**FE Establishments**
Bishop Grosseteste College
Boston College
Grantham College
Lincoln College
Stamford College

**Other Scheduled Bodies**
Acorn Free School
Compass Point
BG (Lincoln) Ltd
Lincolnshire Police Authority
Lincolnshire Probation Service

Lincoln St Hugh's
Lincoln St Peter & St Paul's
Lincoln Westgate Academy
Ling Moor Academy
Little Gonerby C of E
Long Bennington C of E
Mablethorpe Primary Academy
Manor Leas Infant Academy
Manor Leas Junior Academy
Market Rasen De Aston School
Mercer's Wood Academy
Mount Street Academy
National C of E Juniors
Nettleham Infants Academy
North Kesteven School
North Thoresby Primary

Boston Mayflower
CfBT
Edwards & Blake
G4S
Heritage Trust for Lincs
Lincoln Arts Trust
Lincoln BIG
Lincs HIA
Lincs Sports Partnership
Kier Group (May Gurney)
Mouchel Connextions
New Linx Housing
Rentokil Initial

**29 Exchange Rates Applied**

The exchange rates used at 31 March 2014 per £1 sterling were:

| | |
|---|---|
| Australian Dollar | 1.7987 |
| Brazilian Real | 3.7619 |
| Canadian Dollar | 1.8401 |
| Swiss Franc | 1.4727 |
| Danish Krone | 9.0310 |
| Euro | 1.2096 |
| Hong Kong Dollar | 12.9322 |
| Indonesian Rupiah | 18,938.8237 |
| Israeli Shekel | 5.8186 |
| Japanese Yen | 171.6914 |
| Korean Won | 1,774.5978 |
| Mexican Peso | 21.7542 |
| Norwegian Krone | 9.9813 |
| New Zealand Dollar | 1.9212 |
| Polish Zloty | 5.0371 |
| Swedish Krona | 10.8091 |
| Singapore Dollar | 2.0965 |
| Thai Baht | 54.0823 |
| Turkish Lira | 3.5664 |
| Taiwan Dollar | 50.7689 |
| US Dollar | 1.6671 |
| South African Rand | 17.5349 |