Meeting: **Local Pension Committee**

Date/Time: **Friday, 2 June 2017 at 9.30 am**

Location: **Framland Committee Room, County Hall, Glenfield.**

Contact: **Mr. M. Hand (Tel. 0116 305 6038)**

Email: **matthew.hand@leics.gov.uk**

AGENDA

Item		Report By	Marked
1.	Election of Chairman.		
2.	Election of Vice Chairman.		
3.	Minutes of the meeting held on 17 March 2017.		(Pages 5 - 10)
4.	Question Time.		
5.	Questions asked by members under Standing Order 7(3) and 7(5).		
6.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
7.	Declarations of interest in respect of items on the agenda.		
8.	Summary Valuation of Pension Fund Investments and Performance of Individual Managers.	Director of Corporate Resources	(Pages 11 - 14)
9.	Update on Local Government Pension Scheme Investment Pooling.	Director of Corporate Resources	(Pages 15 - 18)
10.	Funding Update as at 31 March 2017.	Hymans Robertson	(Pages 19 - 28)
11.	Market Update.	Independent Investment Advisor	(Pages 29 - 38)

12.	Investment Subcommittee Membership.	Director of Corporate Resources	(Pages 39 - 40)
13.	Risk Management and Internal Controls.	Director of Corporate Resources	(Pages 41 - 42)
14.	Any other items which the Chairman has decided to take as urgent.		
15.	Exclusion of the Press and Public. The public are likely to be excluded during consideration of the remaining items in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information).		
16.	Colliers Capital - Property Performance and Investment Strategy Report (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager	
17.	Aspect Capital Quarterly report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager	
18.	Kleinwort Benson Investors Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager	
19.	Ruffer Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager	
20.	Pictet Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager	
21.	Millennium Global Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager	
22.	IFM Investors Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager	
23.	Delaware Investments Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager	

24.	JP Morgan Quarterly Report.	Fund Manager
	(Exempt under paragraphs 3 and 10 of Schedule 12A)	
25.	Legal and General Investment Manager Quarterly Report.	Fund Manager
	(Exempt under paragraphs 3 and 10 of Schedule 12A)	
26.	Ashmore Quarterly Report.	Fund Manager
	(Exempt under paragraphs 3 and 10 of Schedule 12A)	
27.	Stafford Timberland Quarterly Report.	Fund Manager
	(Exempt under paragraphs 3 and 10 of Schedule 12A)	
28.	Kempen Capital Management Quarterly Report.	Fund Manager
	(Exempt under paragraphs 3 and 10 of Schedule 12A)	
29.	Aviva Investors Quarterly Report.	Fund Manager
	(Exempt under paragraphs 3 and 10 of Schedule 12A)	

TO:

Leicestershire County Council

Mr. L. Breckon JP CC
Dr. S. Hill CC
Mr. Max Hunt CC
Mr. P. C. Osborne CC
Mrs. R. Page CC

Leicester City Council

Cllr Deepak Bajaj and Cllr Lynn Moore

District Council Representatives

Cllr C. Frost and Cllr. M. Graham MBE

University Representative

Ms. M. Holden

Staff Representatives

Mr. R. Bone
Mr. N. Booth
Ms. J. Dean

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Minutes of a meeting of the Local Pension Committee held at County Hall, Glenfield on Friday, 17 March 2017.

PRESENT:

Leicestershire County Council

Mr. G. A. Hart CC (Chairman)
Mr. Max Hunt CC
Mr. K. W. P. Lynch CC

Leicester City Council

Cllr Lynn Moore

District Council Representative

Cllr. Malise Graham MBE

Staff Representatives

Mr. R. Bone
Mr. N. Booth
Ms. J. Dean

Independent Advisers and Managers

Mr. S. Jamieson   Independent Investment Advisor

526. Minutes of the previous meeting.

The minutes of the meeting held on 17 January 2017 were taken as read, confirmed and signed.

527. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

528. Questions asked by members.

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

529. Urgent items.

There were no urgent items for consideration.

530. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting. No declarations were made.

531. Summary Valuation of Pension Fund Investments and Performance of Individual Managers.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to present a summary valuation of the Fund's investments at 31 December 2016. A copy of the report is filed with these minutes, marked '6'.

The Director reported that for the third quarter in a row the Fund had recorded a significant increase in its assets value and this positive performance was expected to continue during the next quarter.

In relation to the pooling of the Fund's investments, the Committee noted that work was ongoing to ensure that the necessary governance and administration arrangements were in place in time for the LGPS Central pool to be operational by April 2018 as originally planned.

RESOLVED:

That the report be noted.

532. Closure of Tactical Underweight Position in Index - Linked Bonds.

The Committee considered a report of the Director of Corporate Resources concerning action taken in February 2017 to adjust the Fund's exposure to global indexed-linked bonds in order to bring it back to the 7.5% strategic allocation agreed by the Committee at its last meeting. A copy of the report is filed with these minutes, marked '7'.

The Director reported that the action taken by the Fund following the Committee's decision in January had been successful. Officers had arranged for the strategic weighting to be restored before the end of February and in the process had avoided a fall in the value of its assets in the region of £4.2m.

RESOLVED:

That the report be noted.

533. Risk Management and Internal Controls.

The Director of Corporate Resources presented a report which detailed the requirement of the Committee to consider identified risks/concerns associated with the Leicestershire Pension Fund, a stipulation set out within the Pension Regulator's Code of Practice. A copy of the report is filed with these minutes, marked '8'.

The Director reported that the Pension Section already had a mechanism for identifying risks associated with the Fund through a risk register and members would have previously been advised of any concerns as they arose. Under the new requirements, a report would be considered at every meeting of the Local Pension Committee and Local Pension Board. He added that there were currently no significant risks identified.

RESOLVED:

That the report be noted.

534. Funding Update as at 31 December 2016.

The Committee considered a report by Hymans Robertson which presented the funding projection at 31 December 2016. A copy of the report, marked '9', is filed with these minutes.

RESOLVED:

That the funding position of the Leicestershire Pension Fund as at 31 December 2016 be noted.

535. Market Updates - Reports of the Independent Advisor and Kames Capital.

The Committee considered two presentations concerning global market conditions which were presented by the Fund's Independent Investment Advisor. A copy of the presentations, marked '10' are filed with these minutes.

Arising from discussion the following points were noted;

- Previously agreed action by the Committee to change the Fund's hedging position against UK sterling would help negate any potential losses as a result of a sharp rise in the pound and help preserve the considerable currency gains made by the Fund over the past 12 months;

- The UK economy had been stable and undramatic in recent times which provided a good base for steady investment with little expected volatility. The expectation that UK interest rates would remain low in the short to medium term also encouraged investment markets.

RESOLVED:

That the updates be noted.

536. Mr. G. A. Hart CC.

The Director of Corporate Resources informed the Committee that this would be Mr Hart CC's last meeting of the Committee before his retirement in May 2017.

It was noted that Mr Hart joined the Pension Fund Management Board (which would become the Local Pension Committee) in 2012 and became its Chairman the following year, a position he continued to uphold until January of 2017.

Members and officers thanked Mr Hart for his considerable contribution to the work of the Committee over the previous 5 years.

537. Exclusion of the Press and Public.

RESOLVED:

That under Section 100(A) of the Local Government Act 1972 the public be excluded from the meeting for the remaining items of business on the grounds that they involved the likely disclosure of exempt information as defined in paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Act.

538. <u>Kempen Capital Management Quarterly Report.</u>

The Committee considered an exempt report by Kempen, a copy of which marked '13' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

539. <u>Aspect Capital Quarterly report.</u>

The Committee considered an exempt report by Aspect Capital, a copy of which marked '14' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

540. <u>Kleinwort Benson Investors Quarterly Report.</u>

The Committee considered an exempt report by Kleinwort Benson, a copy of which marked '15' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

541. <u>Ruffer Quarterly Report.</u>

The Committee considered an exempt report by Ruffer, a copy of which marked '16' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

542. <u>Pictet Quarterly Report.</u>

The Committee considered an exempt report by Pictet, a copy of which marked '17' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

543. Millennium Global Quarterly Report.

The Committee considered an exempt report by Millennium, a copy of which marked '18' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

544. IFM Investors Quarterly Report.

The Committee considered an exempt report by IFM Investors, a copy of which marked '19' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

545. Delaware Investments Quarterly Report.

The Committee considered an exempt report by Delaware Investments, a copy of which marked '20' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

546. JP Morgan Quarterly Report.

The Committee considered an exempt report by JP Morgan, a copy of which marked '21' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

547. Aviva Investors Quarterly Report.

The Committee considered an exempt report by Aviva Investors, a copy of which marked '22' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

548. Legal and General Investment Manager Quarterly Report.

The Committee considered an exempt report by Legal and General, a copy of which marked '23' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

549. Ashmore Quarterly Report.

The Committee considered an exempt report by Ashmore, a copy of which marked '24' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

550. Kames Capital Quarterly Report.

The Committee considered an exempt report by Kames Capital, a copy of which marked '25' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

551. Stafford Timberland Quarterly Report.

The Committee considered an exempt report by Stafford Timberland, a copy of which marked '26' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

552. KKR Quarterly Report.

The Committee considered an exempt report by KKR, a copy of which marked '27' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

09.30 – 10.25am CHAIRMAN
17 March 2017

Leicestershire County Council

LOCAL PENSION COMMITTEE – 2ND JUNE 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

SUMMARY VALUATION OF PENSION FUND INVESTMENTS AND INVESTMENT PERFORMANCE OF INDIVIDUAL MANAGERS

Purpose of Report

1. The purpose of this report is to present to the Committee a summary valuation of the Fund's investments at 31st March 2017 (attached as an appendix to this report), together with figures showing the performance of individual managers.

Summary Valuation

2. The total market value of investments at 31st December 2017 was £3,872.9m compared to £3,744.6m at 31st December 2016, an increase of £128.3m. In the three month period non-investment related net cash inflows amounting to £4.5m were received. After adjusting for non-investment related cash flows the Fund value increased by £123.8m, or 3.3%, due to changes in the value of investments.

3. The total returns of various indices since 31st December 2016 were as follows:-

	Local Currency %	**Converted to Sterling %**	**Return with 70% hedge %**
UK Gilts	+1.6	+1.6	+1.6
UK Index-Linked	+1.9	+1.9	+1.9
UK Equities	+4.0	+4.0	+4.0
North American Equities	+6.1	+4.8	+5.7
European Equities	+7.2	+7.5	+7.3
Japanese Equities	+0.2	+3.6	+1.2
Pacific (Ex Japan) Equities	+8.0	+11.7	+9.2

4. The current split of investments over sectors is as follows:-

	31st March 2017		**31st December 2016**
	£m	**%**	**%**
UK Equities	308.5	8.0	8.4
Overseas Equities	1,550.2	40.0	42.4
Targeted Return/Credit/Opportunity Pool	791.3	20.4	21.4
Private Equity	142.7	3.7	3.8
Property	319.3	8.3	8.4
Cash	210.3	5.4	4.6
Inflation-Linked Assets	537.3	13.9	11.4
Active and Passive Currency	13.3	0.3	(0.4)
	3,872.9	**100.0**	**100.0**

5. The investment performance of the individual managers is laid out in the tables below, over various periods. For most managers the benchmark performance quoted is based on indices, for targeted return managers the benchmark is cash + 4% p.a. and for Millennium the benchmark is 1.5% p.a.

3 months

Manager/Portfolio	Actual (%)	B/mark(%)	Relative (%)
Legal & General (passive global equities)	5.3	5.3	-
Aviva Investors (property)	2.5	2.0	+0.5
Aspect Capital (managed futures)	-1.1	1.1	-2.2
Delaware (emerging market equities)	14.0	10.1	+3.9
Kleinwort Benson (equity dividend)	4.6	5.6	-1.0
Kempen (equity dividend)	4.5	5.6	-1.1
Ruffer (targeted return)	0.1	1.1	-1.0
Pictet (targeted return)	1.7	1.1	+0.6
Ashmore (emerging market debt)	4.4	3.6	+0.8
Millennium (currency)	-1.4	0.4	-1.8

One year

Manager/Portfolio	Actual (%)	B/mark(%)	Relative (%)
Legal & General (passive global equities)	31.5	31.5	-
Aviva Investors (property)	5.1	3.7	+1.4
Aspect Capital (managed futures)	-10.4	4.4	-14.8
Colliers Capital (property)	6.8	3.9	+2.9
Delaware (Emerging market equities)	43.3	34.7	+8.6
Kleinwort Benson (equity dividend)	31.6	32.2	-0.6
Kempen (equity dividend)	31.9	32.2	-0.3
Ruffer (targeted return)	13.0	4.4	+8.6
Pictet (targeted return)	11.5	4.4	+7.1
Ashmore (emerging market debt)	34.4	22.6	+11.8
Millennium (currency)	-1.3	1.5	-2.8

Three years (performance per annum)

Manager/Portfolio	Actual (%)	B/mark(%)	Relative (%)
Legal & General (passive global equities)	13.6	13.6	-
Aviva Investors (property)	11.5	10.2	+1.3
Aspect Capital (managed futures)	12.4	4.5	+7.9
Colliers Capital (property)	13.5	10.9	+2.6
Delaware (Emerging market equities)	13.4	11.3	+2.1
Ruffer (targeted return)	7.5	4.5	+3.0
Kleinwort Benson (equity dividend)	15.0	15.6	-0.6
Kempen (equity dividend)	14.7	15.6	-0.9
Millennium (currency)	1.4	1.5	-0.1

Five years (performance per annum)

Manager/Portfolio	Actual (%)	B/mark(%)	Relative (%)
Legal & General (passive global equities)	13.9	13.9	-
Aviva Investors (property)	9.5	8.5	+1.0
Colliers Capital (property)	11.9	9.7	+2.2
Delaware (Emerging market equities)	9.7	5.9	+3.8
Ruffer (targeted return)	7.1	4.5	+2.6
Millennium (currency)	1.1	1.5	-0.4

Equality and Human Rights Implications

6. The matters referred to in this report have no identifiable equal opportunities implications.

Recommendation

7. It is recommended that the Local Pension Committee notes the report.

Officer to Contact

Colin Pratt, Investments Manager
Tel: (0116) 305 7656
Email: Colin.Pratt@leics.gov.uk

APPENDIX

PENSION FUND INVESTMENTS AS AT 31ST MARCH 2017

	Market Value £	Value %	Benchmark %	Variance %
Equities				
United Kingdom	308,540,560	7.97	8.10	-0.13
Overseas:				
Global dividend-focused	321,711,969	8.31	8.00	0.31
North America	530,087,770	13.69	14.20	-0.51
Europe (Ex UK)	234,817,971	6.06	6.10	-0.04
Japan	111,166,203	2.87	3.00	-0.13
Pacific (Ex Japan)	116,449,144	3.01	3.00	0.01
Emerging Markets	235,936,208	6.09	6.10	-0.01
Total	1,550,169,265	40.03	40.40	-0.37
Private Equity	142,701,046	3.68	4.00	-0.32
Property				
Direct Holdings*	96,294,000	2.49	3.30	-0.81
Indirect Holdings	223,022,265	5.76	6.70	-0.94
Total	319,316,265	8.24	10.00	-1.76
Alternative Investments				
Fauchier	580,158	0.01	0.00	0.01
Pictet	96,178,313	2.48	2.00	0.48
Ruffer	243,383,569	6.28	7.00	-0.72
Credit Opportunities	144,464,657	3.73	5.00	-1.27
Aspect	124,803,766	3.22	4.00	-0.78
Emerging Market Debt	107,201,618	2.77	2.50	0.27
Opportunity pool	74,693,021	1.93	2.50	-0.57
	791,305,102	20.43	23.00	-2.57
Commodities	0	0.00	0.00	0.00
Inflation-Linked Assets				
Global Government Index-Linked Bonds	278,770,539	7.20	5.00	2.20
Infrastructure	178,113,616	4.60	5.00	-0.40
Timberland	80,371,255	2.08	2.00	0.08
	537,255,410	13.87	12.00	1.87
Cash on Deposit	210,339,632	5.43	2.50	2.93
Unrealised Profit On Currency				
Active	162,565	0.00	0.00	0.00
Passive	13,136,223	0.34	0.00	0.34
Total	13,298,788	0.34	0.00	0.34
TOTAL	**3,872,926,068**	**100.00**	**100.00**	**0.00**

Direct Property Holdings*		
Retail	13,565,000	14.09
Retail Warehouses	19,310,000	20.05
Offices	24,615,000	25.56
Industrials	17,585,000	18.26
Leisure (Hotels/Health Club)	18,425,000	19.13
Farms	2,794,000	2.90
	96,294,000	100.00

LOCAL PENSION COMMITTEE – 2ND JUNE 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

UPDATE ON LGPS INVESTMENT POOLING

Purpose of the Report

1. The purpose of this report is to provide the committee with information concerning the progress that has been made by LGPS Central (the investment pool that the Leicestershire Pension Fund is part of) towards the requirement to commence investment pooling on 1st April 2018.

Background

2. The Summer Budget of July 2015 contained the following announcement:

"The government will work with the Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments."

3. In late-November 2015 the Department of Communities and Local Government (DCLG) issued a document entitled 'Local Government Pension Scheme: Investment Reform Criteria and Guidance'. This document had been widely anticipated and did not contain any surprises to those Funds that had been close to the discussions that had been taking place between the interested parties.

4. The November document was the first time that the criteria against which the various options would be judged have been formally laid out. The four key criteria were:

A. Asset pools that achieve the benefits of scale – minimum size £25bn;
B. Strong governance and decision making – the governance structure should provide strong governance at both a local Fund level, and also at a pool level;
C. Reduced costs and excellent value for money;
D. An improved capacity to invest in infrastructure

5. The Local Pension Committee has previously approved Leicestershire County Council Pension Fund's involvement in LGPS Central, and has received regular updates in respect of the progress that has been made by the prospective pool.

Recent Progress

6. All nine Funds that are part of LGPS Central have taken the necessary action to approve the governance structure of the pool. For Leicestershire, the Chair of this committee will act as the Fund's representative on both the Shareholders' Forum (which will deal with shareholder-related issues in respect of the operation of the company), and also on the Joint Committee (which will focus on investment management outcomes). The Vice-Chair will act as a substitute if necessary.

7. Excellent progress has been made by LGPS Central in all aspects of the work that is required to allow an application for authorisation by the Financial Conduct Authority (FCA) to be made in early July. It is expected that the Regulatory Business Plan will be approved by Shareholders (i.e. the Funds) at the Shareholders' Forum to be held in Worcestershire on 19th June.

8. A Non-Executive Chair (Joanne Segars) and a Chief Executive Officer (Andrew Warwick-Thompson) have been appointed by shareholders. Both are well known and highly respected individuals from the pensions sector, and the appointments have been very well received externally. Work is well advanced in terms of filling the other key management posts of LGPS Central – 2 Non-Executive Directors, the Chief Investment Officer and the Chief Operating Officer/Chief Financial Officer.

9. An 'asset servicer' has been appointed by LGPS Central, and this is a key matter in terms of receiving FCA authorisation. The asset servicer is responsible for the safe-keeping of the assets of the pool and also ensuring that the sub-funds managed by LGPS Central operate legally and fulfil all requirements of the FCA.

10. LGPS Central's progress is ahead of many of the other prospective pools, and the willingness to work together and compromise where necessary remains strong. Whilst the requirement to have a functioning pool by 1st April 2018 remains challenging, all key targets continue to be met and there is a strong expectation that LGPS Central will be able to commence as an authorised investment manager on this date.

Recommendation

11. It is recommended that the Local Pension Committee notes the report.

Equality and Human Rights Implications

None specific

Background Papers

Report to the Local Pension Committee – 15 November 2016 – Proposed Governance of LGPS Central Investment Pool

http://politics.leics.gov.uk/documents/s124123/Pooling%20Governance.pdf

Report to Council – 22 March 2017 – LGPS Central Investment Pool – Establishment of a Joint Committee

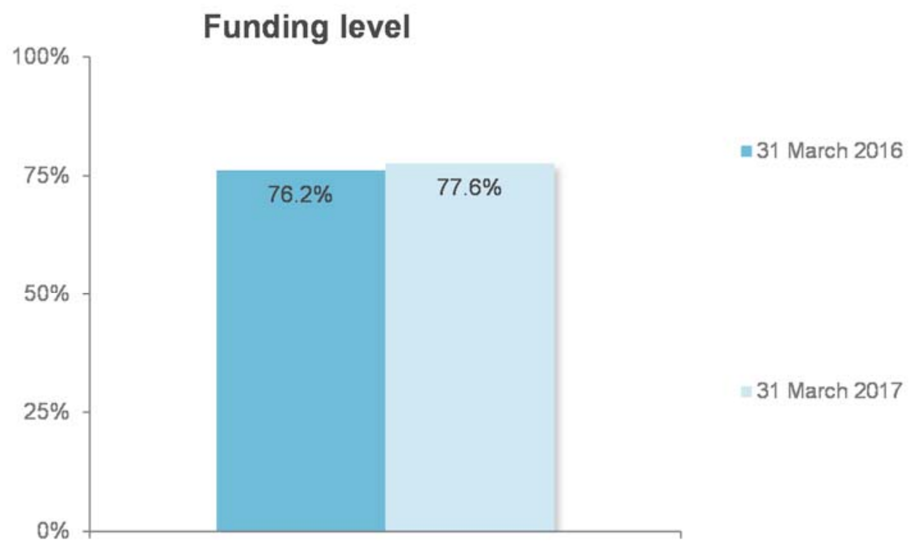
http://politics.leics.gov.uk/documents/s127464/REPORT%20OF%20THE%20CONSTITUTION%20COMMITTEE.pdf

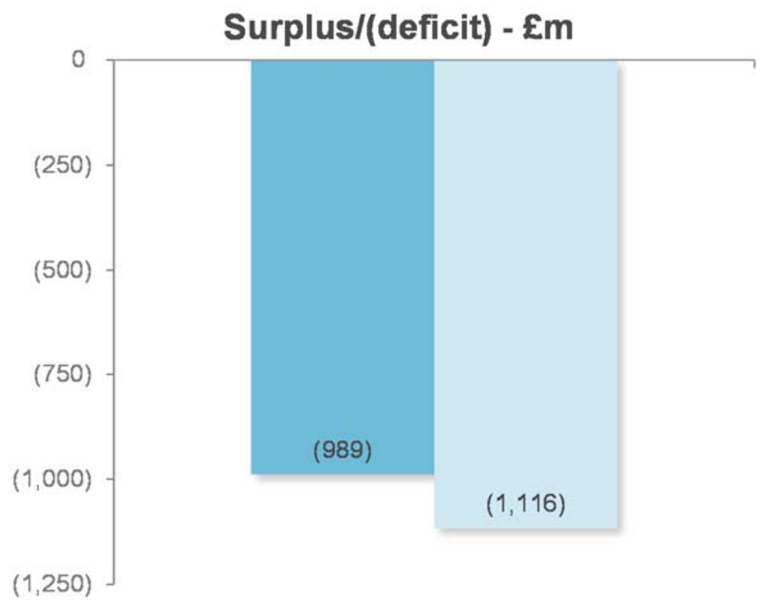
Officers to Contact

Colin Pratt – telephone (0116) 305 7656
Chris Tambini – telephone (0116) 305 6199

Leicestershire County Council Pension Fund

Funding update as at 31 March 2017





Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2016 to 31 March 2017, for the Leicestershire County Council Pension Fund ("the Fund"). It is addressed to Leicestershire County Council in its capacity as the Administering Authority of the Fund and has been prepared in my capacity as your actuarial adviser.

The funding level at the latest formal valuation was 76.2%. As at 31 March 2017 the funding level has increased to 77.6%. This represents a deficit of £989m at 31 March 2016 increasing to a deficit of £1,116m at 31 March 2017. A breakdown of this can be found in the graph on page 5 of this report.

This report has been produced exclusively for the Administering Authority. This report must not be copied to any third party without our prior written consent.

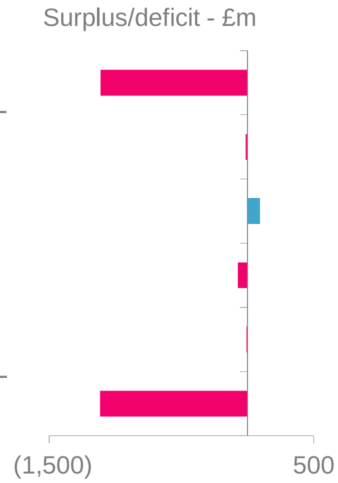
Should you have any queries please contact me.

Barry McKay

Barry McKay FFA
Fund Actuary

What's happened since the last update – Ongoing funding basis

Surplus/(deficit) as at 31 December 2016	(1,112)
Interest on surplus/deficit	(15)
Excess return on assets	92
Change in yields & inflation	(74)
Contributions (less benefits accruing)	(8)
Surplus/(deficit) as at 31 March 2017	(1,116)



Differences between this funding update and a full actuarial valuation

The accuracy of this type of funding update calculation is expected to decline over time as the period since the last valuation increases. This is because this funding update does not allow for changes in individual members' data since the last valuation.

Details of the approach used in this funding update are given in the appendix.

The figures in tables throughout this document may not add up due to rounding.

Estimated financial position at 31 March 2017

Ongoing funding basis

£m	31 Mar 2016	31 Dec 2016	31 Mar 2017
Assets	3,164	3,745	3,873
Liabilities	4,153	4,857	4,989
Surplus/(deficit)	**(989)**	**(1,112)**	**(1,116)**
Funding level	76.2%	77.1%	77.6%

Investment return

Quarter Ending	%
30/06/2016	6.5%
30/09/2016	6.2%
31/12/2016	4.5%
31/03/2017	3.9%

Market indicators

	31 Mar 2016	31 Dec 2016	31 Mar 2017
Market yields (p.a.)			
Fixed interest gilts	2.18%	1.77%	1.66%
Index linked gilts	-0.96%	-1.61%	-1.67%
Implied inflation (RPI)	3.20%	3.40%	3.40%
Implied inflation (CPI)	2.10%	2.40%	2.40%
AA corporate bonds	3.36%	2.62%	2.51%
AOA	1.80%	1.80%	1.80%
Price indices			
FTSE All Share	3,395	3,873	3,990
FTSE 100	6,175	7,143	7,323

Basis summary

	31 Mar 2016	31 Dec 2016	31 Mar 2017
Pre retirement discount rate			
Nominal	4.0%	3.6%	3.5%
Real	0.8%	0.2%	0.1%
Post retirement discount rate			
Nominal	4.0%	3.6%	3.5%
Real	0.8%	0.2%	0.1%
Salary increase rate	3.2%	3.4%	3.4%

The assumptions underlying the funding bases are set out in the Funding Strategy Statement. They are those set for the 2016 valuation of the Fund updated for market conditions as at the calculation date.

21

Change in funding level since last valuation

22

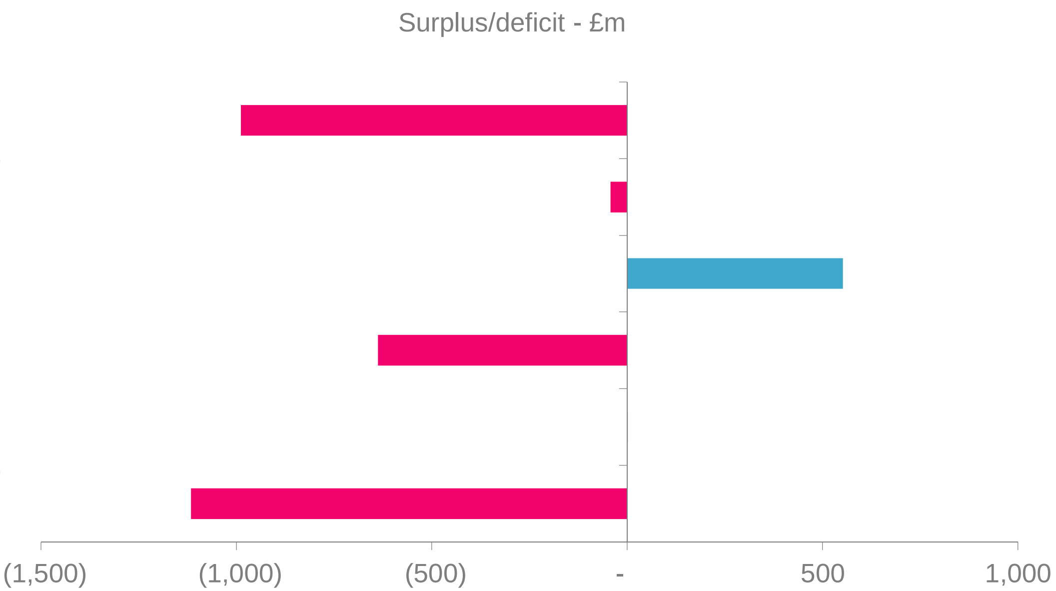
What’s happened since last valuation? – Ongoing funding basis

Assets		£m
Asset value as at 31 March 2016	**3,164**	
Contributions paid in:		**166**
Benefit payments:		**(137)**
Expected return on assets:		**128**
Excess return on assets:		**552**
Asset value as at 31 March 2017	**3,873**	

Liabilities		£m
Liability value as at 31 March 2016	**4,153**	
Cost of benefits accruing:		**165**
Interest on liabilities:		**170**
Change in yields & inflation:		**638**
Benefit payments:		**(137)**
Liability value as at 31 March 2017	**4,989**	

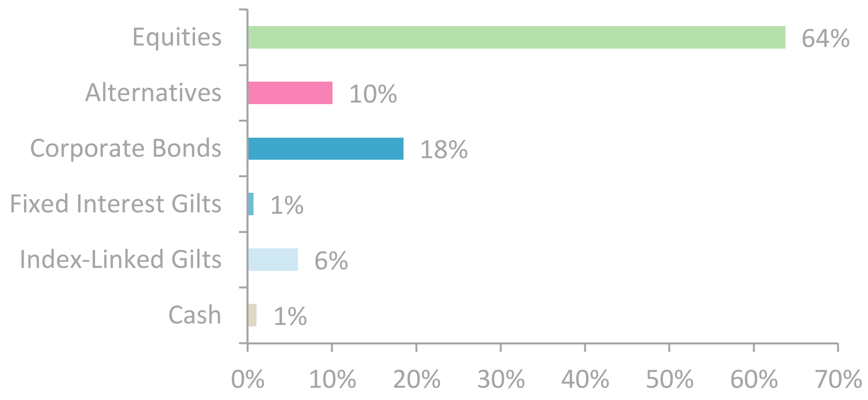
Overall effect

Surplus/(deficit) as at 31 March 2016	(989)
Interest on surplus/deficit	(43)
Excess return on assets	552
Change in yields & inflation	(638)
Contributions (less benefits accruing)	2
Surplus/(deficit) as at 31 March 2017	(1,116)

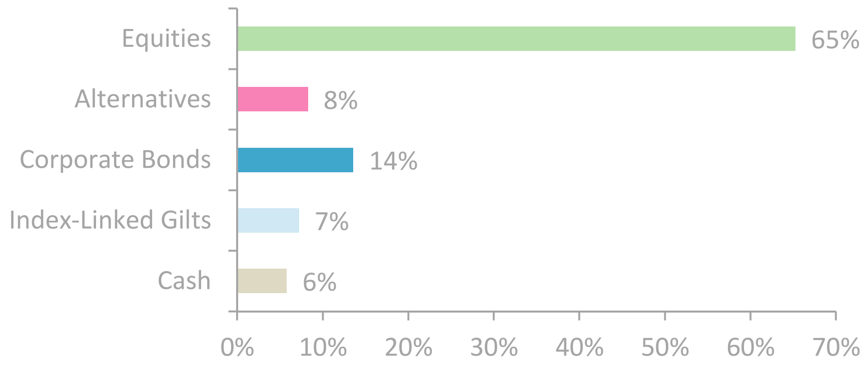


What caused your assets to change?

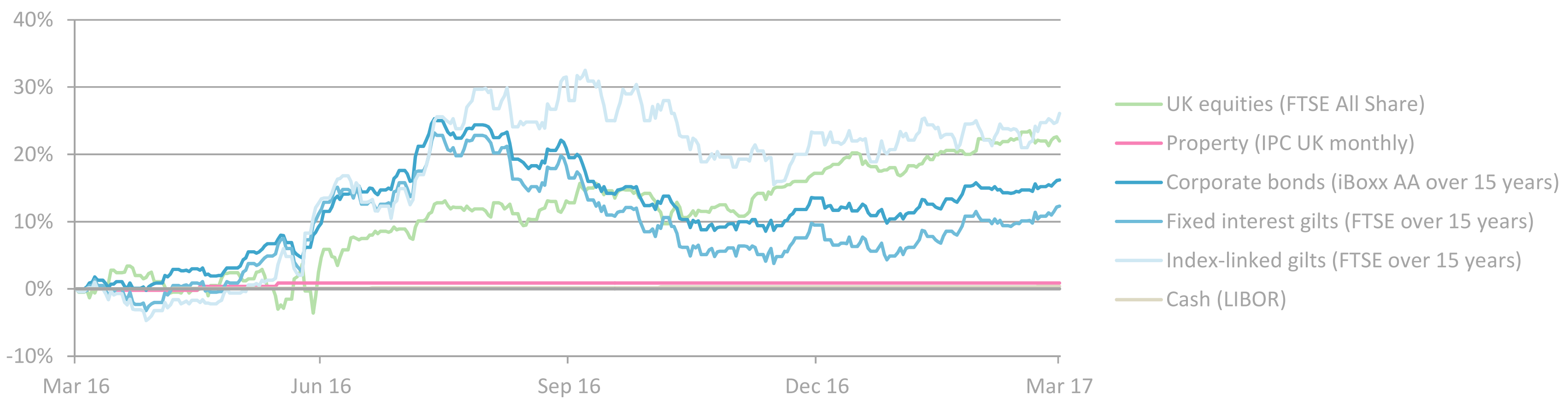
Allocation at valuation date



Allocation at 31 March 2017



Sterling total returns of major asset classes



24

Sensitivity matrix – Ongoing funding basis

Better outcomes →

Bond yields (% p.a.)							
2.26	65.9% (1,515)	72.3% (1,230)	78.7% (946)	85.1% (661)	91.5% (377)	97.9% (92)	104.3% 193
2.06	64.1% (1,657)	70.2% (1,373)	76.4% (1,088)	82.6% (804)	88.8% (519)	94.9% (234)	101.1% 50
1.86	62.3% (1,809)	68.2% (1,524)	74.2% (1,240)	80.1% (955)	86.0% (671)	92.0% (386)	97.9% (101)
1.66	60.5% (1,970)	66.2% (1,686)	71.9% (1,401)	77.6% (1,116)	83.3% (832)	89.0% (547)	94.7% (263)
1.46	58.8% (2,142)	64.2% (1,857)	69.7% (1,573)	75.2% (1,288)	80.7% (1,003)	86.2% (719)	91.6% (434)
1.25	57.0% (2,325)	62.3% (2,040)	67.6% (1,756)	72.8% (1,471)	78.1% (1,187)	83.3% (902)	88.6% (617)
1.05	55.4% (2,520)	60.4% (2,236)	65.4% (1,951)	70.5% (1,666)	75.5% (1,382)	80.6% (1,097)	85.6% (813)
Equity level (using FTSE 100 Price Index as a proxy)	5,126	5,858	6,591	7,323	8,055	8,788	9,520

Better outcomes ↑

77.6%	Funding level
(1,116)	Surplus/(deficit) – £m

Appendix: Scope, methodology, reliances, limitations and market data

Scope

This funding update is provided to Leicestershire County Council as the Administering Authority of the Leicestershire County Council Pension Fund to illustrate the funding position as at 31 March 2017. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except with Hymans Robertson LLP's prior written consent, in which case it is to be released in its entirety. Hymans Robertson LLP accepts no liability to any third party unless we have expressly accepted such liability in writing.

Compliance with professional standards

The method and assumptions used to calculate the updated funding position are consistent with those used in the latest formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. As such, the advice in this report is consistent with that provided for the last valuation, as set out in the:

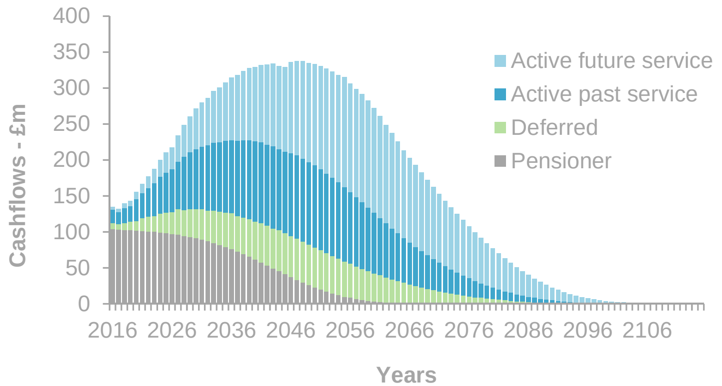
- Valuation Assumptions Briefing Note
- Funding Strategy Statement
- Valuation Report
- Rates and Adjustments Certificate

This update therefore complies with the following Technical Actuarial Standards (TASs):

- Reporting ("TAS R")
- Modelling ("TAS M")
- Data ("TAS D")
- Pensions TAS

How liabilities are calculated

- The future benefits that are payable from the Fund ("cash-flows") were calculated on a specific set of assumptions at the last valuation date.
- These cash-flows (on the Ongoing funding basis) are shown below.
- These cash-flows were adjusted using available financial and Fund information to produce estimated cash-flows at post valuation dates.
- The specific information used for this update is set out on the next page.
- Market information is used to produce discount rates at these dates.
- The estimated cash-flows are discounted to produce the estimated liability value at a specific date.



How assets are calculated

Assets are projected from the valuation date allowing for actual or estimated Fund cash-flows, actual quarterly returns (where available) and daily benchmark indices

The update allows for:

1 Movements in the value of the assets as measured by index returns and data from the administering authority where available.
2 Movements in liabilities as a result of changes in yields and hence inflation and discount rate assumptions.
3 Estimated cash-flows (contributions and benefit payments).
4 Expected accrual of benefits for employee members accrued since the last valuation (based on projected salary roll).
5 Demographic experience in line with assumptions.
6 Variations in liabilities arising from the changes in RPI since the valuation date differing relative to assumptions.
7 Benefit accrual in line with the 2014 scheme.

The update does not allow for:

1 Asset allocations differing from those assumed (other than when asset data is recalibrated based on available information).
2 The asset values as at the date of this report have not been based on audited Fund accounts.
3 Variations in liabilities arising from salary rises differing relative to assumptions.
4 Differences between estimated and actual salary roll of employees.
5 Variation between actual and expected demographic experience (e.g. early retirement or mortality).

Membership data

My calculations are based on the membership data provided for the most recent actuarial valuation. Details on the quality of this data and a data summary can be found in the last formal actuarial valuation report.

Limitations of this model

In the short term, the typical main contributors to funding position volatility are movements in the value of assets held, liability changes due to yield movements, benefit changes and deficit contributions to the Fund.

The accuracy of this type of funding update calculation is expected to decline over time. Differences between the position shown in this report and the position which a valuation would show can be significant; particularly if there have been volatile financial markets or material membership changes (these are more likely to occur in smaller schemes). It is not possible to fully assess the accuracy of this update without carrying out a full actuarial valuation.

Liability calculations are performed on the valuation date, the funding update date, anniversaries of the valuation date and each month-end in between. Interpolation is used for other dates shown in graphs. Some asset classes are not easily tracked by the benchmark indices used in this model which can lead to significant differences between actual and projected asset values.

Indices used to update projected asset values

Some of the following indices have been used to update projected asset values in this funding update.

- FTSE 100
- FTSE 250
- FTSE Small Cap
- FTSE All Share
- FTSE All World Series North America (£)
- FTSE All World Series Japan (£)
- FTSE All World Series Developed Europe (£)
- FTSE All World Series Developed Asia Pacific (£)
- FTSE All World Series All World Developed Ex UK (£)
- FTSE All World Series All World Ex UK (£)
- FTSE All World Series All Emerging (£)
- UK Government Fixed Interest Gilts (Over 15 Years)
- UK Government Index-Linked Gilts (Over 5 Years)
- UK Government Index-Linked Gilts (Over 15 Years)
- iBoxx A rated UK Corporate Bonds (Over 15 Years)
- iBoxx AA rated UK Corporate Bonds (Over 15 Years)
- iBoxx AAA rated UK Corporate Bonds (Over 15 Years)
- iBoxx All Investment Grades rated UK Corporate Bonds (Over 15 Years)
- IPC Property
- Cash Indices LIBOR 1 Month

The indices are a standard list and are not necessarily the same indices that managers have been asked to track or beat. All indices used to estimate projected asset values are total return indices. However, the market indicators quoted in this report are price indices, as these are more widely recognised.

Market information used to update liability values

Some of the following market information has been used to update liabilities values in this funding update.

- Nominal gilt yield curves derived from Bank of England data
- RPI gilt inflation curve derived from Bank of England data
- Nominal swap curves derived from Bloomberg data
- Real swap curves derived from Bloomberg data
- Inflation volatilities derived from the swap market
- FTSE Actuaries UK Fixed Interest Gilts Yields (Over 15 Years)
- FTSE Actuaries Index-Linked Gilts (3% Inflation) Yields (Over 15 Years)
- iBoxx AA rated UK Corporate Bond Yields (Over 15 Years)

Note: Market yields displayed in the market indicators table are on an annual basis.

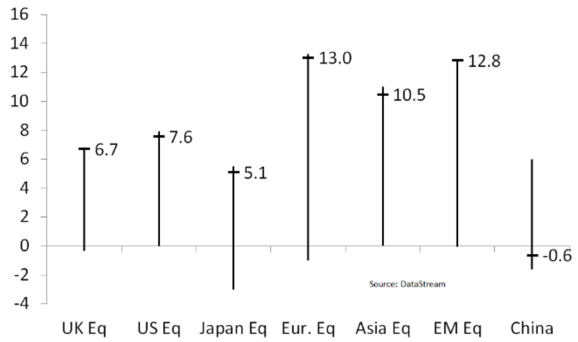
Market Backdrop

This note is intended to support the discussion at the upcoming meeting of the Local Pension Committee of the Leicestershire County Council Pension Fund.

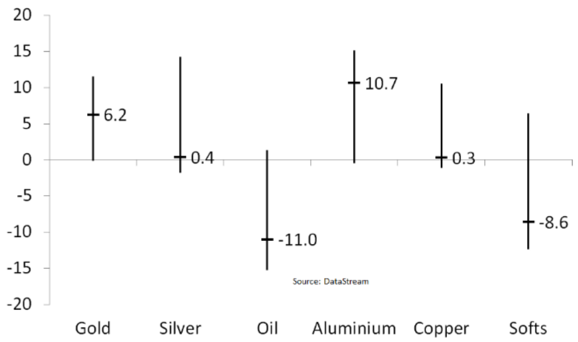
Market Movements

The figures below describe the % performance of various markets from the end of 2016 to the close on 13th May 2017. Equity markets have, thus far, delivered solid returns in 2017 consistent with the thesis that stock markets had the potential to move higher supported by an improving world economy and still benign monetary conditions despite apparently elevated valuations. The greatest challenge lay in possible adverse political developments in Europe and the US; those threats have, thus far, failed to materialise. Across all markets, observed volatility remains low by historical standards.

Equity: % change in prices (high, low, last)



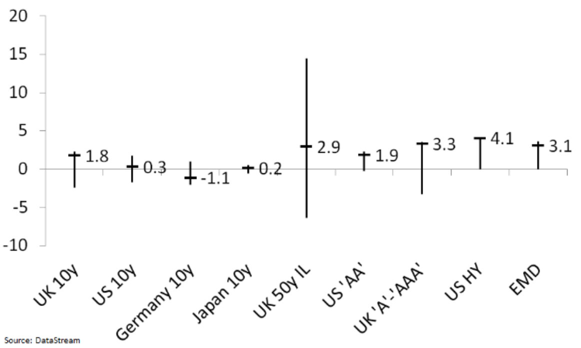
Commodity:



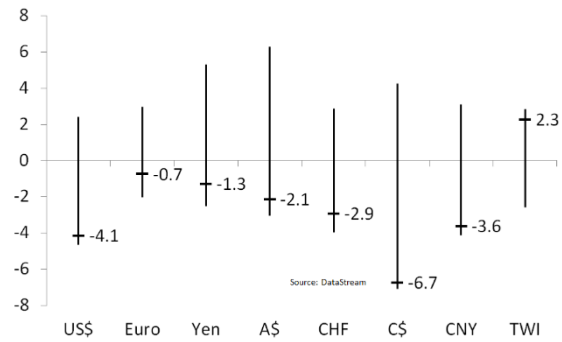
Regional performance was strongest in Asia and EM; along with the out-performing Asian block, they rose more than 10%. Underpinned by a more stable bond market than many had expected, a feature of the period has been that most regions never closed below their year-end level. The Chinese market is the notable exception, held back by tighter financial conditions imposed to subdue financial markets.

In commodity markets, industrial metals were initially underpinned by the apparently healthy Chinese economy and the hoped-for surge in US infrastructure spending. A more moderate Chinese outlook and slow (no) progress in the US has seen prices slip back; while oil prices are currently lower than at the start of the year on strong inventory levels and production. Precious metals have lifted on a generalised rise in inflation and on a softer US$. 'Softs' have generally traded lower on strong production.

Bonds:



FX (vs £):



Bond markets were generally calm except for ultra-long UK index-linked bonds – where prices have again been very volatile. That most bond markets (government and corporate) should have seen prices hold steady (gain) on the period has confounded forecasters (many of whom had expected a Trump-induced rout especially against the backdrop of rising inflation). EMD markets have shed many of the Trump-related fears.

The Pound trade weighted index (TWI) ended the period firmer despite the formal launch of *Brexit.* Consistent with the firmness of bonds, safe-haven FX (e.g. Yen) had gained; those gains reversed once it became clear that Macron would win the French election.

Consensus expectations – economic growth and inflation

The consensus outlook for 2017 and 2018 has firmed slightly since the year end with no region seeing downgrades in estimates of real economic growth. The notable increases have occurred in Europe – where real time measures of economic performance have, throughout Q1, been strong – and the UK which has seen the last vestiges of the expected *Brexit* malaise shed for 2017 (but retained for 2018). Although the US is expected to grow above trend (estimated by the FOMC to be 1.8% p.a.), the overall outlook for the rest of 2017 and into 2018 is for global growth to remain moderate.

Table 1: Consensus forecasts – Real GDP growth (%)

	2016	2017	Change since end '16	2018	Change since end '16
US	1.6	2.2	0	2.3	0
Eurozone	1.7	1.3	0.3	1.6	0.1
UK	2.0	1.7	0.5	1.3	0
Japan	1.0	1.2	0.2	1.0	0.2
China	6.7	6.6	0.1	6.3	0.2

Challenging the above rosy outlook first quarter growth in the US was just 0.6% (annualised rate) on soft consumer demand and an inventory drawdown. It is not unusual for Q1 US activity levels to be both subdued and followed by a more upbeat performance; economists at the Atlanta Fed estimate that growth in the second quarter is running at a 3.6% annualised rate. Equivalent measures for the European economy show similar buoyancy (with +3.2% and +3.5% expected for Q2 and Q3 respectively). Uncertainty surrounding the *Brexit* negotiations will likely ensure that the projections for the UK remain subdued, a viewpoint recently shared by the Bank of England which highlighted weak real disposable income growth as a significant concern.

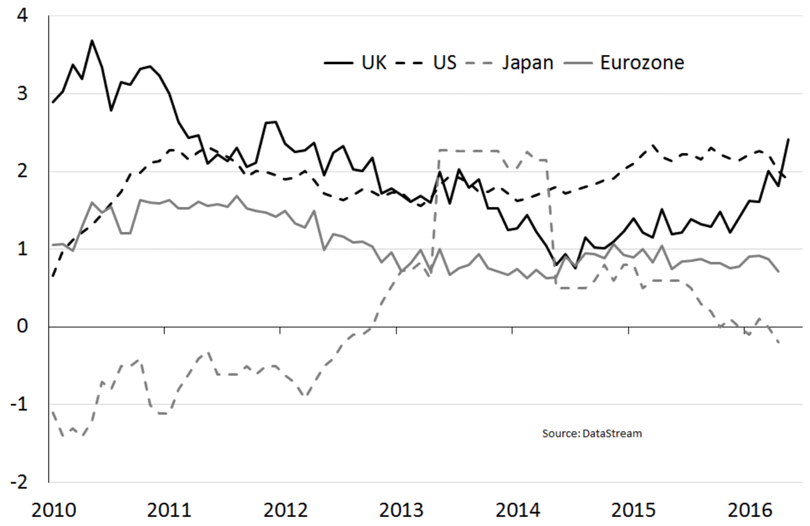
The outlook for inflation in 2017 and 2018 has hardened a little with all rates projected to be above those recorded in 2016 (Table 2). The main take-away remains that while inflation, this year and next, is projected to move towards or above central banks targets, policymakers are unlikely to react. Even in the US, where the Federal Reserve are hiking their policy rate, the guidance remains that increases will be gradual and that policy will remain very accommodative for the foreseeable future – indeed given current inflation, the real policy rate is very low (see Page 4).

Table 2: Consensus forecasts – Inflation (CPI, %)

	2016	2017	Change since end '16	2018	Change since end '16
US	1.7	1.8	-0.1	2.0	0
Eurozone	1.1	1.6	0.3	1.5	0.0
UK	1.6	2.6	0.2	2.6	0.1
Japan	0.0	0.6	0.0	0.9	-0.2
China	2.1	2.0	-0.2	2.2	0

On the ground, core inflation rates in the major economies have started to fall (Chart 1). This excludes the UK where the impact of the recovery in energy costs (feeding through indirectly into the core rate) and the sharp fall in £ seen in 2016, are evident. Japan's inflation problem remains the lack of it – policymakers there have gone quiet on Abe's promise, made in 2012, of delivering a 2% inflation rate; a reminder, if it were needed, that high(er) inflation rates are not easily generated (beyond one-off jumps caused by base effects – most recently by oil). Although the US Federal Reserve are raising interest rates threats to higher inflation are hard to find.

Chart 1: Core CPI rates (%, yoy)



Although the data for March indicated a pause, data on UK headline retail and consumer price inflation has risen sharply in recent months. Although £'s devaluation could see these rates rise further, input and output producer price rises look to passing their peak (Chart 3) – they too saw the latest data suggest that the surge is ending. The rise in inflation has not been matched by higher wage, indeed there is now no real wage growth.

Chart 2: UK inflation rates (%, yoy)

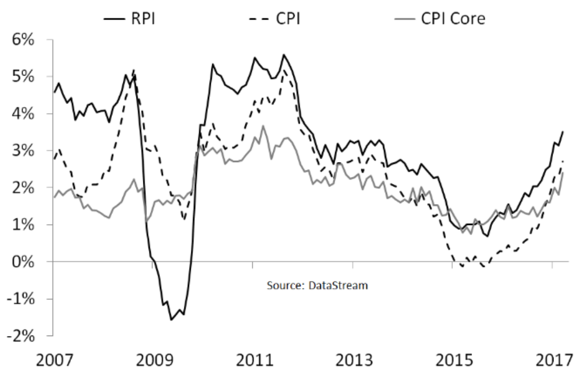
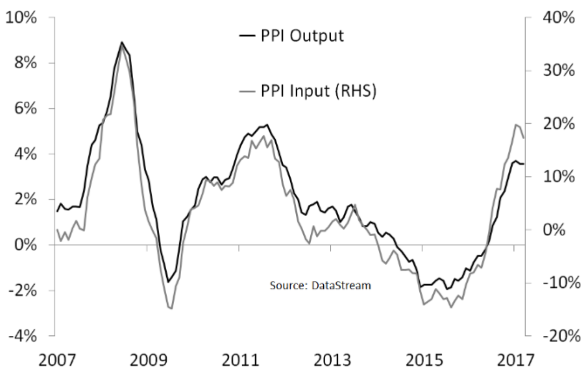


Chart 3: UK producer price growth (yoy)

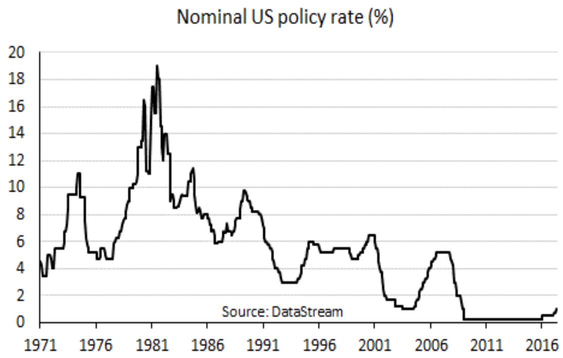


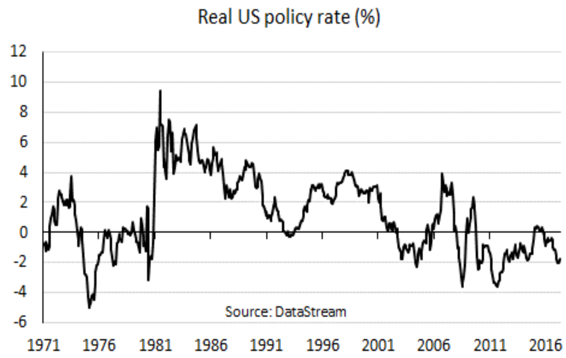
Extending the point about Japan, experience of the post-GFC period suggests, and this is of interest for the UK, that currency-induced inflation won't lead to an enduring inflation problem.

Overall, while projected inflation rates (many years ahead) may cause central bankers some concern, it remains that actual inflation in the period ahead is unlikely to be a problem and should not influence the general asset strategy for the Fund. That said, some specific measures may be required if the fiscal taps are turned on. The UK has, thus far, failed to expand fiscal policy and Trump appears more hamstrung than expected. The upcoming UK election has the potential to alter the fiscal outlook especially if Hammond is replaced as Chancellor.

Short and long term interest rates

Having raised their policy rate in December to 0.75%, the Fed hiked again in March (to 1%). In the context of the past forty years, US interest rates are still effectively zero and, in real terms, remain very accommodative. In March FOMC members reviewed their projection for the terminal policy rate. Despite the recent lift in inflation and the start of the (presumed expansionary) Trump Presidency, they kept their predicted equilibrium policy rate at 3%. After the announcement Janet Yellen made clear that while other rate hikes will be delivered this year – they are not being influenced by the soft economy in Q1 - the Fed intend to keep monetary policy accommodative.





The current consensus forecast for the main policy settings are shown in Table R1. Despite the recent strength in the European economy, policy everywhere outside the US is expected to broadly remain on hold.

Table R1: Consensus forecasts – main policy setting at year end (%)

	2016	Latest	2017
US Fed	0.75	1.00	1.50
ECB	-0.40	-0.40	-0.40
BoE	0.25	0.25	0.25
BoJ	-0.10	-0.10	0.00

Longer term, although in the US the expected uptrend in rates is clear the expected profile remains very gradual. Overall and including the US, investors expect no material lift in interest rates this decade. If correct, then we will soon be looking at a near-zero interest rate backdrop lasting a generation.

Table R2 reminds of the current very low level of longer term government bond yields. Across all major markets government bond yields remain below equity dividend yields.

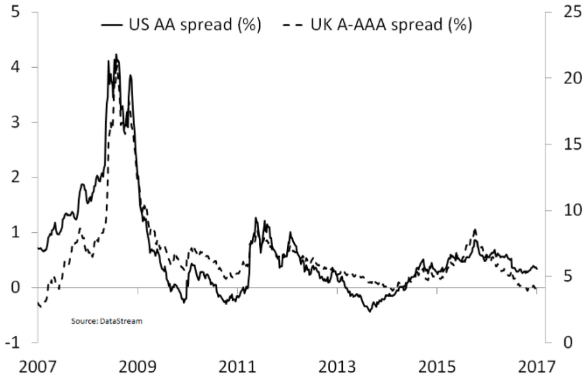
Table R2: 10-year bond yields and consensus forecasts at year end (%)

10 year	2016	Latest	2017
US	2.4	2.3	2.8
Germany	0.3	0.4	0.7
UK	1.4	1.1	1.5
Japan	0.0	0.0	0.1

Notwithstanding the potential change in US interest rates, the outlook remains that bond markets will not see yields return to levels generally regarded as 'normal' (around 4-5%).

Non-Government Bonds

Investment grade bond spreads remain tight although, at the margin, have started to lift; a greater increase would be required to make them compelling. The same is true of high yield bonds where the spread is little off multi-year lows. Corporate bonds are enjoying the support that the government markets have delivered through 2017 thus far; neither market is concerned about the prospect of the US Federal ending their practice of reinvesting redeeming bonds held on their balance sheet (the result of past QE programmes).



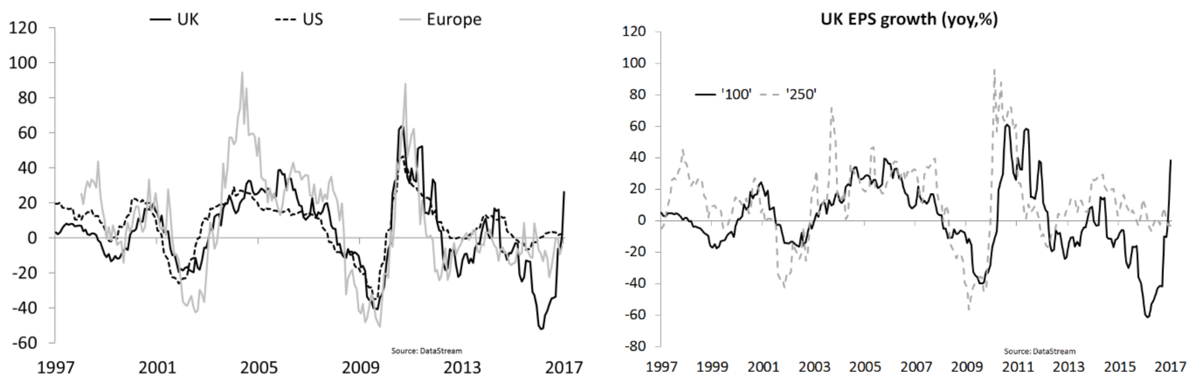
Regardless of which emerging market debt index is followed, all have recovered completely from the Trump-induced sell off last November. In a world of still wafer thin developed bond yields, investors continue to find EMD attractive – there is nowhere else to go for yield.

Within the array of available bonds out-with developed government bond markets, emerging market exposures remain the most attractive; active selection is to be preferred.

Equities

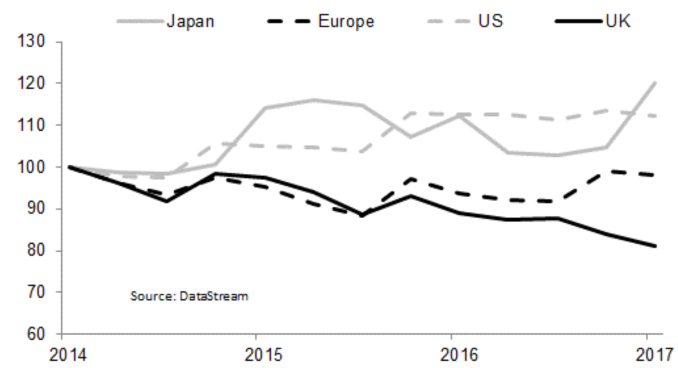
The chart below details how forecast earnings per share (EPS) for the UK, US, European and Japan equity markets have evolved over the past twenty years; unsurprisingly they chime with the economic cycle. Since the previous report the prospects for earnings growth in the EU and US have converged around zero. Larger companies in the UK are starting to see the foreign earnings currency boost generated by last year's £ slump.

Chart E1: Experienced earnings per share growth



EPS forecasts for the next financial year register an improvement in Japan while weakness is expected in the UK as the one-off currency impact washes through. In broad terms the Eurozone and the US are flat-lining (Chart E2). The UK outlook is weak.

Chart E2: Forecast earnings per share (next financial year – FY1, rebased to 100 in 2014)



Looking beyond the next financial year, equity analysts generally remain optimistic (Table 5); although it should be remembered that analysts are rarely pessimistic and that they failed to spot the weakness of recent years shown in Chart E1. Only Japan returns to being more of a 'jam tomorrow' market. The enthusiasm for longer term UK equity earnings growth, created by £ devaluation, has slipped away sharply.

Table 5: Consensus EPS growth forecasts – second and third financial years with change from previous report (source: DataStream)

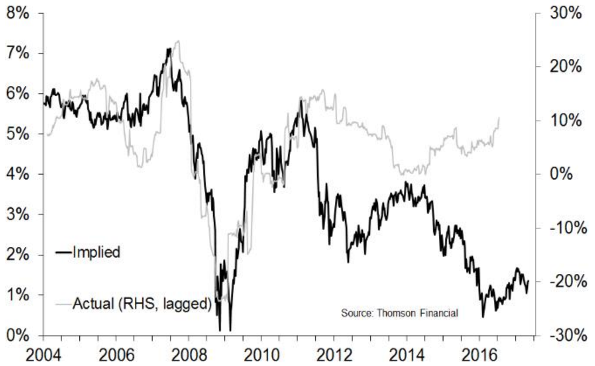
	UK	US	Japan	Europe
FY2	8% (-12%)	12% (0%)	8% (-4%)	10% (-4%)
FY3	10% (0%)	10% (-2%)	12% (+4%)	9% (-2%)

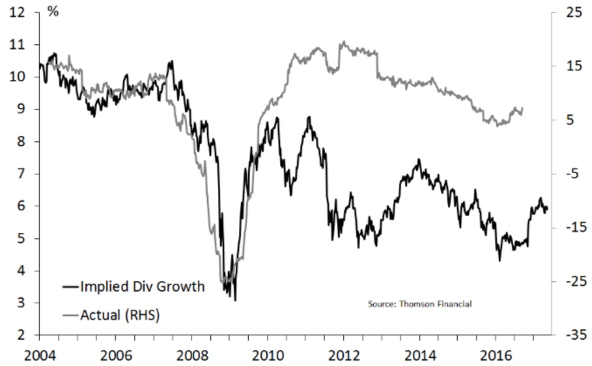
Equity Valuation

A preferred means of assessing how attractively priced are equities is the implied level of dividend growth needed to break-even relative to the alternative of investing in bonds. In both the UK and US markets (Charts E3 and E4) the required level of long-term dividend growth looks to be modest in absolute terms and against what has been delivered in recent years; the recent fall in bond yields has improved the comparison. If allowance is made for a risk premium then UK dividends may never grow but they would still offer better value than fixed income.

The earnings outlook for companies may be uncertain but equity markets still offer better value than bonds.

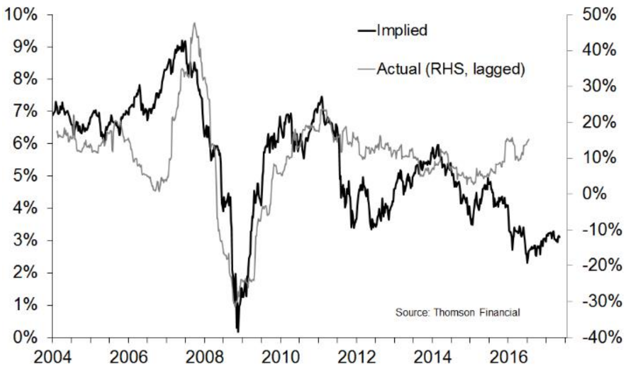
Charts E3 and E4: UK (FT All Share, left chart) and US (S&P Composite, right chart) implied dividend growth





The implied outlook for the more domestically focused FTSE 250 is as it is for the broader UK market. Here the path of actual dividend growth has been more consistent with the evolution of the breakeven rate (Chart E5). The chart also suggests that there may be some poor news on actual dividends to absorb in the near term. **Should the fiscal spigot ever open then there may be bargains to be had in UK domestic plays; sector baskets bought on 'bad days' may be the best way to exploit these.**

Chart E5: UK (FTSE 250 Index), implied div. growth

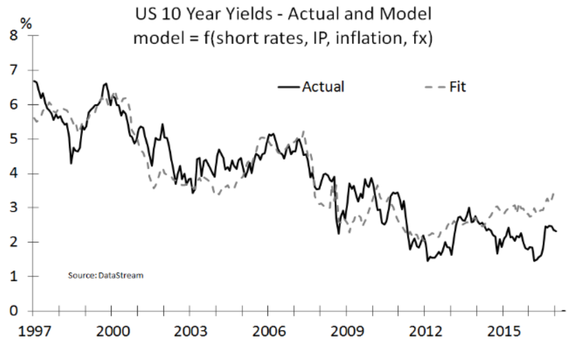


However delivered and ignoring the soft performance of the US economy in Q1, if the recent broad economic upswing continues then, with central banks increasingly able to contain bond markets, equities could enjoy strong returns – at least while investors expect there to be a strong correlation between growth and corporate profitability.

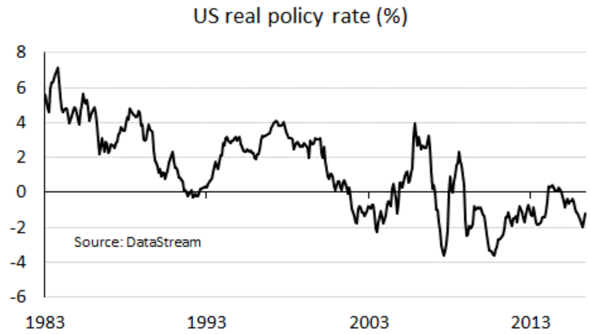
Why are yields so low?

In a recent FT article, John Authers mused on why bond yields remain so low. He laid the blame at the door of pension funds and scepticism around the resilience of the global economic upswing of recent quarters.

Looking first at the "low" level of bond yields it is possible to draw comparison between US bond yields and a range of 'real world' factors - the policy interest rate, the pace of industrial production and inflation and also shifts in the exchange rate; historically these factors have provided a good 'explanation' of longer term bond yields. This approach suggests that US 10y yields should today be around 3.3% - they are currently 2.3%. Yields may today be low but they shouldn't be 'high'.



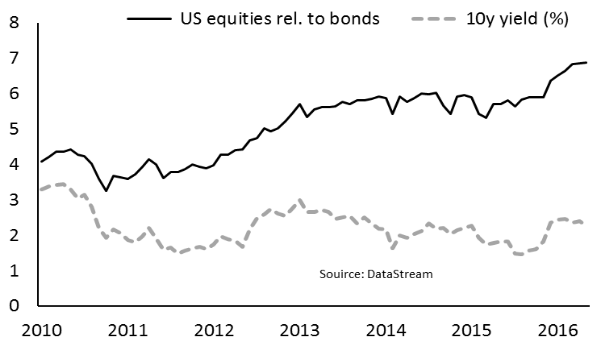
The most statistically significant influence has been the policy interest rate set by the US Federal Reserve. The first most significant explanation therefore for the current low level of bond yields is that the policy rate is just 1% or, importantly, 1.7% less than the current pace of headline consumer price inflation. The problem with applying historical norms to the present (future) is that the present (future) may not be as the past. Since the GFC the policy rate has generally been negative whereas the opposite was the case pre-GFC. While it is often folly to contend that *this time it's different*, the Fed themselves believe that the equilibrium real policy rate is now 1% - the average real rate over the 25 years prior to the GFC was double that. It is worth noting again that the current real policy rate (-1.7%) is very accommodative – comforting equity investors.



Fuelling doubt about the current economic strength is the observation, in the US at least, that the economy is hardly on a tear. Indeed, if the Q1 growth rate is sustained, then the growth outlook is for 'flat-lining' around 2% (consistent with the Fed's estimate of US trend economic potential).

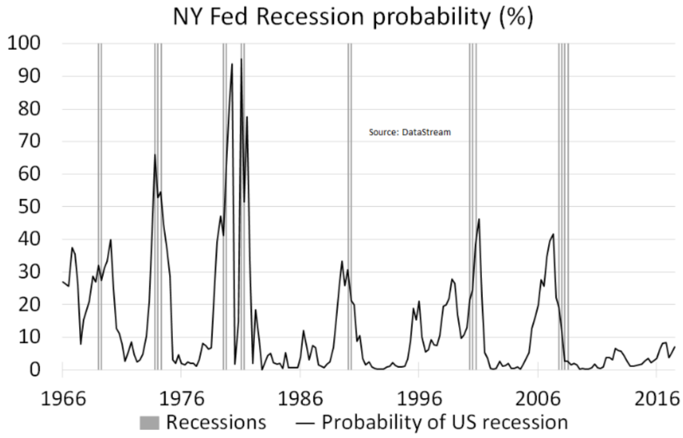
US long bond yields are therefore perhaps 0.5-1% lower than norms based around economic data might suggest – a gap that may close only after the Fed has tightened the policy rate rate. [It is unlikely that those who judge yields currently to be out of kilter will form a different view if bond yields rise to 3%.] Remember as time passes, the post-GFC experience increasingly becomes the norm.

Auther's point on pension fund buying is undeniably correct. These bonds must be bought out of something; the higher that equities rise, the easier it is for Trustees etc to fund bond purchases. If equities are supported by low bond yields, then this might seem a perverse circularity. Why this should change however while *cash remains trash* is unclear.



Summary

It is hard to access the financial media these days and not find repeated assertions that equities, relative to historic norms, are expensive. The focus in previous years was on the richness of bonds. These are both the flip side of the bigger point – cash remains a very unattractive asset, especially in real terms. Except for the US, nowhere is cash likely to become attractive other than on a transitory basis (and then, on a lucky call around a bout of risk aversion). Even in the US, if the equilibrium real interest rate on cash is around 1%, as the Fed suggest, then a bearish slant on equities requires a negative outlook on corporate profitability. Such a perspective is possible especially if the US enters a recession but the likelihood of that happening, based on the behaviour of the interest rate markets, in the next twelve months is very low. Just as markets seem to have adjusted to a new neutral level of bond yields so too might they have to come to terms with elevated price earnings multiples.



Scott M Jamieson, May 2017

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Leicestershire County Council

LOCAL PENSION COMMITTEE – 2ND JUNE 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INVESTMENT SUBCOMMITTEE MEMBERSHIP

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Committee of the membership of the Investment Subcommittee for the period ending with the date of the Annual Council meeting in May 2018.

Background

2. As administering authority, Leicestershire County Council has responsibility for managing the Pension Fund. In order that it can fulfil this responsibility effectively, the Local Pension Committee (previously known as the Pension Fund Management Board) has been given responsibility for all decisions in respect of the Fund.

3. In May 2010 the County Council approved the formation of the Investment Subcommittee in order to assist the Pension Fund Management Board (now the Local Pension Committee) in pro-actively managing the Fund’s assets. The increasing complexity of the Fund’s investment structure had the impact that the Board found it increasingly difficult to act in a suitably pro-active manner within the confines of 5 meetings per annum.

4. Whilst the move towards Local Government Pension Scheme investment pooling by April 2018 will remove the requirement for the Subcommittee to interview and select investment managers, it is expected that the other parts of its role will remain, including deciding how best to implement certain key strategies once approved by the Local Pension Committee. Whilst it is expected that the Investment Subcommittee will not meet often, it is considered sensible that it should remain in operation should the need arise.

Membership of the Investment Subcommittee

5. Membership of the Investment Subcommittee is drawn from members of the Local Pension Committee. The Subcommittee will continue to consist of 6 voting members plus a non-voting staff representative. The membership will comprise:

- 3 County Councillors based on the proportional representation of the Council

  Mr. Osborne CC
  Mr. Breckon CC
  Dr Hill CC

- 1 member representing Leicester City Council
- 1 member representing the District Councils
- The member representing De Montfort/Loughborough Universities
- 1 staff representative (non-voting)

Future Meeting Dates

6. Below is a list of provisional meeting dates for the Investment Subcommittee up until the end of 2017. If there is no business to be transacted the meeting will be cancelled.

Wednesday 14 June 2017 – 10am
Wednesday 12 July 2017 – 10am
Wednesday 9 August 2017 – 10am
Wednesday 11 October 2017 – 10am
Wednesday 13 December 2017 – 10am

Recommendation

It is recommended that the Local Pension Committee notes the report

Equality and Human Rights Implications

None specific

Officers to Contact

Colin Pratt – Investment Manager – Corporate Resources
telephone (0116) 305 7656

Chris Tambini – Investments Manager – Corporate Resources
telephone (0116) 305 6199

Leicestershire County Council

LOCAL PENSION COMMITTEE

2 JUNE 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT AND INTERNAL CONTROLS

Purpose of the Report

The purpose of this report is to inform the Committee of any concerns relating to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice.

Background

In April 2015 The Pension Regulator (TPR) published its code of practise on governance and administration of public service pension schemes. This introduced a number of areas pension administrators need to record and members be kept aware of.

One area within the code is risk, more specifically 'risk management and internal controls', which the code states should be a standing item on each Pension Board and Pension Committee agenda.

The Leicestershire Fund already manages risk and has a risk register in place that is regularly reviewed by officers and presented to the Local Pension Board annually. Internal and external audit also consider risks within Pensions and highlight any risk concerns. However, in order to comply with the code the Director of Finance has agreed to have this as a standard item on both agendas.

Identified Risks

There are currently no identified risks

Recommendation

The Committee is asked to note the report.

Equality and Human Rights Implications

None specific

Officers to Contact

Colin Pratt – Investments Manager - telephone (0116) 305 7656
Chris Tambini - Director of Finance - telephone (0116) 305 6199