Meeting: **Local Pension Committee**

Date/Time: **Friday, 7 September 2018 at 9.30 am**

Location: **Guthlaxton Committee Room - County Hall**

Contact: **Miss C Tuohy (0116 305 5483).**

Email: **cat.tuohy@leics.gov.uk**

AGENDA

Item		Report By	Marked
1.	Minutes of the meeting held on 25 May 2018.		(Pages 5 - 14)
2.	Question Time.		
3.	Questions asked by members under Standing Order 7(3) and 7(5).		
4.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5.	Declarations of interest in respect of items on the agenda.		
6.	LGPS Central Update.	LGPS Central	(Pages 15 - 30)
7.	Summary Valuation of Pension Fund Investments and Investment Performance of Individual Managers.	Director of Corporate Resources	(Pages 31 - 34)
8.	Market Update.	Independent Investment Advisor, Kames Capital	(Pages 35 - 60)
9.	Funding update as at 30 June 2018.	Fund Manager	(Pages 61 - 66)
10.	Action agreed by the Investment Subcommittee.	Director of Corporate Resources	(Pages 67 - 70)

Democratic Services ◦ Chief Executive's Department ◦ Leicestershire County Council ◦ County Hall
Glenfield ◦ Leicestershire ◦ LE3 8RA ◦ Tel: 0116 232 3232 ◦ Email: democracy@leics.gov.uk

www.twitter.com/leicsdemocracy www.facebook.com/leicsdemocracy www.leics.gov.uk/local_democracy

11.	Risk Register.	Director of Corporate Resources	(Pages 71 - 80)

12. Dates of Future Meetings.

Future meetings of Local Pension Committee will be held at 9.30am on the following dates:-

9 November 2018
25 January 2019 (Strategy Meeting)
15 February 2019
31 May 2019
6 September 2019
8 November 2019

13. Any other items which the Chairman has decided to take as urgent.

14. 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).

15.	Update on Investment Manager Activity. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Director of Corporate Resources	(Pages 81 - 92)
16.	Legal and General Investment Manager Quarterly Report (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager	
17.	Ashmore Quarterly Report (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager	
18.	Stafford Timberland Quarterly Report (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager	
19.	Aspect Capital Quarterly Report (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager	
20.	Ruffer Quarterly Report	Fund Manager	

(Exempt under paragraphs 3 and 10 of Schedule 12A)

21.	Pictet Quarterly Report (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
22.	Millennium Global Quarterly Report (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
23.	IFM Investors Quarterly Report (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
24.	Delaware Investments Quarterly Report (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
25.	JP Morgan Quarterly Report (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
26.	Kleinwort Quarterly Report (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
27.	Kempen Capital Management Quarterly Report (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
28.	Aviva Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
29.	Kames Capital Quarterly Report (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager
30.	KKR Quarterly Report. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager

TO:

Leicestershire County Council

Mr. P. C. Osborne CC (Chairman)
Mr. P. Bedford CC
Dr. S. Hill CC
Mr. Max Hunt CC

Mr. L. Breckon JP CC

Leicester City Council

Cllr Deepak Bajaj and Cllr Dr Lynn Moore

District Council Representatives

Cllr Chris Frost and Cllr. Malise Graham MBE

University Representative

Dr. P. Cross

Staff Representatives

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

Leicestershire County Council

Minutes of a meeting of the Local Pension Committee held at County Hall, Glenfield on Friday, 25 May 2018.

PRESENT:

Leicestershire County Council

Peter Osborne CC
Peter Bedford CC
Lee Breckon JP CC
Dr Sarah Hill CC
Max Hunt CC

Leicester City Council

Cllr Dr Lynn Moore

Employee Representatives

Mr. R. Bone
Mr. N. Booth

University Representative

Mrs. M. Holden

129. Election of Chairman.

RESOLVED:

That Mr. P. Osborne CC be elected Chairman of the Local Pension Committee for the period ending with the date of the Annual Council meeting in May 2019.

Mr. P. C. Osborne in the Chair

130. Election of Vice Chairman.

RESOLVED:

That Mr. L. Breckon CC be elected Vice Chairman of the Local Pension Committee for the period ending with the date of the Annual Council meeting in May 2019.

131. Minutes of the meeting held on 23 February.

The minutes of the meeting held on 23 February were taken as read, confirmed and signed.

132. Question Time.

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

133. Questions asked by members.

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

134. Urgent Items.

There were no urgent items for consideration.

135. 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.

136. Change to the order of business.

The Chairman sought and obtained the consent of the Committee to vary the order of business from that set out on the agenda.

137. Responsible Investment and Engagement Framework.

The Committee considered a report of the Director of Corporate Resources the purpose of which was to seek approval of the revised LGPS Central's Responsible Investment and Engagement Framework. During consideration of the matter the Committee also received a presentation from the Director of Responsible Investment and Engagement at LGPS Central. A copy of the report and presentation is filed with these minutes.

It was noted that since the Committee had approved a version of the LGPS Central's Responsible Investment and Engagement Framework in September 2017, a small number of minor changes had been made to the revised document.

Arising from the presentation, the following points were raised:

i) The Framework would apply to assets which LGPS Central internally managed Externally managed funds, including those owned by the Leicestershire Pension Fund would continue to operate in accordance with their own responsible investment policies.

ii) Climate change was one of three key stewardship themes of the LGPS Central's Responsible Investment and Engagement Framework for 2018, along with diversity and cyber security. LGPS Central supported the Transition Pathway Initiative which assessed how companies were preparing for the transition to a low-carbon economy. The Pool was able to use this information when deciding whether to invest in companies and measure its existing asset exposure against such risks.

iii) Should concern arise as to responsible investment practices of LGPS Central’s investments, there were a number of approaches the Pool could take in order to encourage change. They included communicating their concerns directly with the organisation and making representation at their AGM.

iv) As part of the monitoring process, LGPS Central would work with fund managers to ensure they complied with the appropriate tax legislation.

v) The Local Pension Committee would continue to receive updates concerning LGPS Central's responsible investment work, including details of the Pool's Stewardship report once published later in the summer.

RESOLVED:

That the Responsible Investment & Engagement Framework of LGPS Central be approved.

138. Update on Pension Fund Pooling.

The Committee considered a report from the Director of Corporate Resources which provided an update on the progress towards the pooling of Leicestershire Pension Fund's assets with eight other schemes to form LGPS Central Ltd. A copy of the report is filed with these minutes, marked '9'.

The Committee noted that whilst the pooling exercise would take several years to complete, elements of the pool, which included three internally managed passive funds, were launched on the 1 April 2018. Until such time when all of Leicestershire Pension Fund assets were transferred to the Pool, LGPS Central would provide advisory services to the Fund where necessary. The Fund would continue to benefit from the support of its independent Investment Advisor and Hymens Robertson.

RESOLVED:

That the update be noted.

139. Risk Management and Internal Controls.

The Committee received a report of the Director of Corporate Resources which detailed potential risks relating to the management of the Pension Fund. A copy of the report is filed with these minutes, marked '12'.

It was noted that whilst a level of risk remained concerning the implementation of a new administration system for the Pension Fund, which was expected to be in operation by December 2018, the authority was working in collaboration with Derbyshire County Council on resilience and efficiency to help ensure the transition was as smooth as possible.

In regards to the risks associated with the Fund's investment performance (Risk 10), should the Local Pension Committee have concern over a particular pooled investment, it would have the ability to request that a representative of LGPS Central attend a meeting of the Committee to discuss the issue and explain the rational for the investment.

Changes would be made to the risk register in order to add a risk associated with the transition of investment to the LGPS Central pool and to provide greater clarity as to the meaning of the number ratings used to define the 'likelihood' and 'impact' of identified risks.

RESOVLED:

That the revised risk register of the Pension Fund be approved.

140. Appointment of Investment Subcommittee membership.

The Committee considered a report from the Director of Corporate Resources concerning the membership of the Investment Subcommittee for the period ending with the date of the annual Council meeting in May 2019. A copy of the report marked '14' is filled with these minutes.

RESOLVED:

That the report be noted.

141. 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 March 2018. A copy of the report is filed with these minutes, marked '10'.

It was noted that once the LGPS Central Pool was fully operational and managing the Fund's investments, it was expected that the Committee would receive quarterly performance updates provided by the pool, rather than from individual investment managers as was currently the case.

RESOLVED:

That the committee note the report.

142. Hedging of Non-Equity Assets.

The Committee received a report informing them of action taken by the Director of Corporate Resources using delegated powers to expand the Fund's hedging position. A copy of the report is filed with these minutes, marked '13'.

The Committee noted that whilst the Fund actively managed its exposure to overseas currencies and non-equity investments (known as managed investments) by hedging some of its exposure back to sterling, the same measure had not been used for the Fund's unmanaged investments such as private equity and infrastructure. Officers and the Funds Independent Investment Advisor were of the opinion that the Fund would benefit from an increase the Fund's currency position to include its unmanaged US Dollar exposure to help mitigate against any dramatic fall in the dollar's value. The change was made following consultation with the Committee's Chairman and Vice Chairman.

RESOLVED:

That the report be noted.

143. Funding Update as at 31 March.

The Committee received a report from Hymans Robertson updating the Committee on the Funding Update as at 31 March. A copy of the report is filed with these minutes, marked ‘11’.

RESOLVED:

That the update be noted.

144. Market Update.

The Committee received a reports of the Independent Investment Advisor and Kames Capital concerning current financial markets. A copy of the report marked ‘15’ is filed with these minutes.

It was reported that overall markets had performed strongly over the past year, however the poor weather experienced across Europe during the winter, coupled with the uncertainty over Brexit and the Italian elections had resulted in a downturn in market performance over the previous few months.

RESOLVED:

That the updates be noted.

145. Exclusion of the 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.

146. Kames Capital Quarterly Report.

The Committee considered an exempt report by Kames Capital, 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.

147. Kleinwort Quarterly Report.

The Committee considered an exempt report by Kleinwort, 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.

148. Ruffer Quarterly Report.

The Committee considered an exempt report by Ruffer, 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.

149. Pictet Quarterly Report.

The Committee considered an exempt report by Pictet, 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.

150. Millennium Global Quarterly Report.

The Committee considered an exempt report by Millennium Global, 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.

151. IFM Investors Quarterly Report.

The Committee considered an exempt report by IFM 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.

152. Delaware Investments Quarterly Report.

The Committee considered an exempt report by Delaware Investments, 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.

153. JP Morgan Quarterly Report.

The Committee considered an exempt report by JP Morgan, 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.

154. Legal and General Investment Manager Quarterly Report.

The Committee considered an exempt report by Legal and General, 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.

155. Ashmore Quarterly Report.

The Committee considered an exempt report by Ashmore, 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.

156. Kempton Capital Management Quarterly Report.

The Committee considered an exempt report by Kempton Capital, 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.

157. Stafford Timberland Quarterly Report.

The Committee considered an exempt report by Stafford Timberland, a copy of which marked '28' 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.

158. Aspect Capital Quarterly Report.

The Committee considered an exempt report by Aspect Capital, a copy of which marked '29' 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.

159. KKR Quarterly Report.

The Committee considered an exempt report by KKR, a copy of which marked '30' 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.

160. Aviva Quarterly Report.

The Committee considered an exempt report by Aviva Quarterly, a copy of which marked '31' 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.

161. Colliers Yearly Report.

The Committee considered an exempt report by Colliers, a copy of which marked '32' 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.

CHAIRMAN

25 May 2018

This page is intentionally left blank

Agenda Item 6

Leicestershire County Council

LOCAL PENSION COMMITTEE – 7 SEPTEMBER 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

LGPS CENTRAL UPDATE

Purpose of the Report

1. The purpose of this report is to update the Committee on progress towards pooling of the Pension Fund.

Background

2. LGPS Central successfully went live on 1st April 2018, without any major issues.

3. The Leicestershire Fund will be one of 9 schemes that pool pension assets within the LGPS Central Pension Pool.

4. Pooling will take several years to implement, due to then need to set-up sub-funds by Central and then amalgamate the existing holdings for the 9 partner schemes.

5. The Fund's investments in closed-ended funds, whereby an investment manager is appointed to fulfil a specific purpose via a pooled fund which is set up to run for a specified period of time. These investments will be managed locally until the capital is repaid, due to the lack of a natural ability to exit the investment in the event of issues arising.

6. Foreign currency management is another area where local management is likely to be maintained for an extended period. Kames Capital provide an active foreign currency hedge for the Fund, which is not a service currently offered by Central. The Millennium portfolio looks to add value through currency exposures, which is not something the other Partner Funds have expressed an interest in.

LGPS Central Update

7. Since the last Committee meeting Central have been requested to provide advisory services for the Fund's assets in the following classes: active global and emerging market equities, pooled and direct property, emerging market debt and targeted return.

8. This is to strengthen the Fund's oversight of its investments up to the point that Central has a pooled investment vehicle that the Fund can utilise. Central will only be able to advise the Fund on potential courses of action, and will not act without the Fund's approval.

9. A presentation from Callum Campbell, Head of Client Services and Stakeholder Relations at LGPS Central, is appended to this report. This covers the progress made to date and plan for the remainder of 2018/19.

10. The next significant milestone for the Fund is the launch of Central's Global Active Equity sub-fund scheduled for Friday 30th November 2018. The Fund currently has £340m, of assets in this class that are currently managed by Kempen and KBI.

11. Central is in the process of appointing three managers one with a growth style, one with a value tilt and one that is style agnostic. The managers will be equally weighted, although Central can apply a degree of variation to the allocation.

12. Kempen and KBI currently have a bias towards value factors and away from growth. In the latest annual strategy review of the Leicestershire Pension Fund, the Fund's advisors Hyman's, identified this bias and recommended a move to a more balanced portfolio. This will be achieved under Central's proposal.

13. In the period before launch Central will provide further information on the sub-fund, with partners required to commit to the launch in October, if they wish to participate. Should the required information be provided in time, the Investment Subcommittee will be asked to consider the Fund's participation at its meeting on 11 October. Should a decision be required before this date the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, will act using his delegated powers in order for the Fund to meet the deadline, with a report detailing the action taken being presented to the Investment Subcommittee..

Recommendation

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

Equality and Human Rights Implications

15. None.

Appendix

Presentation by LGPS Central

Background Papers

16. Presentation to the Local Pension Committee – 10 November 2017 - Impact of investment pooling onto the role of the Local Pension Committee.
http://politics.leics.gov.uk/documents/s132964/Impact%20of%20investment%20pooling%20onto%20role%20of%20Local%20Pension%20Committee%20-%20Presentation.pdf

17. Report to the Local Pension Committee – 19 January 2018 – Appendix A, Portfolio Structure of the Fund
http://politics.leics.gov.uk/documents/s134829/Appendix%20A.pdf

Officers to Contact

Mr C Tambini, Director of Corporate Resources
Tel: 0116 305 6199   Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property
Tel: 0116 305 7668   Email: Declan.Keegan@leics.gov.uk

This page is intentionally left blank

LGPS Central Limited

Progress Review and Plan for 2018/19

Callum Campbell

7TH September 2018

Leicestershire Pension Committee

LGPS ADVISORY BOARD CODE OF TRANSPARENCY

REMINDER OF KEY DELIVERABLES FOR 2018/19

LGPS Central Limited

1. Delivery within Budget.
2. Design and delivery of cost saving model.
3. Design and delivery of investment performance monitoring model.
4. Delivery of the Company's Responsible Investment and Engagement Policy.
5. Completion of Target Organisational Structure.
6. Completion of Target Operating Model.
7. Creation of Client Servicing and Shareholder Engagement Plans.
8. Product Development and Delivery Plans for 2018/19-2020/21.
9. Design and delivery of the Compliance Framework, Compliance Monitoring Plan, Risk Framework and Risk Monitoring Suite.
10. Design and delivery of the Company Handbook.

STRATEGIC BUSINESS PLAN DELIVERY

LGPS Central Limited

Summary

The strategic business plan delivery is currently tracking Amber owing to:

- Continued focus on development of client relationship arrangements with increasing contact and communication being established.
- Product delivery has been behind the original plan due to underestimates of e.g. manager selection, but implementation is accelerating.

- The following key items are Green:
- Partner Funds are aligned with our plans for stewardship provider. And procurement in progress.
- Establishing sound HR processes for training, development, performance assessment.

Overall RAG	A

Outcome Indicators	Executive Sponsors	Manager/ Owner	Key Achievements (*last reporting period*)	Key Activities (*next period*)	Previous RAG	Current RAG
Delivery within budget & reporting	John Burns	David Kane	• ExCo dashboard developed		G	C
"cost saving" model & reporting	John Burns	David Kane	• Meeting held with Neil Smith; data request has gone out to Partner Funds	• Develop cost savings tool	A/G	A
Investment performance model & reporting	Jason Fletcher	Callum Campbell	• July CIO report includes performance • May fund reports sent for 3 ACS and 1 mandate • Quarter 2 risk analysis completed	• Meeting with Partner Fund Reporting Group • Preparing RFP for procurement of client reporting service provider	G	G
Responsible Investment & Engagement (RI&E)	Jason Fletcher	Michael Marshall	• Opened procurement for stewardship provider via Norfolk Framework • Consulted on Voting Principles	• Conclude stewardship provider procurement • Publish Voting Principles by end-Sept • Draft Quarterly Stewardship Report for publication early Sept	G	G
Target Org Structure Recruitment	Andrew W-Thompson	Harjinder Kaur	• Tax Accountant recruitment in process • Investment Director recruitment in progress/reviewing options • Succession Planning for DCIO under review • External SPM commencing employment beginning September	• Exploring Graduate/Apprenticeship for further Investment roles • Reviewing Recruitment Policies and pre-screening checks SLA with CWC	G	G
TOM delivery & oversight	John Burns	Monica Bell	• Recruitment of an Assistant Manager Front Office Support • Monitoring procedures for the new Securities Lending Programme • Taken on the responsibility for New Broker Set up • Taken on the responsibility for Client Reporting • Design of a Fund Manager SLA	• NT SLD review and sign off • Share INV OPS v Front Office SLA • Training of the new resource • Business Plan for Outsourced Client Reporting Provider • Familiarisation with roles and responsibilities for the New Committee structures	G	G

STRATEGIC BUSINESS PLAN DELIVERY

LGPS Central Limited

Outcome Indicators	Executive Sponsors	Manager/ Owner	Key Achievements (*last reporting period*)	Key Activities (*next period*)	Previous RAG	Current RAG
Client servicing & shareholder engagement & reporting	Andrew W-Thompson & John Burns	Callum Campbell	• Fortnightly Information Bulletin to PAF • Quarterly Information Bulletin to PC • SAB Cost Transparency Code endorsed • Key meetings held with PAF Groups • Decision to implement CRM system • Website development content commenced	• Further engagements with PAF Groups • Product Information Day 12/8 • AGM 10/8 • Completion of website • Installation of CRM System • PE product launch (October) • GE product launch (November)	A	A
Product development & delivery	Jason Fletcher	Duncan Sanford	• Appointment of Global Active Equity Fund managers • Agreement of PE investment vehicle • Approval of Selection of Delegated Investment Managers Policy • Approval of Manager Oversight Policy	• Deliver on product planning process in Global Equity • PQQ for external EM fund assessed and move towards RFP stage • Seek approval for PE Business Case • Further take on of Partner Fund segregated mandates on advisory/execution basis	A	A
Compliance & Risk	Mike Vinton		• Commencement of the compliance monitoring plan • Recruitment of Compliance Manager and Compliance Assistant • Training to all staff • Breach register established • Meetings to compile the risk register • Build out of compliance monitoring • FCA/compliance awareness presentation to Joint Committee • Compliance procedures documented	• Company risk register to be approved • Risk framework to be approved • Completion of compliance monitoring • Risk appetite statement to be approved • Work with HR on CPD requirements • Work with Partner Funds to ensure they are comfortable in respect of audit requirements • Commence work on ICAAP with the Finance Team	G	G
Company Handbook	Andrew W-Thompson & John Burns	Harjinder Kaur	• Culture – Values and Behaviours agreed • Succession and Talent Management approach reviewed for all LGPSC staff • Health and Safety Policy developed • Staff Handbook and Policies reviewed and validated • Draft SLA for recruitment pre-screening checks completed –with CWC • Training Policy developed • Draft Training Delivery Plan developed • Exit interview process and a number of other HR templates developed	• Launch of Values and Behaviours – at September Training Day • Succession Plan to be reviewed by the Executive Committee • Draft report on Performance and Appraisal approach • Sign- off Payroll/HR and Business Services SLA • Confirm Training Plan and requirements for all staff • Commence Pay benchmarking review and align with appraisal • Run Policy workshops for all staff • Team update session building engagement	G	G

HOW WE WORK WITH YOU: SEPARATION OF ROLES

LGPS Central Limited

Area	Leicestershire Pension Fund	LGPS Central Limited
Investment Strategy	Sets strategy	Implements strategy
Asset Allocation	Decides on asset allocation	Day to day management of asset allocation
Responsible investment strategy	Sets WMPF's RI Framework	Implements WMPF's framework via LGPS Central's RI&E Framework
Reporting	Reports to employers and scheme members	Reports to Partner Funds
Manager selection		Selects managers and/or invests directly

HOW WE WORK WITH YOU: CLIENT SERVICE AGREEMENTS

LGPS Central Limited

EXECUTION ONLY	ADVISORY ONLY	ADVISORY & EXECUTION	DISCRETIONARY	ACS APPLICATION
An execution only service is when a transaction executed by a firm upon the specific instruction of a client where the firm does not give advice on investments relating to the merits of the transaction and in relation to which the rules on assessment of appropriateness apply.	An Advisory service is where the firm will make recommendations based on the client's circumstances and attitude to risk.	An Advisory & Execution service is where the firm will make recommendations based on the client's circumstances and attitude to risk, however, they have to contact the client and obtain agreement before any changes are made to the portfolio. The firm is unable to make changes to a client's portfolio without prior agreement.	A Discretionary service is where the firm manages a client's portfolio of investments in line with a risk profile agreed with them beforehand. This means the firm are able to manage the portfolio without checking with the client before making routine alterations. However, they will still be required to check beforehand if they wish to make a change that is outside the scope of the agreed mandate.	A collective investment scheme that enables a number of investors to 'pool' their assets and invest in a professionally managed portfolio of investments, typically gilts, bonds, and quoted equities. Some investments may be in unquoted investments or property. An investor will complete an Investor Application Form.

Partner Funds can "mix and match" the service agreements that best meet their needs including asking us to provide "oversight" on existing mandates prior to their transfer to new pooled funds.

LGPS CENTRAL LTD MANDATES AT LAUNCH IN APRIL 2018

LGPS Central Limited

Mandate Description	Structure	Partner funds	Inception date	Approval	AUM
UK passive Equities	ACS	Pooled	03/04/2018	Prospectus & FCA Approval	1,277
Global ex uk passive equities	ACS	Pooled	03/04/2018	Prospectus & FCA Approval	3,967
Global Income Growth Factor passive Equities	ACS	Pooled	03/04/2018	Prospectus & FCA Approval	264
Global Active Equities Internal	Execution and advice	WMPF	01/04/2018	Agreed and signed.Changed to A&E diven by changed asset allocation	1,020
UK Equities Active	Discretionary	DPF	01/04/2018	Agreed and signed off.	1,095
Private Equity	Execution with advice	WMPF	01/04/2018	Agreed and signed off.	1,300
Infrastructure	Execution with advice	WMPF	01/04/2018	Agreed and signed off.	1,300
Property	Execution with advice	WMPF	01/04/2018	Agreed and signed off.	600
Fixed Income:G10 and Index linked	Advisory	WMPF	01/04/2018	Agreed and signed off.	1,000
Fixed Income: Multi asset Credit	Advisory	WMPF	01/04/2018	Agreed and signed off.	808
Fixed Income: Emerging Market Debt	Advisory	WMPF	01/04/2018	Agreed and signed off.	623
Target return	Advisory	WMPF	15/04/2018	Agreed and signed off.	398
				TOTAL AUM	**13,652**

SUB FUND DEVELOPMENT AND DELIVERY PROCESS

LGPS Central Limited

LGPS Central Sub-Fund Launch Timeline

Product Planning

Planning

- PFs & LGPSC identify strategic needs for a new sub-fund
- Product design
- Resource planning
- Business case
- Costs & savings identified

1-2 months

Procurement for External Mandates

Procure-ment

- Final mandate agreed
- PQQ & RFP
- Due diligence on shortlisted managers
- PAF-dedicated liaison groups
- Managers selected
- Pricing structures agreed with PFs
- Outcomes presented to PFs

3-5 months

Legal, FCA and Operational Readiness

Sub-fund

- Legal work & prospectus development
- FCA approval process
- Preparations for launch with Custodian and Depository
- Close out final issues with PFs
- Assessment of costs
- Committee approvals
- Transition manager appointment

2-3 months

Product Delivery

Delivery

- Sub-fund information days
- Custody transition arrangements

  & paperwork
- Commitment to AUM
- PF resource and engagement
- Sub-fund launch

1-2 months

Timeline for sub-fund launches – internal ACS approx. 4 months, external ACS and alternative structures 8 months +

Partner Funds participating in a new pooled fund will need to devote significant time and effort to the relevant liaison group in the delivery phase.

ACS SUB FUNDS AND OTHER POOLED FUNDS IN PLANNING WITH PAF

LGPS Central Limited

ACS AND POOLED SUB FUNDS	FUND STRUCTURE	CURRENT TRANSITION PHASE	ESTIMATED LAUNCH DATE	EST AUM
Global Active External Equities	ACS	Finalising	Q4 2018	2,500
GEM Active External Equities	ACS	PQQ/Selection	Q4 2018	1,500
UK Active Equities Internal	ACS	Planning	Q1 2019	1,200
Private Equity 2018 vintage	SLLP	Implementing	Q4 2018	200 +
Global Factor Based Strategy	ACS	Planning	Q1 2019	1,000
Global Active Internal Equities	ACS	Planning	Q1 2019	500
Global Corporate Bonds	ACS	Product Development	Q1 2019	1,500
Global Multi Asset Credit	ACS	Planning	Q1 2019	1,182
Fixed Income G10	ACS	Planning	Q2 2019	1,000
Infrastructure	ACS, Open ended fund, LP	Planning	Q1 2019	300
Property	ACS, Open ended fund, LP	Planning	Q3 2019	300
Target Return	ACS, Open ended fund, LP	Planning	Q2 2019	700
			TOTAL AUM	**11,882**

UPCOMING EVENTS

EVENT	PURPOSE	LOCATION	DATE E (Estimated) A (Actual)	ATTENDEES
PRODUCT INFORMATION DAY	- TO PROVIDE ALL PARTNER FUNDS AND THEIR ADVISERS WITH THE PRE-LAUNCH DETAILS OF THE GLOBAL EQUITY FUND	WOLVERHAMPTON	12th SEPTEMBER 2018	PENSION COMMITTEE MEMBERS, PAF OFFICERS, PARTNER FUND ADVISERS
ANNUAL GENERAL MEETING	- ADOPTION OF COMPANY REPORT & ACCOUNTS - RE-ELECTION OF DIRECTORS - RE-APPOINTMENT OF AUDITOR	BOARD ROOM LGPS CENTRAL LIMTED 5TH FLOOR MANDER HOUSE WOLVERHAMPTON WV1 3NB	10th SEPTEMBER 2018 10.00am ((A)	LGPS CENTRAL LIMITED SHAREHOLDERS AND BOARD MEMBERS
CLIENT DAY	- TO PROVIDE AN UPDATE ON THE COMPANY'S DEVELOPMENT AND ITS PROGRESS VERSUS THE 2018/2019 BUSINESS PLAN	TBC	TBC	PENSION COMMITTEE MEMBERS,PAF OFFICERS, SHAREHOLDERS
TRAINING DAY	-TO PROVIDE MEMBERS OF PARTNER FUNDS WITH SPECIFIC TRAINING NEEDS AS REQUESTED	COUNTY HALL, WORCESTER	18th SEPTEMBER	PENSION COMMITTEE MEMBERS, PAF OFFICERS

UPCOMING EVENTS (cont.)

LGPS Central Limited

EVENT	PURPOSE	LOCATION	DATE	ATTENDEES
PRODUCT LAUNCH **PRIVATE EQUITY 2018 VINTAGE**	N/A	N/A	30TH OCTOBER 2018	N/A
PRODUCT LAUNCH **GLOBAL EQUITY ACTIVE MULT-MANAGER ACS SUB-FUND**	N/A	N/A	30TH NOVEMBER 2018	N/A

QUESTIONS

30

Agenda Item 7

Leicestershire County Council

LOCAL PENSION COMMITTEE – 7 SEPTEMBER 2018

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 30th June 2018 (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 30th June 2018 was £4,181.4m compared to £4,071.4m at 31st March 2018, an increase of £110.0m. In the three month period non-investment related net cash inflows amounting to £5.5m were received. After adjusting for non-investment related cash flows the Fund value increased by £104.5m, or 2.6%, due to changes in the value of investments.

3. The total returns of various indices since 31st March 2018 were as follows:-

	Local Currency %	Converted to Sterling %	Return with 50% hedge %
UK Gilts	+0.2	+0.2	+0.2
UK Index-Linked	-1.0	-1.0	-1.0
UK Equities	+9.2	+9.2	+9.2
North American Equities	+3.7	+10.1	+6.9
European Equities	+2.4	+3.4	+2.9
Japanese Equities	+1.2	+3.2	+2.2
Pacific (Ex Japan) Equities	-0.2	+4.4	+2.1

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

	30th June 2018		31st March 2018
	£m	%	%
UK Equities	315.5	7.5	7.5
Overseas Equities	1,617.7	38.7	38.3
Targeted Return/Credit/Opportunity Pool	991.1	23.7	24.0
Private Equity	158.1	3.8	3.6
Property	367.0	8.8	9.0
Cash	95.9	2.3	3.0
Inflation-Linked Assets	640.5	15.3	14.3
Active and Passive Currency	(4.4)	(0.1)	0.3
	4,181.4	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 (%)
Ashmore (emerging market debt)	-7.2	-5.9	-1.3
Aspect Capital (managed futures)	-5.1	+1.1	-6.2
Aviva Investors (property)	+2.3	+2.0	+0.4
Delaware (emerging market equities)	-1.9	-2.2	+0.3
Kempen (equity dividend)	+6.2	+8.1	-1.9
Kleinwort Benson (equity dividend)	+4.8	+6.8	-2.0
Legal & General (passive global equities)	+6.7	+6.7	0.0
Millennium (currency)	+0.8	+0.4	+0.4
Pictet (targeted return)	+0.7	+1.2	-0.5
Ruffer (targeted return)	+2.5	+1.1	+1.4

One year

Manager/Portfolio	Actual (%)	B/mark(%)	Relative (%)
Ashmore (emerging market debt)	-0.8	-1.2	+0.4
Aspect Capital (managed futures)	+2.1	+4.4	-2.3
Aviva Investors (property)	+11.0	+9.7	+1.3
Delaware (emerging market equities)	+7.9	+6.5	+1.4
Kempen (equity dividend)	+8.8	+9.3	-0.5
Kleinwort Benson (equity dividend)	+6.8	+8.9	-2.1
Legal & General (passive global equities)	+8.3	+8.3	0.0
Millennium (currency)	-0.2	+1.5	-1.7
Pictet (targeted return)	+4.5	+4.7	-0.2
Ruffer (targeted return)	+2.6	+4.4	-1.8

Three years (performance per annum)

Manager/Portfolio	Actual (%)	B/mark(%)	Relative (%)
Ashmore (emerging market debt)	+6.3	+3.2	+3.1
Aspect Capital (managed futures)	+1.2	+4.4	-3.2
Aviva Investors (property)	+8.5	+7.6	+0.9
Delaware (emerging market equities)	+16.3	+11.9	+4.4
Kempen (equity dividend)	+16.2	+14.9	+1.3
Kleinwort Benson (equity dividend)	+13.9	+14.6	-0.7
Legal & General (passive global equities)	+13.7	+13.7	0.0
Millennium (currency)	-0.6	+1.5	-2.1
Ruffer (targeted return)	+3.7	+4.4	-0.7

Five years (performance per annum)

Manager/Portfolio	Actual (%)	B/mark(%)	Relative (%)
Ashmore (emerging market debt)	+3.5	+2.0	+1.5
Aspect Capital (managed futures)	+4.4	+4.4	-0.1
Aviva Investors (property)	+12.1	+10.6	+1.5
Delaware (emerging market equities)	+10.4	+8.0	+2.4
Kempen (Equity Dividend)	+11.4	+13.0	-1.6
Kleinwort Benson (equity dividend)	+11.4	+12.5	-1.1
Legal & General (passive global equities)	+12.2	+12.2	0.0
Millennium (currency)	+0.6	+1.5	-0.9
Ruffer (targeted return)	+5.1	+4.4	+0.7

Recommendation

6. The Local Pension Committee is asked to note the report.

Appendix

7. Report of the Fund's Independent Investment Advisor

Equality and Human Rights Implications

8. None.

Officers to Contact

Mr C Tambini, Director of Corporate Resources
Tel: 0116 305 6199 Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Appendix

LEICESTERSHIRE PENSION FUND INVESTMENTS AT 30 JUNE 2018

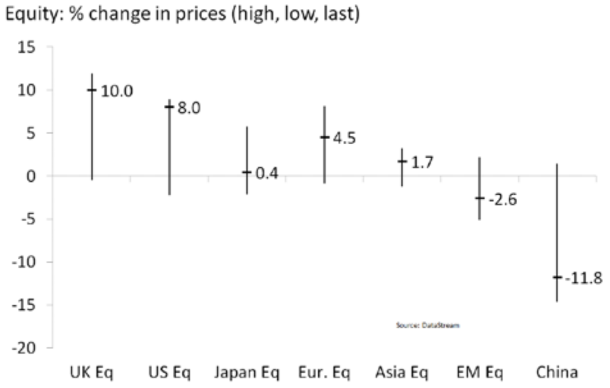
	Market Value	Value	Benchmark	Variance
	£	%	%	%
Equities				
United Kingdom	315,463,183	7.54	7.10	0.24
Overseas:				
Global dividend-focused	338,707,424	8.10	8.00	0.40
North America	572,913,447	13.70	12.80	0.80
Europe (Ex UK)	228,281,305	5.46	5.30	0.26
Japan	113,140,533	2.71	2.40	0.21
Pacific (Ex Japan)	112,343,285	2.69	2.40	0.19
Emerging Markets	252,290,546	6.03	6.00	0.23
Total	1,617,676,540	38.69	36.90	2.09
Private Equity	158,100,000	3.78	4.00	-0.22
Property				
Direct Holdings	102,115,000	2.44	3.30	-0.86
Indirect Holdings	264,841,952	6.33	6.70	-0.37
Total	366,956,952	8.78	10.00	-1.22
Alternative Investments				
Fauchier	404,085	0.01	0.00	0.01
Pictet	120,709,826	2.89	2.00	0.89
Ruffer	258,553,380	6.18	6.00	0.18
Credit Opportunities	235,230,513	5.63	7.50	-1.87
Aspect	135,296,676	3.24	3.50	-0.26
Emerging Market Debt	102,313,768	2.45	2.50	-0.05
Opportunity pool	138,636,173	3.32	4.00	0.32
	991,144,421	23.70	25.50	-0.80
Inflation-Linked Assets				
Global Government Index-Linked Bonds	280,267,916	6.70	7.50	-0.80
Infrastructure	233,102,926	5.57	6.00	0.57
Timberland	123,095,882	2.94	3.00	0.94
	636,466,723	15.22	16.50	0.71
Cash on Deposit	95,879,388	2.29	0.00	2.29
Unrealised Profit On Currency				
Active	82,611	0.00	0.00	0.00
Passive	-389,454	-0.01	0.00	-0.01
Total	-306,843	-0.01	0.00	-0.01
TOTAL	**4,181,380,365**	**100.00**	**100.00**	**0.00**

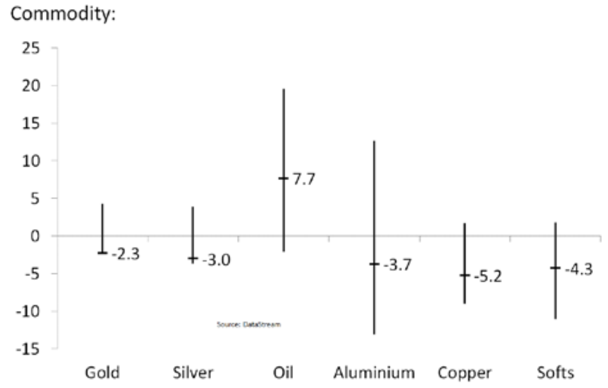
Market Backdrop

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

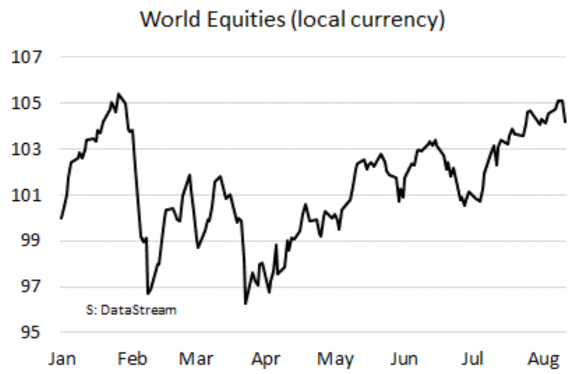
Market Overview

The figures below describe the % performance of various markets from the end of Q1, 2018 to the close on 10th August 2018; the charts also show the range of performance over that period.





Since the end of Q1 and helped by a recovery in US activity and despite deepening concerns over trade tariffs, equity markets, have made good progress. This has largely been a developed markets story with emerging markets, including China, registering losses. The progress since Easter is illustrated in evolution of a global equity index shown in the chart opposite. After an erratic start to the year, in aggregate equity markets have moved higher with few setbacks (see Commentary).

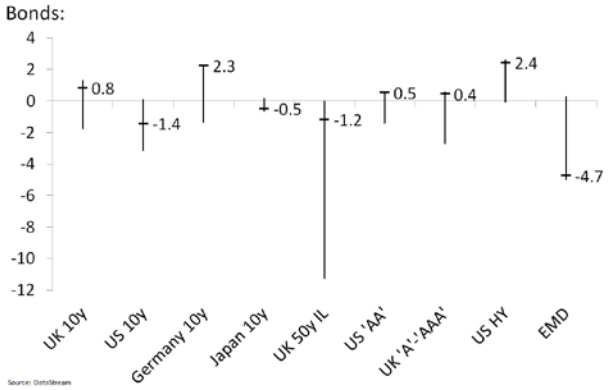


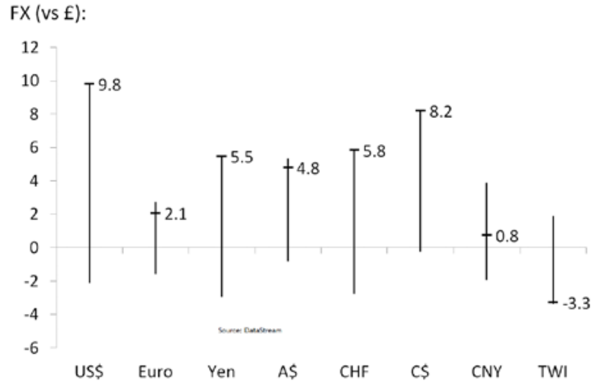
Gains were led by the UK and US, both of which closed around period highs. The UK All Share index moved ahead strongly recovering from a poor Q1, boosted by early strength in commodity prices, improving economic data (from a low base), weakness in the Pound and, for a period, some respite from *Brexit* worries. In the US, the news continues to be good. Economic growth has been very robust allowing the Federal Reserve to acknowledge the improvements by lifting policy rates even though price and wage pressures have been largely benign. Various emerging markets have fallen into the grip of a classic crisis that continues to roll through EM. Every major US tightening cycle has created issues somewhere; for the moment, the casualties are EM.

Throughout the period, companies have repeated their gains of Q1 posting solid progress in corporate earnings ahead of analyst forecasts; while Trump's tax cuts have generated a clear boost for US equities this is, by no means, the whole story.

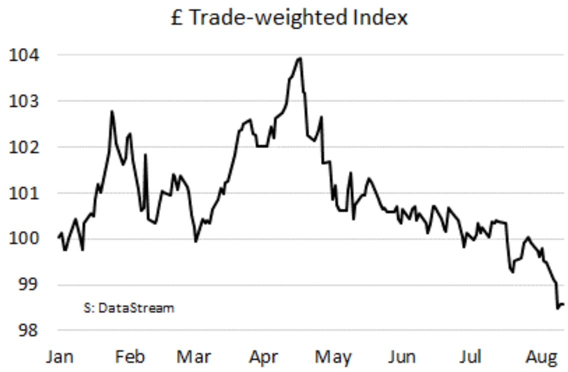
Selectively, commodity markets have seen performance vary even though many commentators promote commodities as a diversifier at this stage of the economic cycle. The oil price has been particularly strong helped by falling inventories and despite a higher number of US operating rigs. Industrial metal prices have been buffeted by inventory overhangs and threatened interruptions due to trade tariffs and sanctions. Despite rising geo-political risk and worries over inflation, Gold has failed to perform; it is hard for Gold to gain when the US$ is strong, as it has been.

Bond markets have held steady with yields are generally off their highs despite ongoing tightening by the US Federal Reserve; strong growth and a rising cash yield have been offset by muted inflation reports and rising price for safe-havens. Strong corporate performance has boosted US high yield bonds (on fewer concerns around defaults) while trade worries, positioning, Fed tightening and a higher US$ have weighed heavily on emerging bond markets.





The Pound trade weighted index (TWI) has slipped more than 5% since the middle of April initially as hopes for a base rate increase in May were undone by sluggish economic data. Thereafter, concerns around the eventual *Brexit* deal and the stability of the UK government (under Theresa May) took hold. By the time that the Bank of England eventually lifted base rates in August, the benefit of a 0.25% increase in yield was largely irrelevant. Sterling is not helped by the UK's exposure to emerging markets.



Consensus expectations – economic growth and inflation

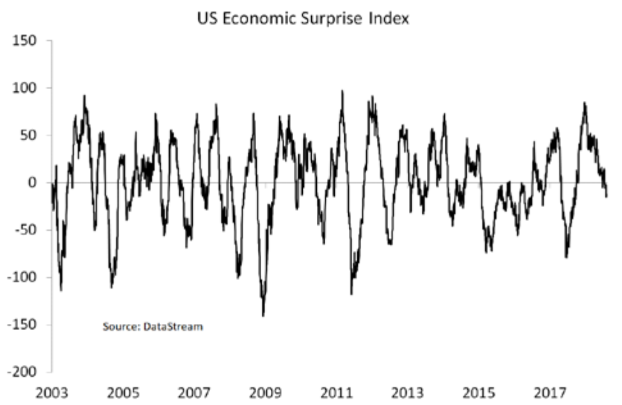
Mostly, and the US apart, changes in the economic outlook for 2018 see activity weakening; growth in 2019 is projected to continue slowing. Although the UK should see an improvement in 2019, it is expected to underperform both the EZ and US. These forecasts nonetheless still support ownership of growth assets.

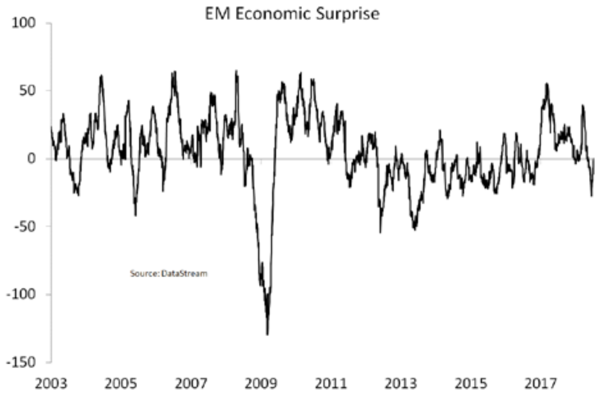
Table 1: Consensus forecasts – Real GDP growth (%)

	2017	2018	Change ytd	2019	Change ytd
US	2.3	2.9	+0.3	2.5	+0.4
Eurozone	2.4	2.1	+0.0	1.8	-
UK	1.7	1.3	-0.1	1.5	+0.1
Japan	1.7	1.1	-0.2	1.0	-
China	6.9	6.6	+0.1	6.3	+0.1

The superior performance of the US is, in part, due to the direct impact of President Trump's tax cuts. Significant 'second order' effects are evident as buoyant corporate and consumer confidence promote stronger investment and consumption, 'tech' investment is particularly strong. The US Federal Reserve have nonetheless confirmed that they don't believe that a laxer fiscal stance will lift America's potential growth rate (the equilibrium growth forecast remains at 1.8%); growth is simply being brought forward.

Some respite from £ weakness is possible in the near term given that the emerging UK economic data is starting to positively surprise (charts below). In the US, forecasters have caught up with events and now expect buoyant reports. In the Eurozone, the best that can be said is that the actual data is not as disappointing as it has been; the same is true in emerging markets.





Inflation forecasts for 2018/19 continue to lift (Table 2 overleaf). The main take-away is however that inflation rates will, this year and next, remain contained and broadly consistent with central bank targets. While monetary policymakers are still keen to exploit the better economic backdrop (moderate and, mostly, synchronised growth) to move away from near zero (or negative) interest rates; only the UK and UK have been able to achieve this. Unless higher oil prices (chart opposite) lead to faster price increases than is expected, some central banks may find themselves unable to raise their policy interest rate and the ECB has already moderated its path to (policy) normalisation. Finally, and for the moment, the Bank of Japan looks likely to attempt some change in policy direction – if the (softening) economic data will let it!

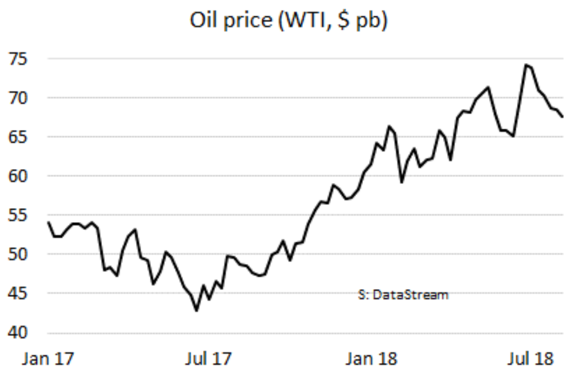
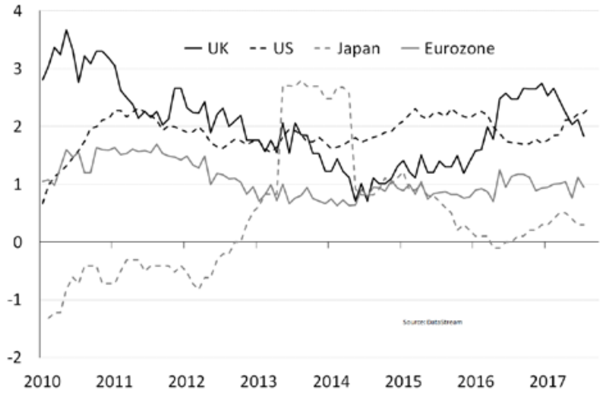


Table 2: Consensus forecasts – Inflation (CPI, %)

	2017	2018	Change ytd	2019	Change ytd
US	1.5	1.9	+0.2	2.1	+0.1
Eurozone	1.1	1.7	+0.3	1.7	+0.1
UK	1.6	2.5	-	2.1	-
Japan	0.0	1.0	+0.2	1.1	+0.1
China	2.1	2.3	-	2.3	+0.1

Trends in core inflation rates in the major economies have been stable-to-softening (chart opposite); only the US has seen increases, and these have tended to undershoot forecasts.



After lifting strongly following £ weakness in 2016/17, core inflation in the UK continues to ease (and faster than was expected). One benefit from this has been that wages in the UK have started to rise in real terms though it will be many years before purchasing power is restored to pre-GFC levels. The general economic environment continues to favour, all else equal, those UK companies which trade overseas (preferably in the US).

In the UK, the latest data (for June) saw headline retail and consumer price inflation 'roll over' (Chart 1) and, as the forecasts above imply, the current downtrend should continue. Input and output producer prices are also softening (Chart 2).

Chart 1: UK inflation rates (%, yoy)

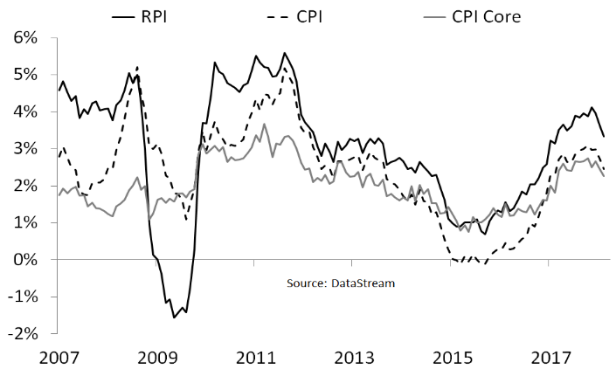
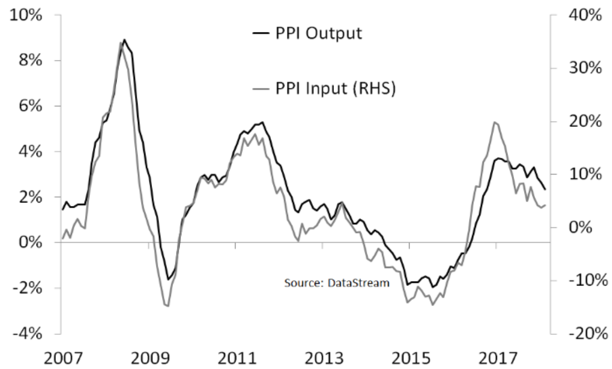


Chart 2: UK producer price growth (yoy)



The major uncertainty in the UK – for both growth and inflation – of course remains the manner of the exit from the EU next spring. Forecasts inevitably are the average, formed of views that diverge markedly within a broad spectrum between a 'soft' *Brexit* to one that sees 'no deal'. On this basis, the average forecast outcome is probably the least likely. It is against this backdrop that the Pound has slid and that the BoE has been keen to create some 'altitude' in base rates (such that any cut to stimulate demand, if needed, has some potency).

Trade Tariffs

The great unknown for investors currently is the economic and market impact of the trade tariffs, driven by the US. Currently, the US is collecting newly-imposed tariffs on $50bn of Chinese imports with the payments being collected at the US border. The Trump Administration has announced tariffs on a further $200bn of Chinese imports; these are currently being reviewed and may well be implemented before the end of September. [Offering some better news, it looks as though there will be a positive outcome from the NAFTA re-negotiations (albeit perhaps only between the US and Mexico).]

China has responded with a range of measures. These include retaliatory tariffs of 25% on US car imports. Together with previously announced measures, car imports from the US to China are now subject to a total of 65% import tariffs (this should be compared with a 15% tariff on imports from other countries). This means that cars exported to China from US plants (American or otherwise) will be on average 44% more expensive than cars exported from other plants outside US. Elsewhere, the Chinese currency has depreciated steadily over the summer. There is a natural limit on what China can do viz. a viz. US exports to China – the Chinese simply don't import enough; they can, however, allow their currency to become more competitive (inevitably inviting accusations of currency manipulation).

UBS have attempted to quantify the impact of the tariffs and concluded that global GDP growth will decelerate by around 1.1% led by the US (lowered by 2.4%) and China (by 2.3%). As a result, they foresee that US 10-year and 2-year bond yields will fall by 0.3% and 0.5% respectively; the bond markets are not positioned for such a move. The implication for equity markets is judged as possibly being severe, ranging from the US - down 21%, Europe - down 25% and Asia (ex-Japan) - down 24%. UBS also forecast that higher import prices (post-tariffs) will cascade through the supply chains and raise global inflation by about 0.33% in a Trade War scenario. The impact on US and China prices is, however, much larger (0.7% and 0.9% respectively); higher prices are expected to claim half of the growth reduction, the rest will come from supply chain disruption and knock-on effects (once a critical threshold of tariff disruption is reached). It is acknowledged that these outcomes are inherently difficult to model.

Having canvassed companies, UBS believe that 60% of companies will try to pass on costs to customers, 90% may cut capital spending and 26% might consider relocating production capacity away from the US to alternative locations (particularly true of companies in Asia). In a full-blown the Trade War scenario, global revenue growth could fall by more than 1% while capital investment could be reduced by up to 1.5%.

For the moment however it is hard to see any direct impact. In an analysis of the US job market and focusing on those industries more directly exposed to the trade (with China and the EZ), Goldman Sachs suggest that there has, yet, been no observable impact on hiring or capital investment. They do however detect concern among US analysts over export markets, imported inputs, and supply chain disruption - especially in the autos, clothing, freight, and machinery sectors. They also echo UBS's view that tariff costs will be passed on; there will still be a negative impact on profits in almost half of the market.

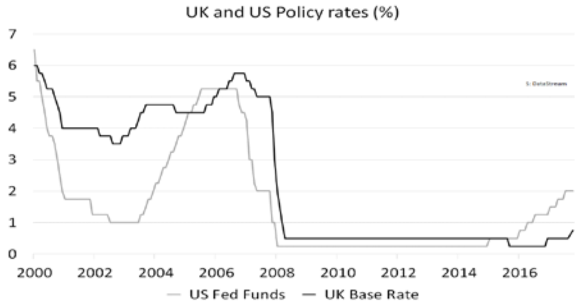
More positively, both UBS and GS expect that the negative effects of the trade war on costs and foreign sales will be temporary; normalisation is expected within a year.

Short and long-term interest rates

The current consensus forecasts for the main monetary policy settings are shown in Table R1 overleaf; away from Japan, rates are still perceived to be on the rise, albeit very slowly. Specifically, UK money markets currently discount no more hikes in base rates in the remainder of 2018 and just over one by end 2019. This is consistent with the weak growth and easing inflation outlook. At the turn of the decade and more than twelve years since the *Credit Crunch,* official UK interest rates will still be exceptionally low relative to history (chart). An adverse *Brexit* could easily see base rates fall afresh. Even in the US, rates remain very low by historical standards even though they have been increased several times,

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

	Latest	2018	2019
US Fed	1.88	2.45	3.05
ECB	-0.40	0.00	0.15
BoE	0.75	0.75	1.15
BoJ	-0.10	-0.10	0.00



The US Federal Reserve validated market pricing by hiking rates again in June (into the range 1.75% to 2.00%). Although the market is pricing at least one other increase this year, the outlook is clouded by the uncertain (negative) impact of the various trade tariffs imposed in recent months with, in recent weeks, some commentators suggesting that the Fed will ‘pass’ in December (having delivered another hike in September). Since in real terms, the US policy rate is still negative - just, US monetary policy remains accommodative, favouring growth assets (subject to price).

FOMC members recently confirmed that they judge the neutral policy rate still to be 2.9% even allowing for the strong fiscal boost underway; monetary policy might be normalising, but this will still be to a ‘new’ normal. Longer term, policy rates in the US are expected to hit their equilibrium level in 2019 (when real growth in the US economy is expected to slow to 1.9%). This introduces the concept of a protracted pause at some stage and invites speculation as to the timing of the next down-turn (in policy rates).

The outlook for longer dated nominal bond yields is shown in Table R2. US yields are expected to rise gently into 2019 driven by higher policy rates and by sustained, above-trend economic growth; higher US yields will drag other bond markets with them. Although nowhere will yields get ‘high’, US bonds are becoming more competitive relative to equities; at 3.4%, US yields would likely look attractive in absolute terms.

Table R2: Consensus forecasts – ten-year bond yields at year end (%)

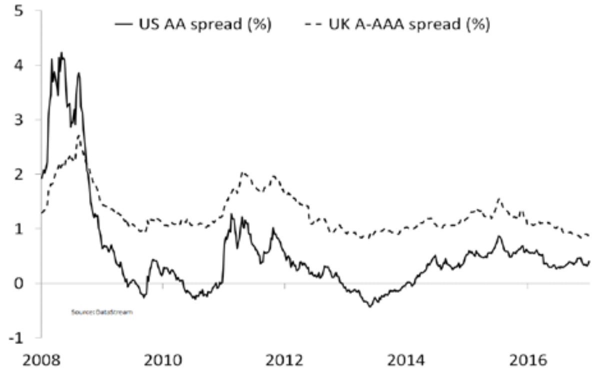
	Latest	2018	2019
US	2.9	3.1	3.4
Germany	0.3	0.7	1.1
UK	1.3	1.7	2.1
Japan	0.2	0.1	0.1

The Bank of England recently amended its guidance on unwinding QE, declaring that its stock of gilts will not be unwound until the policy rate is around 1.5%; the previous guidance has pointed to a 2% threshold. The justification offered is that, whereas in 2009 there was a sense that some banks couldn’t cope with interest rates below 0.5%, 10 years on, UK banks and building societies have adjusted their models such that the Base Rate could fall to almost 0% without the policy being a net negative for the economy.

Over the past two years, the US Federal Reserve have lifted their policy rate several times and moved to reduce the QE holdings without disrupting either their bond market or the economy. Based on the aforementioned guidance, the BoE clearly believes that the UK banking system has evolved in the last decade in a way that allows the MPC enough flexibility over how it sets monetary policy to enable the UK to follow suit. And, for the argument that banks need a steeper yield curve to make money, again conventional wisdom should be treated with some healthy scepticism.

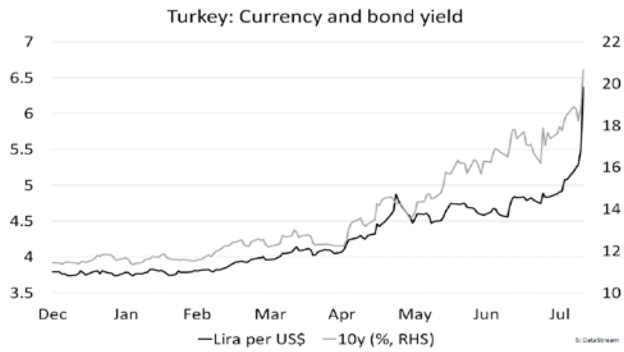
Non-Government Bonds

Investment grade (IG) bond yield spreads remain tight; buoyed by excellent corporate earnings reports (hinting to low levels of likely defaults) and despite higher US bond yields. At current levels, yields spreads need to rise substantially to make them a compelling investment. That said, retail demand for IG bond funds has remained strong helped by Japanese buying and ongoing asset purchases by the European Central bank (as it implements QE).



The same remains broadly true of high yield bonds where the yield spread (over US 5-year government bonds) remains around multi-year lows. The buoyant corporate earnings backdrop has improved the quality of US credit and invites the conclusion that whatever might define the next financial shock it is unlikely come from within the US non-government bond markets.

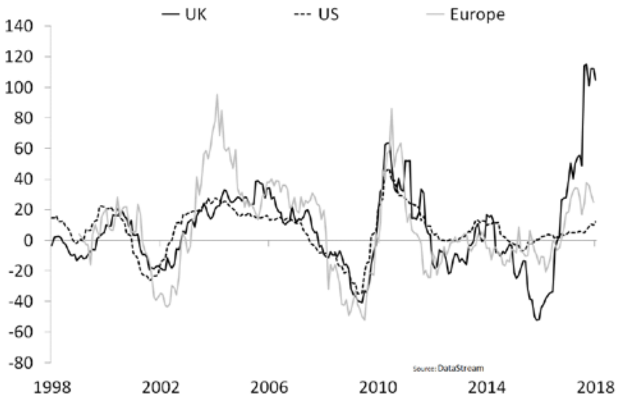
Regardless of which emerging market debt index is followed, the blood-letting – after an excellent 2017 – continues. Economic crises in Argentina and Venezuela have followed-through into Turkey (which is currently looking as though it could become a failed state) – and, to a lesser extent (thus far), Brazil, South Africa, Russia and India. The story is, as it has been many times before: countries which operate twin deficits – fiscal and external – are, ultimately, subject to the kindness of strangers (global funds with capital to invest). Occasionally, those 'strangers' become less indulgent – usually when US monetary conditions are being tightened – as now. This time, the situation is further complicated by trade tariffs and sanctions.

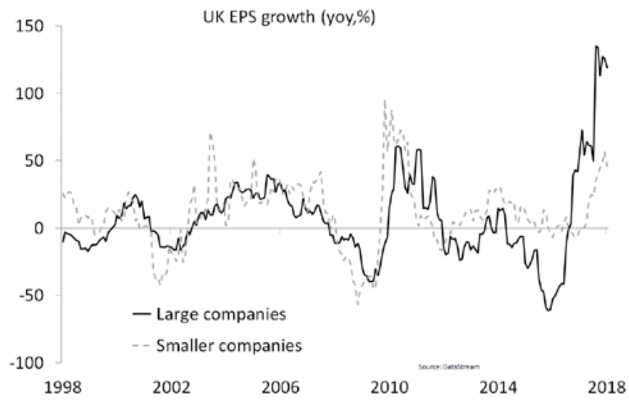


Equities

The chart (E1) below details how forecast earnings per share (EPS) for the UK, US, European and Japan equity markets have evolved over the past twenty years; they chime with the economic cycle. The impact of £ weakness in 2016 on the earnings of the larger UK companies, made more dramatic by being off a low base, is clear to see. Note that U.S. corporate earnings will be boosted by tax reform (not yet fully apparent in the data).

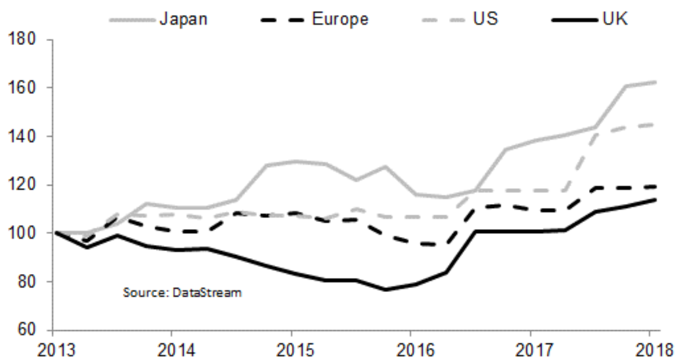
Charts E1: Experienced earnings per share growth





EPS forecasts for the next financial year confirm a generalised improvement including in Japan (where the recent earnings season has been very strong) and the US (tax boosted). Analysts appear reluctant to discount a strong follow through in Europe where the strength of the € is a concern. From current levels, the UK outlook remains poor by comparison.

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



Looking beyond the next financial year, equity analysts remain reasonably optimistic (Table 5); it should be remembered that analysts are rarely pessimistic.

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

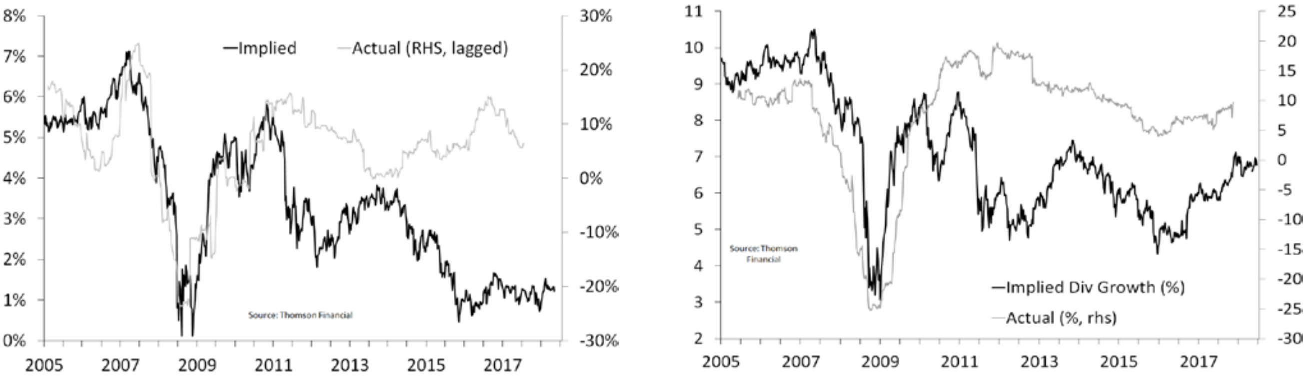
	UK	US	Japan	Europe
FY2	8% (+2%)	10% (u/c)	6% (+1%)	9% (+1%)
FY3	8% (-1%)	10% (u/c)	5% (+1%)	8% (-1%)

Equity Valuation

A preferred means of assessing the relative valuation of equities draws upon the level of dividend growth required to generate the same returns relative to the alternative of investing in bonds. In the UK market (Chart E3), the implied breakeven level of long-term dividend growth looks to be modest in absolute terms and against what has been delivered; low gilt yields help improve the comparison. If allowance is made for a risk premium – important given the uncertainties surrounding *Brexit,* then UK dividends may never grow but equities would still broadly offer better value than fixed income. This position could persist for some time.

In the US on the other hand, equities have seen the breakeven dividend growth continue to lift (Chart E4) to levels that are starting to look less like as a foregone conclusion; US bonds have acquired a more competitive risk/reward balance especially with cash rates continuing to head higher. US cash now yields more than the equity market.

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 UK FTSE 250 is determined in the same manner as the broader market. Here and until recently, the path of actual dividend growth has been more consistent with the evolution of the breakeven rate (Chart E5). The hurdle for smaller companies to be competitive remains low, consistent with the modest economic growth outlook.

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

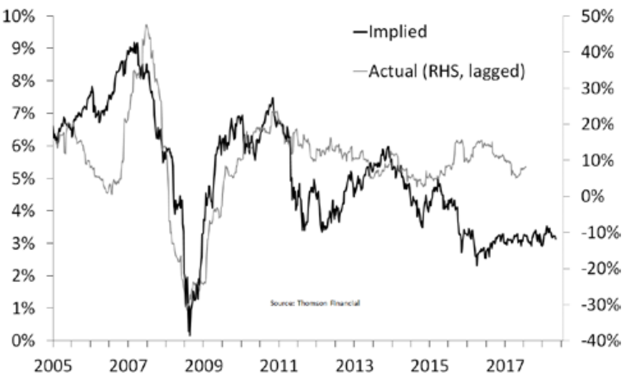
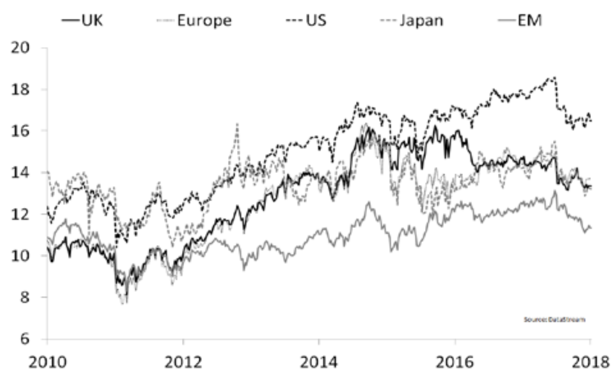


Chart E6: Regional PE ratios



Looking at PE ratios (Chart E6), valuations, having risen over 2017, have corrected materially since early February. Equity ratings, on a PE basis, are less challenging than they were and have been further cheapened by strong earnings growth. In all cases the level of valuation is within historic ranges – albeit towards the upper end; the same cannot be said for (non-US) government or corporate bonds.

Regardless of how it is delivered, if the global economy continues to grow then developed equity markets remain resilient and enjoy decent returns unless wage growth starts to eat into profit margins and/or the EM crises /tariffs 'bite'. Investor confidence however appears fragile.

Equity style update

Appetite to find clever ways of beating the equity market remains undiminished and so the pursuit of lower cost *smart betas* is still strong (and the cost of playing these themes continues to fall). These are style filters no smarter than was the designation, thirty years ago, of *value* and *growth*. Chart S1 updates on the relative performance of four common global *smart betas*: quality, high dividend yield, momentum and minimum volatility[1] (risk). Yield ('Hi Div') and volatility have languished in recent months as investors favoured a growth perspective even after the recent correction. Momentum remains a prized theme.

Chart S2 captures the performance of small cap, growth and value themes. Gyrations in small cap (largely driven by weightings in the US), have reflected the markets' changing assessment of whether Trump will be able to deliver on his election promises; now delivered, small cap has kept pace with Growth. Strong appetite for growth stocks has been reflected in the relatively poor performance of 'unloved' value stocks.

Chart S1: Performance of equity styles (vs MSCI)

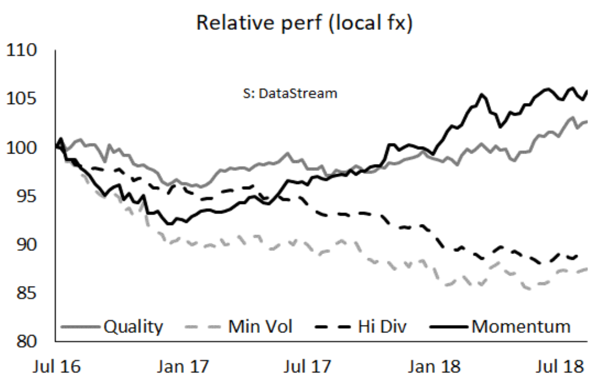
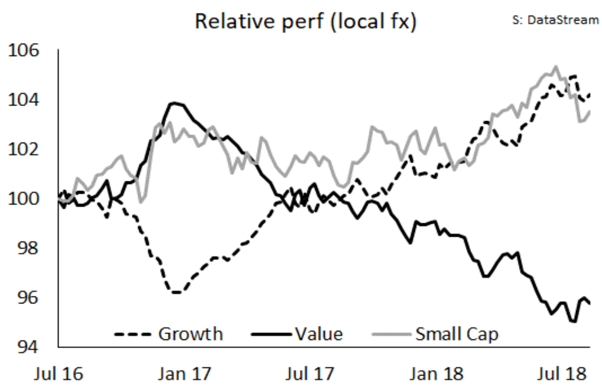
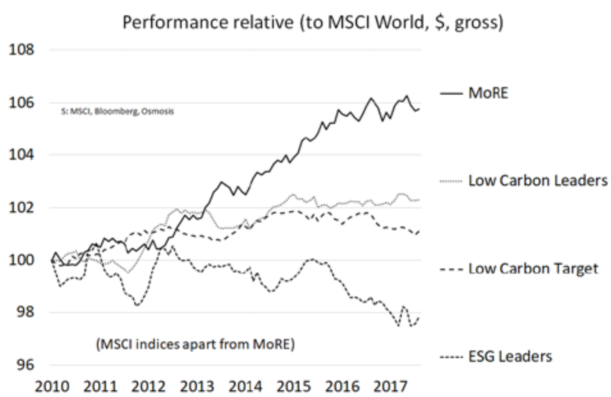


Chart S2: MSCI Growth vs Value relative



The strength of demand for growth and momentum played together with rising bond yields has seen investors mark-down income as an investment theme in both the US and Europe. Nonetheless the Fund is guided to sustain a strong weighting to equities characterised by robust dividend yields and solid dividend growth. Market conditions don't always stay supportive of 'risk'.

There are numerous ways of playing the sustainability theme; a preferred example is one that favours those companies that are demonstrably better[2] at managing their water and energy inputs and waste outputs (MoRE). The next chart plots the relative performance of this portfolio (relative to the MSCI) alongside several other indices. Thus far, the more complete approach (water, waste and energy via MoRE) has delivered superior and more stable excess returns[3].



A resource efficient tilt to equities is an attractive alternative to a holding in a global equity passive index if implemented and superior to simply focusing on minimising a carbon footprint. A small cap momentum version would be ideal!

---

[1] In practice, this 'style' captures those stocks which tend to have high levels of free cashflow yields.
[2] As disclosed formally in their regular company reports. MoRE refers to Model of Resource Efficiency.
[3] Excess returns are perhaps to be expected; companies which minimise their input and output costs (associated with waste, water and energy) are probably better managed companies.

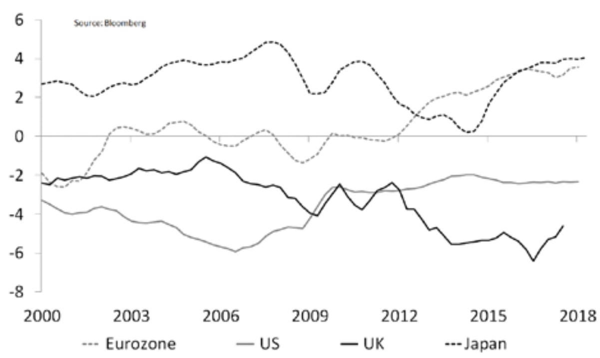
Currency markets

Recent developed market currency swings have been driven less by overt policy manipulation and more by growth contrasts. In 2017, the € rose in line with unexpectedly strong levels of real economic growth while the US economy initially lagged forecasts. The associated rebalancing has benefitted the world economy however this year the situation has swung strongly into reverse: economic activity in Europe and Japan initially slowed (partly due to adverse weather – *the Beast from the East*) and has since lagged badly. The US$ has bounced in recent weeks (Chart FX3). Another significant influence has been Trump's anti-free trade stance which is beginning to generate concern around surplus currencies and emerging markets.

Consistent with the growth transfer is the operation of external deficits and lower surpluses; current account imbalances exert a strong influence on currency trends when other, more fleeting, drivers subside. Chart FX1 highlights the strong creditor nature of the Eurozone and Japanese economies as well as the UK's need to attract international capital inflows to 'balance the books'.

It should be noted that the UK's substantial current account deficit has improved recently but the deficit, as % of GDP, remains significant and financing it could prove challenging if global financial markets became much more cautious i.e. 'strangers' become less generous.

Chart FX1: Current account balance (% GDP)



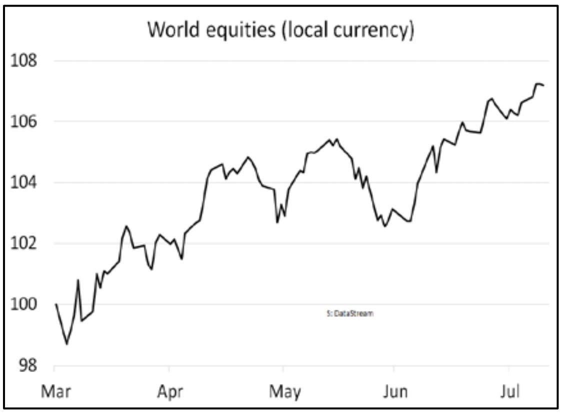
The UK has nonetheless been able to attract international capital despite the relatively low yields on offer. Higher yields in the US might have started to 'crowd' out the UK and £ has weakened accordingly. That said the US is set to operating substantial 'twin' deficits (fiscal and external) the scale of which could easily challenge the ability/ willingness of the rest of the world to finance. All else equal these deficits should eventually put downward pressure on the US$ even allowing for the steady increase in US interest rates.

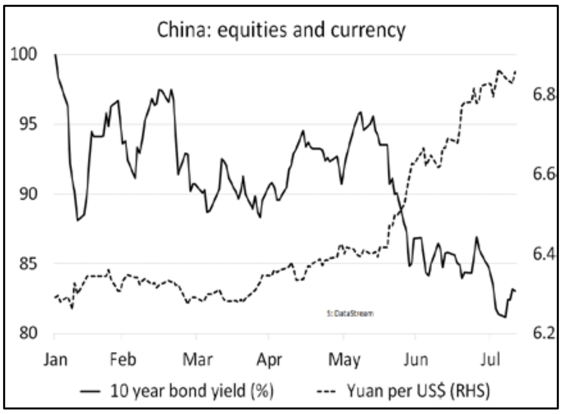
£ is still low (Chart FX2) but may languish around current levels given the manifest *Brexit* uncertainty, the absence of fresh economic stimulus from fiscal policy and the relatively weak economic outlook (Table 1). Political developments in the UK have the potential to change the landscape for £ considerably and need to be watched.

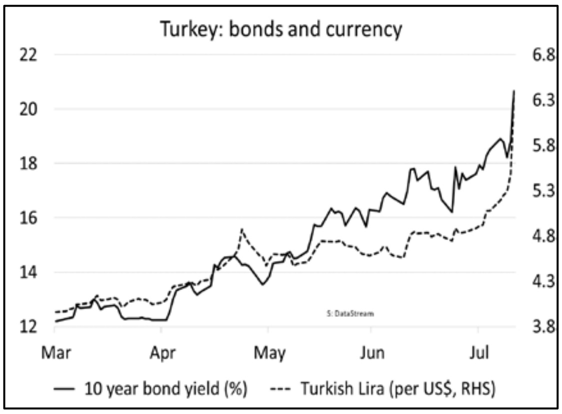
Chart FX2: £ Trade-weighted Index

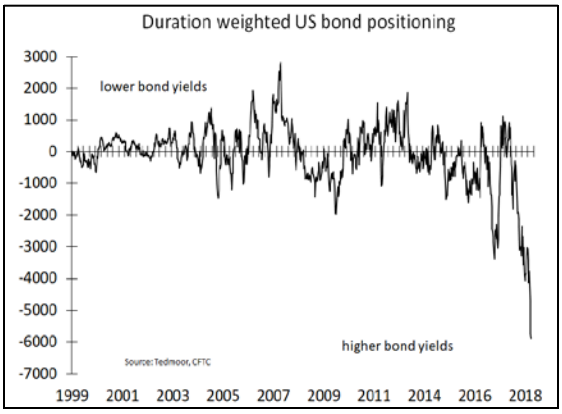
Chart FX3: US$ Trade-weighted Indices

Commentary - Thinking big









On the face of it, financial markets have been a joy. Since Easter, the World's equity markets have steadily moved higher with barely a hiccup, delivering gains on a par with the same period in 2017 – a time so benign, it is now generally seen as an aberration. What setbacks there have been, were driven by the latest wave of Trump tariffs. Yet and as a duck, beneath the surface some large, and worrying, moves are occuring. For the most part, the action has been stayed within emerging markets.

Chinese equities have slumped almost 20% since the end of January caught in a vice of weakening economic activity and escalating trade tensions with the US. At the same time, the Chinese currency has, by association or design, weakened sharply against the US$.

Just as China is significant in the emerging market equity complex, Turkish bonds are a material part of emerging market debt benchmarks. Rising Turkish fiscal and current account deficits have combined with dubious economic policies and adverse political developments – including a dispute with the, increasingly belligerent, US President, to induce an emerging market crisis the like of which we have seen many times before; these rarely end well.

Meanwhile, in (US) bond markets, pressure, from investors/traders, for (much) higher bond yields is at record levels. If the anticipated move in yields occurs then, not for the first time, bond markets could cause a sharp (negative) re-pricing of 'risk'.

At another time, investors would look upon these various strains with grave concern and would have priced a safety margin into all risk markets – developed equities included; not so this year. Not because the World has suddenly become less connected; globalisation, thanks to Trump, may probably have peaked but the World's economies and markets remain highly inter-connected. Rather it is because of two factors: buoyant corporate earnings and very impressive performance by the US economy.

2018 will go down as a great year for corporate earnings. Even allowing for the boost in the US from tax reform, companies have eclipsed analyst forecasts. The broader 'outside' world might well be fraught with challenges, but companies are prospering and, on balance, are voicing few concerns.

In recent years, investors, mindful of the Japan playbook of nearly thirty years ago, have agonised over the dominance of world equity indices by the US equity market. For the of moment, that dominance is proving a boon for investors. It takes a lot of non-US weakness to undermine US gains.

Of course, this has a dark side – which will be revealed dramatically when conditions in the US sour. In the meantime, however, and with Trump aggressively promoting *America First*, it is premature to bet against the US and, given the sheer weight of (US) money, global equity markets. Caution is certainly warranted but, the US apart, monetary policy everywhere remains highly accommodative. If the various pressures evidenced above look set to threaten financial markets, don't rule out policy becoming even easier. The US equity market continues to be preferred.

Scott M Jamieson, August 2018

www.kamescapital.com

KAMES CAPITAL

Leicestershire County Council Pension Fund Q2 2018 – Market Report

KAMES CAPITAL

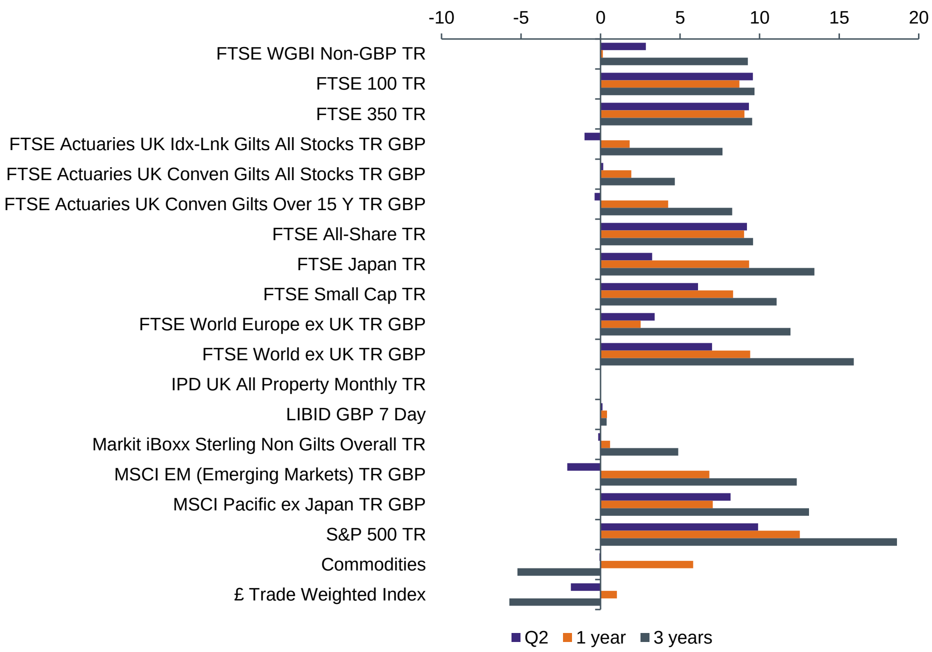
Contents

KAMES CAPITAL

Historic Returns for World Markets

	Q2 (%)	1 year (%)	3 years (%)
FTSE WGBI Non-GBP TR	2.85	0.14	9.26
FTSE 100 TR	9.58	8.73	9.67
FTSE 350 TR	9.32	9.05	9.53
FTSE Actuaries UK Idx-Lnk Gilts All Stocks TR GBP	-1.00	1.83	7.66
FTSE Actuaries UK Conven Gilts All Stocks TR GBP	0.16	1.93	4.67
FTSE Actuaries UK Conven Gilts Over 15 Y TR GBP	-0.37	4.24	8.28
FTSE All-Share TR	9.20	9.02	9.58
FTSE Japan TR	3.24	9.34	13.44
FTSE Small Cap TR	6.13	8.33	11.07
FTSE World Europe ex UK TR GBP	3.40	2.52	11.94
FTSE World ex UK TR GBP	7.00	9.41	15.92
LIBID GBP 7 Day	0.12	0.40	0.38
Markit iBoxx Sterling Non Gilts Overall TR	-0.15	0.60	4.88
MSCI EM (Emerging Markets) TR GBP	-2.09	6.84	12.34
MSCI Pacific ex Japan TR GBP	8.18	7.06	13.11
S&P 500 TR	9.90	12.53	18.63
Commodities	-0.07	5.82	-5.23
£ Trade Weighted Index	-1.87	1.03	-5.73

	Q2 (%)	1 year (%)	3 years (%)
Euro	0.87	0.72	7.67
Japanese Yen	2.02	-0.20	9.58
US Dollar	6.25	-1.61	6.00



All returns are GBP currency, and returns over 1 year are annualised.

KAMES CAPITAL

Market Review

UK equities

The FTSE All-Share increased by 9.20% in the second quarter of 2018, with the FTSE 100 outperforming its small-cap counterpart.

The UK equity market bounced back strongly in the second quarter led by large cap names and oil & gas producers in particular. In economic terms, conditions in the UK reflect a Brexit overhang with confidence impacted by the problems in traditional retailing. Over the quarter, however, the strength in UK equities occurred despite weakening domestic economic growth and reflected strong exposure to the oil & gas and basic materials sector, and the importance of dollar earnings. The Bank of England did not deliver a May rate hike, which had been expected, and this benefited those companies (predominantly large-cap) that generate earnings overseas, given sterling weakened.

While the overall picture for the quarter was one of robust returns across most sectors, there were periods of volatility. This was particularly the case towards the end of the period when concerns over escalating trade tariff rhetoric (and action) raised investors' concerns, which resulted in some weakness within financial sectors as well as other areas.

US equities

In the second quarter of 2018, the S&P 500 index increased by 9.90% in sterling terms (3.43% in dollars).

The US continues to benefit from buoyant corporate confidence and fiscal easing; cuts in income tax as well as corporation tax has helped to boost growth. Although monetary policy continues to tighten in the US (the Fed expects to make two more hikes this year), it remains accommodative. While corporate earnings boosted markets the positive backdrop was kept in check somewhat by concerns over rising trade tensions between the US and its trading partners (principally China) and the rising oil price.

In sector terms, technology continued to perform strongly, alongside energy and commodity-related areas in general. Traditionally defensive sectors such as utilities also did well. Financials, and banks in particular, were more subdued in comparison to many other areas.

European equities

The FTSE World Europe ex UK index was up 3.40% in sterling terms over the second quarter of 2018. Compared to other core markets, the eurozone was relatively subdued although it continued to show steady growth. As with other core regions, commodity-related sectors performed well, given the rise in oil prices and the general lack of concern about inflation.

A key development over the period came from the ECB, which announced the timetable for the end of its QE program (by year-end) but also that official interest rates would remain on hold for at least another 12 months.

Political developments were also to the fore, with concerns over Italy's future relationship with the euro block, given the difficulties the country had faced in forming a new government (a coalition government was eventually formed). Italian banks came under particular pressure, with the broader banks sector proving to be one of the poorest performers over the period.

Ongoing trade tariffs activity, inspired by President Trump's 'America First' policies, were also a key feature, with trade concerns intensifying towards the end of the quarter. The autos sector suffered as a result, given the potential for tariffs in this area of the market. In contrast, the technology sector continued to advance and, along with energy, was one of the best performers overall.

KAMES CAPITAL

Japanese equities

The FTSE Japan finished the second quarter up 3.24% in sterling terms (1.20% in yen). As with other markets an escalation of trade tariffs and currency moves, combined to limit the progress of Japanese equities over the period.

The impact of global trade tensions was clearly seen in the performance of sectors that rely heavily on exports; the autos sector for example was one of the worst performers over the quarter alongside the industrial and technology hardware sectors.

Domestically, the Japanese economy remains in relatively good shape with corporate earnings generally robust. Over the quarter, however, weaker economic data was disappointing (GDP for the first quarter fell, quarter-on-quarter, and consumer confidence was also lower).

Asia (ex-Japan) equities

The MSCI Asia Pacific ex Japan index increased by 8.18% in the second quarter of 2018.

The region was hit not only by geopolitical concerns in the shape of the ongoing trade tariffs but also from the strength seen in the US dollar. Both of these developments limited the region's ability to keep up with robust rally seen in global equities.

Australia was among the strongest performers, buoyed by the rally in commodity prices, while global trade uncertainty hampered the progress of both South Korea, Thailand and Taiwan. Malaysia struggled due to domestic political volatility. Meanwhile China found support in accommodative policies from its Central Bank, but it was clear that domestic growth was slowing while the uncertain geopolitical landscape also led to a weak ending to the quarter.

In sector terms, materials and energy were among the strongest areas, while traditional defensive areas such as utilities also performed well. Technology finished in positive territory but did not show the strength seen in other western developed markets. The banks sector posted a negative return, given the concerns around interest rates.

KAMES CAPITAL

Fixed Income

The second quarter saw a continuation of the trends seen earlier in the year, with heightened risk aversion dominating markets. A combination of factors influenced markets, including an escalation in trade tariffs prompted by President Trump's protectionist policies. These policies led to growing fears over the impact any retaliatory action would have on global economic activity.

At the same time, the US Federal Reserve maintained its rhetoric on interest rate which pointed to more hikes to come. In Europe, the new coalition government in Italy was generally not taken well by investors which again led to 'risk-off' behaviour. Economic data in Europe continued to show a distinct lack of inflation.

Government bonds mixed

As the table below highlights, the performance of government bond markets were mixed, with 10-year US Treasury yields rising while in the UK, Germany and Japan, 10-year yields fell.

During the period US 10-year yields briefly surpassed the 3% before falling back slightly, while Italian government bonds rose sharply, given the political developments in the country. The FTSE UK Gilts All Stock index returned 0.16% for the quarter, with long-dated bonds outperforming their short-dated counterparts. Index-linked assets generally performed well, particularly in the US although the UK Index-Linked sector was more subdued with the FTSE UK Index-Linked market returning -1.16%.

10-year yield movements in core and European periphery benchmark bonds

	Core government bonds				Peripheral Europe				
Country	UK	US	Germany	Japan	Spain	Italy	Greece	Ireland	Portugal
Yield as at end March 2018	1.35	2.74	0.50	0.05	1.15	1.78	4.29	0.91	1.60
Yield as at end June 2018	1.28	2.86	0.30	0.04	1.32	2.67	3.93	0.81	1.78
Change in yield	-0.07	0.12	-0.20	-0.01	0.17	0.89	-0.36	-0.10	0.18

Source: Bloomberg, as at 30 June 2018

Corporate Bonds under pressure

Investment grade corporate bond markets came under pressure over the quarter, given the generally risk-off tone to markets. The iBoxx GBP Non-Gilt index fell -0.15% as corporate bonds struggled. The corporate bond market also had to contend with a significant level of new issuance which had a meaningful impact on market prices. In sector terms bonds issued by financial companies were hampered by the risk aversion mentioned above.

The high yield sector was a stronger performer in relative terms with the US high yield market outperforming its European counterpart. The Barclays Global High Yield (£) index returned 3.94% over the quarter.

KAMES CAPITAL

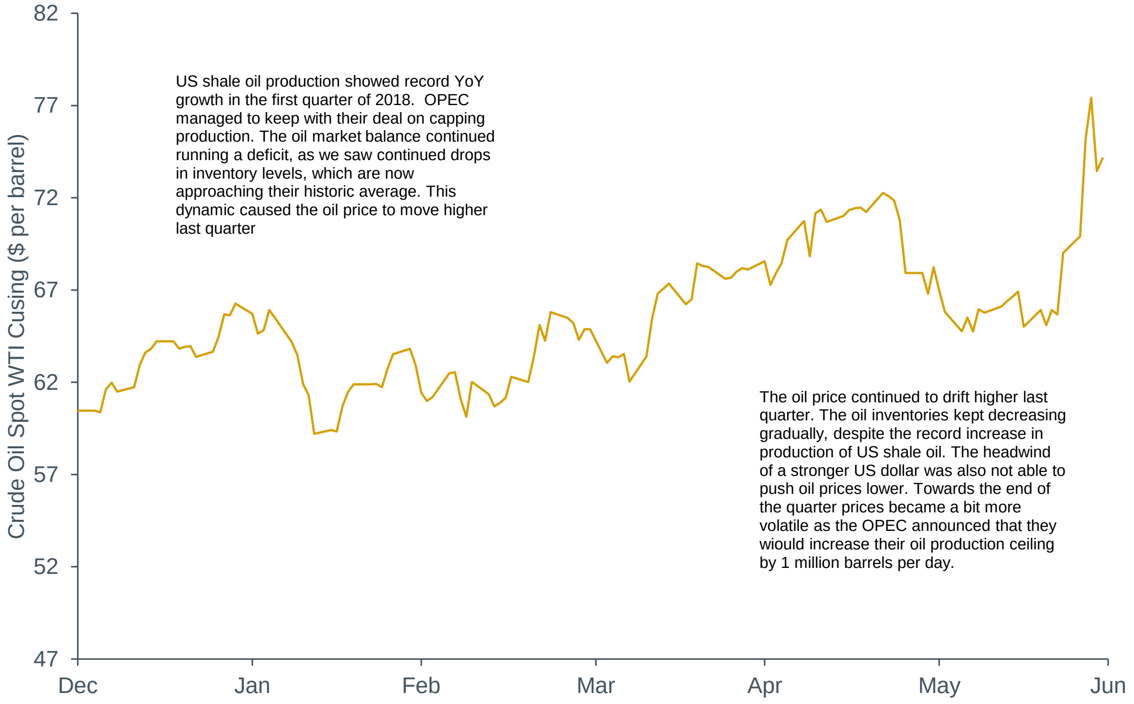
Key Market Movements

The following charts provide a pictorial summary of key market movements during the six month period to end of June 2018.

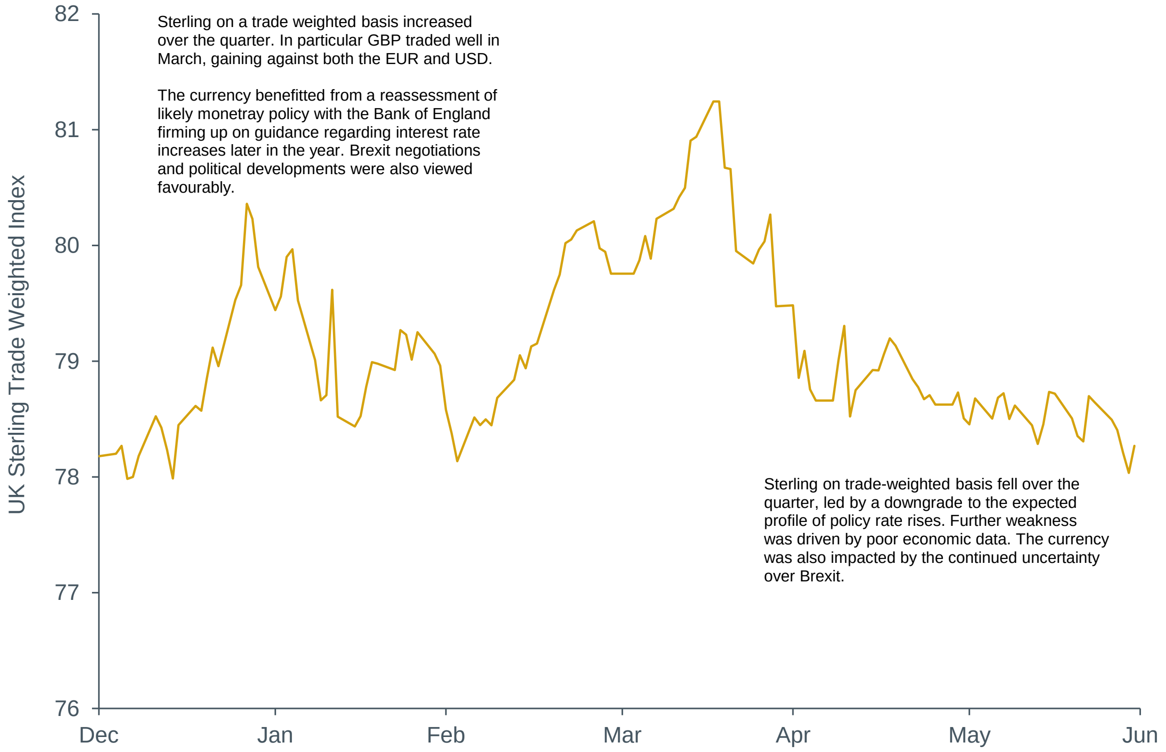
Global Equities (FTSE World Price Index)

Long Gilts (UK 30 year gilt)

Oil Price (Crude Oil Spot WTI Cushing ($ per barrel))



UK Sterling (UK Sterling Trade Weighted Index)



Source: Datastream

KAMES CAPITAL

Quarterly Thought Piece – Brexit 2 years on

Many feared that a vote for Brexit would destabilise asset markets and lead to sustained sharp falls generally. In reality, the bigger threat from the UK referendum lay in the potential for similar polls elsewhere in the Eurozone. In the immediate aftermath of the vote it quickly became clear that copy-cat polls were not going to happen and investors quickly recovered their composure. Optimism for a stable and prosperous future further improved in 2017 after France opted not to elect Marine Le Pen and, therefore, not to challenge the EU.

More recently, however, with the populist movement in Italy once again calling the Eurozone into question, we are seeing those threats coming to the fore. Two years may seem like a lifetime in financial markets but, in the broad sweep of history, it is but the blink of an eye.

Brexit is no different from any other potentially significant market development; investors need to evaluate the risks and opportunities, what is discounted and what portfolio adjustments are necessary to skew outcomes in their favour.

Ahead of the EU referendum we adjusted our client portfolios, lifting sterling hedges. We judged that markets were failing to accurately price all the outcomes; investors were convinced of a ‘stay’ vote when all the available real-world information suggested that the result was too close to call. These hedges were later reinstated having preserved considerable value. Active management places upon us the responsibility for taking significant active decisions which we do not shirk from.

Currently, Brexit is negatively influencing UK markets. Everyone is aware that change is coming − in what form no one knows. Uncertainty is rarely a positive. According to survey data, UK equities are the most contrarian, unloved asset class available. The negative economic impacts of Brexit are the most obvious cause of investor aversion to UK equities. There is also the significant fear that a messy EU divorce could lead to an extreme Labour government. In Italy, Five Star and Lega promise an administration that would challenge everything that has gone before. In the UK, the prospect of radical change is every bit as real under Jeremy Corbyn. Given the UK’s large external deficit, if global financiers went on a ‘buyers strike’ (of UK assets), the upheaval could be immense.

In our asset allocation, we are underweight UK government bonds. We see scope for modest positive surprises on the UK economy, should Brexit concerns diminish. But at the other extreme, we judge that the ultra-low yield levels offer very poor value in an international context. We are, however, fully weighted in UK equities. We recognise that UK-listed companies are a better play on the global economic conditions, especially commodities, than they are on the UK domestic economy. We sense that global investors are also being too ‘broad brush’ in avoiding domestically-exposed UK stocks and we are selectively exploiting industry trends and the return of positive real wage growth. For example, we currently favour elements of the building materials sector (there is cross-party support for building more houses) and food retailers (where earnings are starting to recover). At the same time we are avoiding the likes of traditional non-food retailers and utilities (on Corbyn and Labour government risk).

Returning to the current situation in Italy, whether you take the hard-line view that Italy’s problems are of its own making and it should get on with solving them, or that the rigid structure of Eurozone condemns peripheral Europe to underachievement, surely few can argue that change is needed if the Eurozone is to break free from regular existential threats. Sadly, with positions seemingly polarised and entrenched, pragmatism may be in short supply. Undoubtedly, 2017 was characterised by unprecedented market calm. It may yet prove to have been the eye of the (Eurozone) storm and investors need to rediscover the importance of creating a balance within their portfolios if they are to survive the occasional storm. The rise in US bond yields earlier this year created defensive value for more uncertain times; the Italian drama subsequently unlocked that value. There are always trades that offer a defensive utility; we have just had to look a bit harder in recent years!

The currency markets can display the quickest and sharpest reaction to uncertainty, often going too far − sterling’s collapse following the Brexit vote was a classic example. Currency markets, by nature, always offer a full palette of risk-on and risk-off opportunities and we continue to manage assets with foreign exchange as an important part of our investment toolkit. As the fallout from Brexit widens, this is unlikely to change.

Stephen Jones, Chief Investment Officer, 14 June 2018

Important information

Agenda Item 9

Leicestershire County Council Pension Fund

Funding and risk report as at 30 June 2018

HEADLINE

30 June 2018	Ongoing funding
Assets	£4,182m
Liabilities	£5,220m
Surplus/(deficit)	(£1,039m)
Funding level	80.1%

Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2016 to 30 June 2018, 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.

At the last formal valuation the Fund assets were £3,164m and the liabilities were £4,153m. This represents a deficit of £989m and equates to a funding level of 76.2%. Since the valuation the funding level has increased by c3.9% to 80.1% as detailed in the table above.

Should you have any queries please contact me.
Anne Cranston AFA

CURRENT POSITION

30 June 2018	Ongoing funding
Assets	£4,182m
Liabilities	£5,220m
Surplus/(deficit)	(£1,039m)
Funding level	80.1%

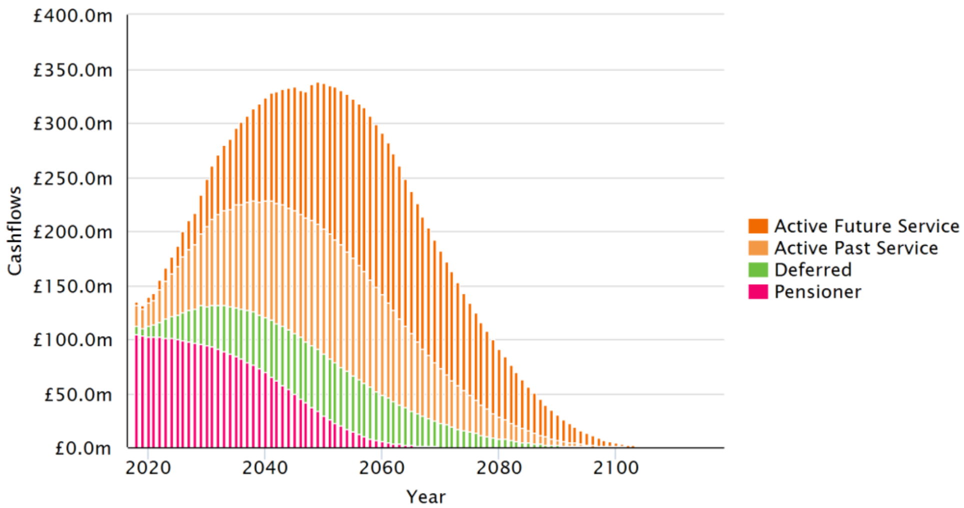
Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2016	(989)
Contributions (less benefits accruing)	(61)
Interest on surplus/(deficit)	(89)
Excess return on assets	628
Impact of change in yields & inflation	(528)
Surplus/(deficit) as at 30/06/2018	(1,039)

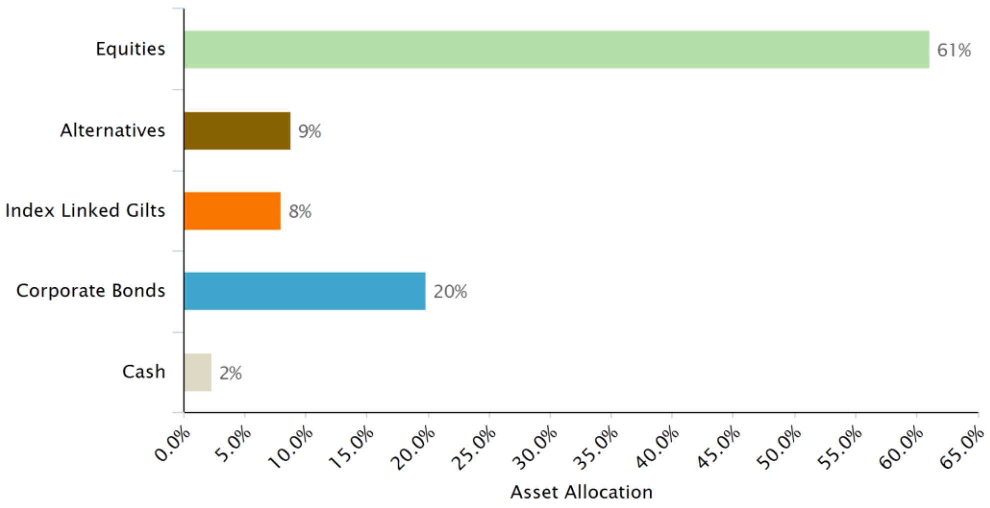
	31 March 2016	31 March 2018	30 June 2018
Market Yields (p.a)			
Fixed Interest Gilts	2.17%	1.63%	1.67%
Index-linked Gilts	-0.96%	-1.65%	-1.57%
Implied Inflation	3.16%	3.34%	3.29%
AA Corporate Bonds	3.36%	2.58%	2.72%
Price Indices			
FTSE All Share	3,395	3,894	4,202
FTSE 100	6,175	7,057	7,637

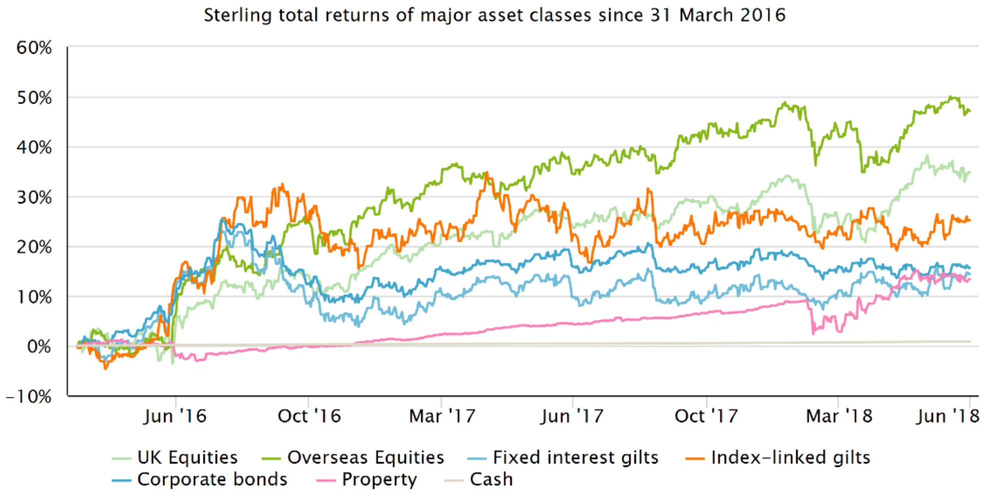
PROGRESS


85.0%
82.5%
80.0%
77.5%
75.0%
72.5%
70.0%
Funding Level
Jun '16
Oct '16
Mar '17
Jun '17
Oct '17
Mar '18
Jun '18
Ongoing funding


£-800.0m
£-900.0m
£-1,000.0m
£-1,100.0m
£-1,200.0m
£-1,300.0m
£-1,400.0m
£-1,500.0m
Surplus / Deficit
Jun '16
Oct '16
Mar '17
Jun '17
Oct '17
Mar '18
Jun '18
Ongoing funding


£400.0m
£350.0m
£300.0m
£250.0m
£200.0m
£150.0m
£100.0m
£50.0m
£0.0m
Cashflows
2020
2040
2060
2080
2100
Year
Active Future Service
Active Past Service
Deferred
Pensioner





Sensitivity Matrix as at 30 June 2018 for Ongoing funding basis (£m)

Shift in equity level (using FTSE 100 levels as proxy)

Shift in bond yields (% p.a.)	5,346 -30%	6,110 -20%	6,873 - 10%	7,637	8,401 + 10%	9,164 + 20%	9,928 + 30%
+0.6	(1,481)	(1,189)	(897)	(604)	(312)	(20)	273
+0.4	(1,617)	(1,325)	(1,032)	(740)	(448)	(155)	137
+0.2	(1,762)	(1,469)	(1,177)	(885)	(592)	(300)	(8)
0.0	(1,916)	(1,623)	(1,331)	(1,039)	(746)	(454)	(162)
-0.2	(2,080)	(1,787)	(1,495)	(1,203)	(910)	(618)	(326)
-0.4	(2,255)	(1,962)	(1,670)	(1,378)	(1,085)	(793)	(501)
-0.6	(2,442)	(2,149)	(1,857)	(1,565)	(1,272)	(980)	(688)

less than 50% | 50% - 85% | 85% - 95% | 95% - 100% | 100% - 105% | 105% - 115% | greater than 115%

Reliances and limitations

This report was commissioned by and is addressed to Leicestershire County Council in their capacity as the Administering Authority and is provided to assist in monitoring certain funding and investment metrics. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. **Decisions should not be taken based on the information herein without written advice from your consultant.** Neither I nor Hymans Robertson LLP accept any liability to any other party unless we have expressly accepted such liability in writing.

The method and assumptions used to calculate the updated funding position are consistent with those disclosed in the documents associated with the last formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. The calculations contain approximations and the accuracy of this type of funding update declines with time from the valuation; differences between the position shown in this report and the position which a new valuation would show can be significant. It is not possible to assess its accuracy without carrying out a full actuarial valuation. This update complies with Technical Actuarial Standard 100.

LOCAL PENSION COMMITTEE – 7 SEPTEMBER 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ACTION AGREED BY INVESTMENT SUBCOMMITTEE (ISC)

Purpose

1. The purpose of this report is to provide the Committee with an update following the meeting of the Investment Sub Committee on 11 July 2018.

Background

2. Millennium Global is a currency investment specialist employed by the Leicestershire Pension Fund since April 2006. Millennium trade currency positions on behalf of the Fund with the aim of generating a financial return. The Programme operates independently from the currency hedge, managed by Kames, that aims to reduce the Fund's currency exposure from its investment in global assets.

3. At this time none of the other partner funds in LGPS Central have expressed an interest in programmes similar to Millennium's. It is therefore assumed that the Programme will be managed locally for as long as it is maintained.

4. Due to the requirement to retain local oversight over the investment and a recent fall in performance, the Subcommittee were asked to review the investment.

Review

5. At its meeting on the 11 July 2018 the Investment Subcommittee was asked to consider the Leicestershire Pension Fund's existing investments in Millennium Global.

6. Briefing notes were received from the Funds Independent Investment Advisor and Hymans Robertson to support the review.

7. Millennium attended the meeting and provided a presentation covering their investment process, the performance of the Leicestershire Programme and future expectations.

8. Following the presentation by Millennium the ISC decided that the Leicestershire Pension Fund should continue to invest in the Millennium currency programme, maintaining a 3% target volatility against a notional programme size of £350m and that officers be requested to review the size of the programme, as part of the next annual investment review.

Appendix

9. Report of the Investment Subcommittee – 11 July 2018

Recommendation

10. It is recommended that the report be noted.

Equality and Human Rights Implications

11. None.

Officers to Contact

Mr C Tambini, Director of Corporate Resources
Tel: 0116 305 6199 Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Appendix

Leicestershire County Council

INVESTMENT SUBCOMMITTEE – 11TH JULY 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

REVIEW OF THE MILLENNIUM CURRENCY OVERLAY PROGRAMME

Purpose

1. The purpose of this report is to provide the Subcommittee with information concerning the Leicestershire Pension Fund's current Millennium currency programme and seek approval as to whether the Fund should continue with the Programme.

Background

2. Millennium Global is a London based currency investment specialist employed by the Leicestershire Pension Fund since April 2006. Millennium trade currency positions on behalf of the Fund with the aim of generating a financial return. The Programme operates independently from the currency hedge, managed by Kames, that aims to reduce the Fund's currency exposure from its investment in global assets.

3. Unlike the Fund's other investments a relatively small (circa £1.5m) capital outlay is required, as a consequence the Programme is judged on the absolute return delivered rather than as a return on investment.

4. A further benefit to the Fund is the diversity offered compared to the Fund's other investments. Currency returns tend to be uncorrelated to traditional equity, bond and commodity markets.

5. At this time none of the other partner funds in LGPS Central have expressed an interest in programmes similar to Millennium's. It is therefore assumed that the Programme will be managed locally for as long as it is maintained.

6. The Programme has generated a positive return since inception in 2006, although returns have been variable within this period. The Programme has lost money in each of last three financial years (total £13m), although a strong performance in 2014/15 has resulted in positive returns in the latest five-year period (£9m).

7. Due to the requirement to retain local oversight over the investment and a recent fall in performance, the Subcommittee is being asked to review the investment.

8. A range of potential options is available to the Subcommittee. The programme could continue in its current form, with a notional value of £350m and 3% p.a. target volatility. The notional value could be amended, either up or down, and potentially linked to the total value of the Fund to ensure that its contribution to the overall return is maintained at the desired level. The Programme could be stopped and the c. £1.5m of capital allocated redistributed.

Supplementary Information Informing the potential investment

9. Briefing notes provided by the Fund's Independent Investment Advisor and Hymans Roberson accompanied by a presentation from the investment managers representing Millennium, which are all of a sensitive nature, are included as items elsewhere on the agenda.

Recommendation

10. It is recommended that the Investment subcommittee notes the Leicestershire Pension Fund's current investment in the Millennium currency programme and agrees a future approach based on the options identified in paragraph 8 of the report.

Equality and Human Rights Implications

11. None.

Officers to Contact

Mr C Tambini, Director of Corporate Resources
Tel: 0116 305 6199 Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Leicestershire County Council

LOCAL PENSION COMMITTEE – 7 SEPTEMBER 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT AND INTERNAL CONTROLS

Purpose

1. 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

2. 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.

3. 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.

4. The Leicestershire Fund already manages risk and has a risk register in place that is regularly reviewed by officers. 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.

Risk Register

5. The updated Risk Register is attached as an appendix to this report. A new risk relating to the transition of assets to LGPS Central (number 14) has been added to the register. This complements the existing risk (number 12) regarding pooling delivering higher investment returns.

6. Following the request by the Committee at the previous meeting the criteria for assessing the Impact and Likelihood of risks has been added to the register. The criteria is a replication of that used by the County Council, with the addition of financial criteria specifically for investment performance due to their significant value.

Identified Risks of Concern

7. There are currently no identified risks of concern.

Recommendation

8. The Local Pension Committee is asked to approve the revised risk register of the Pension Fund.

Appendix

9. Risk Register

Equality and Human Rights Implications

10. None.

Officers to Contact

Mr C Tambini, Director of Corporate Resources
Tel: 0116 305 6199 Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Leicestershire Pension Fund Risk Register September 2018

Appendix

Risk no	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate* *Treat* *Terminate* *Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
1	**Pens**	**If we fail to reconcile HRMC GMP data with the Pension Section data there is a risk of overpayment of Pensions Increase**	Government changes to end contracting out legislation. Contracting out ended April 2016. Between 2015 and December 2018 Pensions need to reconcile GMP data. From 2018 we take responsibility for GMPs so we need to ensure we pay Pensions Increase. (e.g. no GMP means we pay full PI and if there is a GMP we pay less PI)	Overpaying pensions Reputation	Ian Howe	Checking of HMRC GMP data to identify any discrepancies	**3**	**3**	**9**	**Treat**	Working through cases Developed reporting tools to assist Recruitment taking place for a full time person to join the project	**3**	**2**	**6**	Ian Howe
2	**Pens**	**If we fail to implement a pension administration system, pensioner payroll and immediate payments system the Pension Section will fail to deliver its statutory duties for both LGPS and the 3 Fire Authorities. It will also be unable to pay pensioners and other single payments (e.g. lump sums)**	The current pensions administration system contract ends in April 2019	Failure of the Pension Section Unable to pay pensioners Unable to pay single payments Unable to meet statutory requirements Manual calculations Huge increase in administration time causing delays Increased appeals	Ian Howe	Currently use a successful pension administration system Currently use a separate member self-service facility, pensioner payroll and immediate payments system. Successful tender completed and project team established	**5**	**2**	**10**	**Treat**	Working in partnership with another Fund Working closely with internal IT, internal audit and others Detailed project planning	**5**	**1**	**5**	Ian Howe

3	**Pens**	**If we fail to meet the service requirements of the three Fire Authorities we may lose their business**	Changes in legislation on the Firefighters pension scheme has significantly increased the scheme's complexity. Only limited knowledge in the Section in this area.	Reputation Potential loss of business	Ian Howe	Quarterly meetings take place with the Fire Authorities to resolve issues Membership of the Midlands Fire Officer Group enables us to identify and resolve issues early Resource on the team increased SLA and contracts produced	**3**	**2**	**6**	**Treat**	Continue to monitor and develop improvements to work processes, guiding all three Fire Authorities to similar processes and decisions (where possible). Set up a joint pension board for the 3 Fire Authorities	**2**	**2**	**4**	Ian Howe
4	**Pens**	**If we fail to receive accurate and timely data from employers scheme members pension benefits could be incorrect or late**	A continuing increase in Fund employers is causing administrative pressure in the Pension Section. This is in terms of receiving accurate and timely data from these new employers who have little or no pension knowledge	Late or inaccurate pension benefits to scheme members Reputation Increased appeals Greater administrative time being spent on individual calculations	Ian Howe	Training provided for new employers Guidance notes provided for employers Communication and administration guide provided to employers	**3**	**3**	**9**	**Treat**	Implement IConnect with employers so they provide monthly data in a secure and timely manner Review the SLA and communication and administration guide (for IConnect)	**3**	**2**	**6**	Ian Howe
5	**Pens**	**If we fail to implement the 2018 amendment regulations benefits could be paid incorrectly or not paid at the correct times**	Changes to the Pension Regulations	Incorrect pensions or late benefits to scheme members Increased complaints or appeals	Ian Howe	LGA to provide guidance to Funds System provider working on system changes	**3**	**2**	**6**	**Treat**	Implement all system changes Write to all members affected Calculate and separately check all benefit changes	**3**	**1**	**3**	Ian Howe

				Reputation											
6	**Invs**	**If employer and employee contributions are not paid accurately and on time**	Error on the part of the scheme employer	Potentially reportable to The Pensions Regulator as late payment is a breach of The Pensions Act	Declan Keegan	Receipt of contributions is monitored and late payments are chased quickly	**2**	**4**	**8**	**Treat**	Late payers will be reminded of their legal responsibilities.	**2**	**3**	**6**	Declan Keegan
7	**Invs**	**If assets held by the Fund are ultimately insufficient to pay benefits due to individual members**	Ineffective setting of employer contribution rates over many consecutive actuarial valuations	Significant financial impact on scheme employers due to the need for large increases in employer contribution rates.	Chris Tambini	Input into actuarial valuation, including ensuring that actuarial assumptions are reasonable and the manner in which employer contribution rates are set does not bring imprudent future financial risk	**5**	**2**	**10**	**Treat**	Actuarial assumptions need to include an element of prudence, and Officers need to understand the long-term impact and risks involved with taking short-term views to artificially manage employer contribution rates	**4**	**2**	**8**	Chris Tambini
8	**Pens/Invs**	**Sub-funds of Community Admission Bodies are not monitored to ensure that there is the correct balance between risks to the Fund and fair treatment of the employer**	Changing financial position of both sub-fund and the employer	Significant financial impact on employing bodies due to need for large increases in employer contribution rates, which may ultimately lead to insolvency and a deficit that has to be met by the Fund.	Ian Howe/ Declan Keegan	Ensuring, as far as possible, that the financial position of Community Admission Bodies is understood. On-going dialogue with them to ensure that the correct balance between risks and fair treatment continues.	**5**	**2**	**10**	**Treat**	Dialogue with the employers, particularly in the lead up to the setting of new employer contribution rates.	**3**	**2**	**6**	Ian Howe/ Declan Keegan

9	**Invs**	**If market investment returns are consistently poor and this causes significant upward pressure onto employer contribution rates**	Poor market returns, most probably caused by poor economic conditions	Significant financial impact on employing bodies due to the need for large increases in employer contribution rates	Chris Tambini	Ensuring that strategic asset allocation is considered at least annually, and that the medium-term outlook for different asset classes is included as part of the consideration	**5**	**2**	**10**	**Treat**	Making sure that the investment strategy is sufficiently flexible to take account of opportunities and risks that arise, but is still based on a reasonable medium-term assessment of future returns	**4**	**2**	**8**	Chris Tambini
10	**Invs**	**If market returns are acceptable but the performance achieved by the Fund is below reasonable expectations**	Poor performance of individual managers, or poor asset allocation policy	Opportunity cost in terms of lost investment returns, which is possible even if actual returns are higher than those allowed for within the actuarial valuation	Chris Tambini	Ensuring that the causes of underperformance are understood and acted on where appropriate	**3**	**3**	**9**	**Treat**	After careful consideration, take decisive action where this is deemed appropriate. It should be recognised that some managers have a style-bias and that poor performance will happen on occasions.	**2**	**2**	**4**	Chris Tambini
11	**Invs**	**Failure to take account of ALL risks to future investment returns within the setting of asset allocation policy and/or the appointment of investment managers**	Some assets classes or individual investments perform poorly as a result of incorrect assessment of all risks inherent within the investment.	Opportunity cost within investment returns, and potential for actual returns to be low. This will lead to higher employer contribution rates than would otherwise have been necessary.	Chris Tambini	Ensuring that all factors that may impact onto investment returns are taken into account when setting asset allocation policy. Only appointing investment managers that integrate responsible investment into their processes, and ensuring that managers take a holistic view on the risks associated with the investments they make on behalf of the Fund.	**3**	**3**	**9**	**Treat**	Responsible investment aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns	**2**	**2**	**4**	Chris Tambini

12	**Invs**	**Investment pooling within the LGPS fails to deliver a higher long term net investment return**	LGPS Central fails to deliver better net investment returns than the Fund would have expected to achieve it investment pooling did not occur	Lower returns will ultimately lead to higher employer contribution rates than would otherwise have been the case	Chris Tambini	Shareholders' Forum, Joint Committee and Practitioners' Advisory Forum will give significant influence in the event of issues arising.	**3**	**3**	**9**	**Treat**	The set-up of LGPS Central is likely to be the most difficult phase. The Fund will continue to monitor closely how the company evolves Programme of LGPS Central internal activity activity, which has been designed in collaboration with the audit functions of the partner funds.	**2**	**2**	**4**	Chris Tambini
13	**Invs**	**Investment decisions are made without having sufficient expertise to properly assess the risks and potential returns**	The combination of knowledge at Committee, Officer and Consultant level is not sufficiently high	Poor decisions likely to lead to low returns and higher employer contribution rates	Chris Tambini	Continuing focus on ensuring that there is sufficient expertise to be able to make thoughtfully considered investment decisions	**3**	**3**	**9**	**Treat**	On-going process of updating and improving the knowledge of everybody involved in the decision-making process	**2**	**2**	**4**	Chris Tambini
14	**Invs**	**The transition of investment assets to LGPS Central is not successful**	Pooling does not reduce the on-going management costs of assets Transition costs are significantly higher, for example the cost of selling the existing investments and buying new ones.	Savings available do not justify the transition costs and on-going cost of running LGPS Central	Chris Tambini	Central maintains the flexibility to run funds internally. Specialist transition manager being appointed. Implementation being phased, allowing capacity to be managed and lessons learned	**2**	**3**	**6**	**Treat**	Advisors engaged to assess the impact upon Leicestershire's assets. Views from 8 partners sought throughout the transition process. Central increasing the level of engagement with Funds LGPS Central's Internal Audit plan includes an assessment of the governance surrounding the transition	**2**	**2**	**4**	Chris Tambini

Risk Impact Measurement Criteria

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss
1	Negligible	Little impact to objectives in service plan	Limited disruption to operations and service quality satisfactory	Minor injuries	Public concern restricted to local complaints	Pension Section <£50k Investments Losses expected to be recovered in the short term
2	Minor	Minor impact to service as objectives in service plan are not met	Short term disruption to operations resulting in a minor adverse impact on partnerships and minimal reduction in service quality.	Minor Injury to those in the Council's care	Minor adverse local / public / media attention and complaints	Pension Section £50k-£250k Minimal effect on budget/cost Investments Some underperformance, but within the bounds of normal market volatility
3	Moderate	Considerable fall in service as objectives in service plan are not met	Sustained moderate level disruption to operations / Relevant partnership relationships strained / Service quality not satisfactory	Potential for minor physical injuries / Stressful experience	Adverse local media public attention	Pension Section £250k - £500k Small increase on budget/cost: Handled within the team/service Investment Underperformance by a manager requiring review by the Investment Sub-committee

4	Major	Major impact to services as objectives in service plan are not met.	Serious disruption to operations with relationships in major partnerships affected / Service quality not acceptable with adverse impact on front line services. Significant disruption of core activities. Key targets missed.	Exposure to dangerous conditions creating potential for serious physical or mental harm	Serious negative regional criticism, with some national coverage	Pension Section £500-£750k. Significant increase in budget/cost. Service budgets exceeded Investment Underperformance of significant proportion of assets leading to a review of the Investment or Funding strategy
5	Very High/Critical	Significant fall/failure in service as objectives in service plan are not met	Long term serious interruption to operations / Major partnerships under threat / Service quality not acceptable with impact on front line services	Exposure to dangerous conditions leading to potential loss of life or permanent physical/mental damage. Life threatening or multiple serious injuries	Prolonged regional and national condemnation, with serious damage to the reputation of the organisation i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council/Fund, members or officers	Pension Section >£750k Large increase on budget/cost. Investment Employer contributions expect to increase significantly above Funding Strategy requirement

Risk Likelihood Measurement Criteria

Rating Scale	Likelihood	Example of Loss/Event Frequency	Probability %
1	Very rare/unlikely	EXCEPTIONAL event. This will probably never happen/recur.	<20%
2	Unlikely	Event NOT EXPECTED. Do not expect it to happen/recur, but it is possible it may do so.	20-40%

3	Possible	LITTLE LIKELIHOOD of event occurring. It might happen or recur occasionally.	40-60%
4	Probable /Likely	Event is MORE THAN LIKELY to occur. Will probably happen/recur, but it is not a persisting issue.	60-80%
5	Almost Certain	Reasonable to expect that the event WILL undoubtedly happen/recur, possibly frequently.	>80%

Risk Scoring Matrix

Impact					
5 Very High/Critical	5	10	15	20	25
4 Major	4	8	12	16	20
3 Moderate	3	6	9	12	15
2 Minor	2	4	6	8	10
1 Negligible	1	2	3	4	5
	1 Very Rare/Unlikely	**2** Unlikely	3 Possible/Likely	4 Probable/ Likely	5 Almost certain

Likelihood*

*(Likelihood of risk occurring
over lifetime of objective (i.e. 12 mths)

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank