

**Meeting**                    **Leicestershire County Council Pension Fund Annual Meeting**

**Date/Time**                **Friday, 11 January 2019 at 12.00 pm**

**Location**                    **Meeting Room G.01, Ground Floor, City Hall, 115 Charles Street,  
Leicester, LE1 1FZ**

**Officer to contact**    **Miss C. Tuohy (0116 305 5483).**

**E-Mail**                        **cat.tuohy@leics.gov.uk**

### AGENDA

<u>Item</u>	<u>Report By</u>	<u>Marked</u>
1. Minutes of the meeting held on 11 January 2018.		(Pages 3 - 6)
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. Pension Fund Annual Report and Accounts 2017/18.	Director of Corporate Resources	(Pages 7 - 58)
<i>This item will include a presentation by the Director of Corporate Resources.</i>		
7. Report of the Employee Representatives of the Local Pension Committee.	Employee Representatives	(Pages 59 - 60)
8. Election of Employee Representative to the Local Pension Committee.		
9. Election of Employee Representatives to the Local Pension Board.		



10. Date of Next Meeting.
11. Any other items which the Chairman has decided to take as urgent.

**Minutes of the Leicestershire County Council Pension Fund Annual Meeting  
held at County Hall, Glenfield on Thursday, 11 January 2018.**

**PRESENT:**

Leicestershire County Council

Mr. Breckon JP CC (Chairman)

Mr. D. Jennings CC

University Representative

Ms. M. Holden

Employee Representatives

Mr. N. Booth

Ms. J. Dean

**84. Minutes of the previous meeting.**

The minutes of the meeting held on 1 December 2016 were taken as read, confirmed and signed.

**85. Question Time.**

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

**86. Questions asked by members.**

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

**87. Urgent items**

There were no urgent items for consideration.

**88. Declarations of interests.**

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.

**89. Pension Fund Annual Report and Accounts 2016/17.**

The Director of Corporate Resources gave a presentation on the annual report and accounts of the Pension Fund 2016/17. A copy of the report, marked '6' and presentation is filed with these minutes.

In noting the report, members wished to place on record their thanks to those officers who were responsible for managing the Pension Fund and for producing an informative annual report.

Those in attendance raised concerns regarding the continued low number of Pension Fund members at the Annual Meetings and officers were asked to consider how more members of the Fund could be encouraged to attend.

RESOLVED:

- a) That the Leicestershire Pension Fund Annual Report and Accounts for 2016/17 be noted;
- b) That officers be requested to consider how best to increase attendance at future Pension Fund Annual Meetings.

**90. Reports of the Employee Representatives of the Local Pension Committee and Local Pension Board.**

Employee representatives of the Local Pension Committee and Local Pension Board provided members with an update on the work undertaken by the respective Committee/Board over the preceding year. A copy of the reports, marked '7' are filed with these minutes.

RESOLVED

That the reports be noted.

**91. Election of Employee Representative to the Local Pension Committee.**

The Chairman reported that one nomination for the position of Employee representative on the Local Pension Committee had been received. The nomination was for a Mr N Booth. No ballot was therefore required. It was noted that current staff representatives elected to the Committee were:

Mr R Bone (to remain an employee representative for a period of 2 years, expiring at the Annual Meeting in 2020)

Ms J Dean (to remain an employee representative for a period of 1 year, expiring at the next Annual Meeting)

RESOLVED:

That Mr N Booth be appointed Employee Representative for a period of three years, expiring at the Annual Meeting in 2021.

**92. Election of Employee Representatives to the Local Pension Board.**

The Chairman reported that one nomination for the position of Employee representative on the Local Pension Board had been received. The nomination was for a Ms A. Severn - Morrell. No ballot was therefore required. It was noted that current staff representatives elected to the Board were:

Mrs D Stobbs (to remain an employee representative for a period of 2 years, expiring at the Annual Meeting in 2020)

Ms D Haller (to remain an employee representative for a period of 1 year, expiring at the next Annual Meeting)

RESOLVED:

That Mr. A. Severn - Morrell be appointed Employee Representative for a period of three years, expiring at the Annual Meeting in 2021.

**93. To arrange the date and time of the next Annual Meeting.**

RESOLVED:

That officers be requested to determine an appropriate date and time for the next Pension Fund Annual Meeting and publicise this date on the County Council's website.

6.00 pm - 6.09 pm

CHAIRMAN

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**LOCAL GOVERNMENT PENSION SCHEME LEICESTERSHIRE**

**Administered by**

**LEICESTERSHIRE COUNTY COUNCIL**

**Pension Fund Annual Report**

**Year ended 31<sup>st</sup> March 2018**

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The fund has a number of policy statements that are available on the links below. They have not been reproduced within the Annual report, as when taken in combination are sizeable and they have previously been seen by the Pensions Committee

## 14. Funding Strategy Statement -

<http://politics.leics.gov.uk/documents/s125627/Draft%20Funding%20Strategy%20Statement.pdf>

## 15. Statement of Investment Principles -

<https://www.leicestershire.gov.uk/sites/default/files/field/pdf/2016/12/19/2016statementofinvestmentprinciplessevennewerverversion.pdf>

## 16. Administration &amp; Communication Strategy -

<https://www.leicestershire.gov.uk/sites/default/files/field/pdf/2018/9/7/LCC-Pension-Fund-Admin-and-Comms-Strategy.pdf>



**1. INTRODUCTION**

Leicestershire County Council is the administering body for the Local Government Pension Scheme (LGPS) within Leicestershire. Leicestershire County Council has a statutory obligation to administer a Pension Fund for eligible employees of all Local Authorities within the County boundary and also the employees of certain other scheduled and admitted bodies. The Fund does not cover teachers, police or fire-fighters as they have their own schemes.

This report has been produced in accordance with Section 57 of the Local Government Pension Regulations 2013. It sets out the way in which the Pension Fund is managed both in relation to the administration of benefits and to the investment of the Fund's assets.

The benefits within the scheme are determined by regulation and guaranteed by statute. The pension fund exists to help defray the cost of paying pension benefits. Contributions to the pension scheme are made by both employees and employers. Any new employee is automatically brought into the scheme unless they opt out.

The Fund's membership increased by approximately 2,400 during 2017/18 and at the year-end stood at just over 91,000. During the year there was a small relative decrease in active contributors, however increases were seen in the number of pensioners and preserved members.

## 2. SCHEME ARRANGEMENTS

Both employees and employers make contributions to the Scheme. Employee contribution rates vary between 5.5% and 12% of pay and employer contribution rates are an average of 22.7% of pay.

Prior to 1<sup>st</sup> April 2014 benefits were based on the final salary of a member, and the final salary link is maintained for all service before this date. For all service after this date the LGPS became a Career Average Revalued Earning (CARE) scheme, whereby a benefit (based on pay) is earned for every year of service and then revalued annually in line with the change in the Consumer Price Index. The accrual rate within the 2014 scheme was improved to 1/49<sup>th</sup> for every year of service (in comparison to the 1/60<sup>th</sup> that was in place before) and many members will be better off under the new scheme than the old, in particular those with limited prospects of career progression. Normal retirement age was, however, changed from 65 to State Pension Age so the vast majority of members will have to retire later if they wish to receive all of their pension without an actuarial reduction.

Every three years an actuarial valuation of the Fund is undertaken in accordance with the provisions of The LGPS Regulations 2013. The purpose of the valuation is to determine the solvency of the Fund and to set the level of contributions payable by each participating employer for the following three years. A valuation of the Fund was undertaken as at 31 March 2016 to set the level of employer contributions for the three years commencing 1 April 2017.

In general there was a requirement for employing bodies to increase their employers' contributions, and for most employers this will occur on a phased basis that is likely to continue beyond the period for which rates were set – in other words, the 2019 actuarial valuation has an in-built bias for further employers' contribution increases. The actuarial valuation is simply an attempt to calculate the present value of accrued benefits and how much it will cost to pay for future benefits as they accrue, and these will vary depending on the assumptions used. Ultimately actuarial valuations impact onto the pace of funding future obligations as the true value of those obligations will actually only be known after-the-event.

The actuarial valuation carried out at 31<sup>st</sup> March 2016 showed that the Fund had enough assets to cover 76.2% of its accrued liabilities at that date, which was an increase from the 72% funding position of the 2013 valuation. Many employing bodies faced further meaningful upward pressure onto their contribution rates and were allowed phased annual increases that covered the period 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2020. The next actuarial valuation will not take place until 2019, but there is a high possibility that employers' contribution rates will need to rise for many employers after the outcome of that valuation is known. The phasing allowed as part of the 2016 actuarial valuation means that some employers will not be making significant enough inroads into their deficits to make any outcome other than further rises likely.

The 'vesting period' for members – the period that they have to be in the LGPS before they have an entitlement to benefit – has varied over the years, but from 1<sup>st</sup> April 2014 it was changed to two years from three months. Members that do not meet the relevant vesting period have the option of a transfer value or a refund of contributions.

The level of benefits due is directly linked to the service and pensionable pay of an individual member. All members who have contributed to the Scheme for at least the minimum relevant vesting period are entitled to an immediate pension benefit, a preserved benefit or

a transfer value payment to an occupational pension scheme or personal pension when they leave the Scheme depending on their circumstances.

Pensions in payment are increased annually in April, as are the value of benefits payable in the future to members with preserved benefits. The increases awarded over the last 5 years are:-

Apr-18	3.00%
Apr-17	1.00%
Apr-16	0.00%
Apr-15	1.20%
Apr-14	2.70%

Pension increases are set annually and put into force via an annual Pensions Review Order, which is agreed by Parliament. Since 2011 Public sector pension schemes have been linked to the Consumer Price Index as opposed to the previous link to the Retail Price Index.

### 3. SCHEME MEMBERSHIP

The number of scheme members who are either receiving a benefit or who have a future entitlement to one, increased by 2,574 over the course of the year. This figure excludes the 4,000+ members who have no entitlement to a benefit from the fund but do retain the right to either a refund of contributions or a transfer to an alternative pension arrangement.

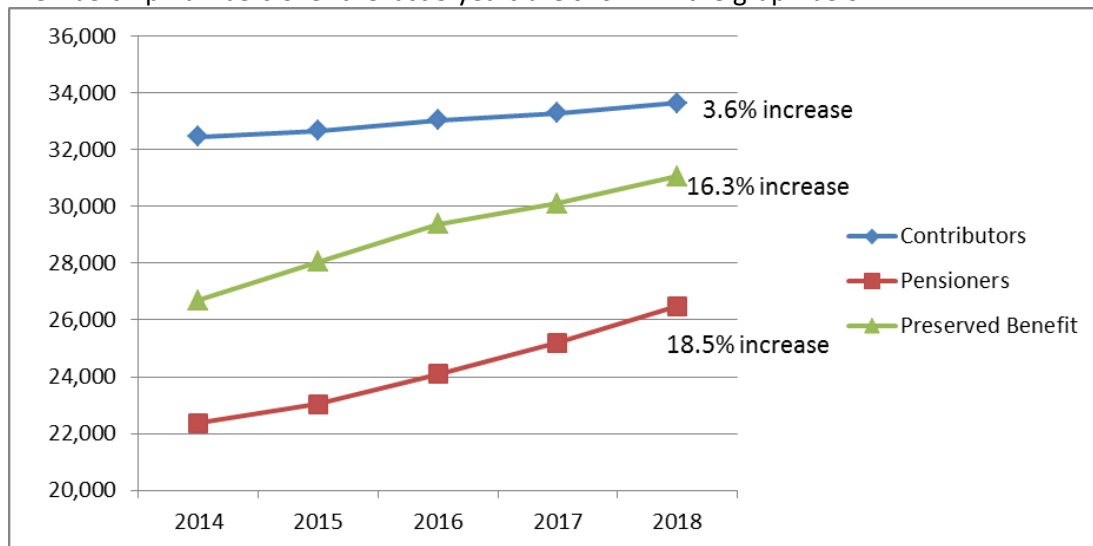
Active membership increased by 340 from 33,302 to 33,642.

Pensioners increased by 1,284 from 25,205 to 26,489.

Preserved membership increased by 950 from 30,114 to 31,064.

The Fund's employers have completed the initial auto enrolment process, with many of the larger employers completing this prior to 2017/18. The auto enrolment process forces employing bodies to bring almost all employees that are eligible to join the LGPS but are not currently scheme members into the scheme. This is reflected by the increase in active members over the past 5 years.

Membership numbers over the last 5 years are shown in the graph below:-



(percentages are the cumulative increases over the past 5 years)

## Employing body Statistics

Employing body	Contributors 31 March '18 Employees	Contributors 31 March '17 Employees	Employers' Contribution Paid 2017/18 (% of pensionable pay plus cash)	Rate set in 2016 Actuarial Valuation (% of pensionable pay plus cash)
Leicester City Council	8,754	9,053	21.8	24.7
Leicestershire County Council *	7,378	7,669	22.4	25.3
Office of the Police and Crime Commissioner/Chief Constable	1,575	1,444	18.9	21.8
De Montfort University	1,475	1,437	19.2	20.2 + £626k
Loughborough University	1,417	1,325	20.1 + £203k	21.0 + £654k
North West Leicestershire DC	534	514	21.3 + £131k	22.2 + £349k
Rutland County Council	472	476	20.8	23.7
Charnwood Borough Council	491	468	21.2 + £701k	22.1 + £1,030k
Hinckley & Bosworth BC	374	335	20.4 + £306k	21.3 + £387k
Blaby District Council	329	314	20.6 + £153k	21.5 + £286k
Harborough District Council	191	190	20.5 + £291k	21.4 + £471k
Melton Borough Council	153	156	21.1 + £91k	22.0 + £164k
Oadby & Wigston BC	148	149	21.3 + £241k	22.2 + £358k
Leics Combined Fire Authority	152	134	20.3	22.5 + £32k
Academies, Free and Studio Schools (a)	7,730	7,164	19.8 – 23.4	19.8 – 28.3
FE and Sixth Form Colleges (b)	1,682	1,688	18.6 -20.0	22.0 -24.3
Other Employers (c )	472	668	15.0 – 26.9	0.0 – 31.1
Parish and Town Councils (d)	121	118	17.2 – 26.9	20.7 – 32.6
<b>Total</b>	<b>33,448</b>	<b>33,302</b>		

\*Includes Schools. Academy conversions which will have contributed to a reduction in members

**4. MANAGEMENT OF THE FUND**

The Local Pension Committee is responsible for the management of the Fund, and focuses primarily on investment issues and the important policies that the Fund has to have. The Committee comprises of five County Council members, two from Leicester City Council, two members representing the District Councils, one representative of De Montfort/Loughborough Universities and three non-voting staff representatives. In order to ensure continuity, staff representatives, who are chosen at the Fund's Annual General Meeting, are appointed to the Committee for a three year period but arrangements have been made to ensure that at least one staff representative place becomes available each year. The Local Pension Committee sets the overall investment strategy for the Fund and will deal with all investment governance issues but will generally not be involved in the more 'tactical' issues associated with implementing the strategy, such as investment manager appointments and the timing of asset allocation changes. The Committee meets quarterly and also has a separate annual meeting to consider strategic issues relevant to the Fund.

The Investment Subcommittee consists of six voting members (the Chair, Vice Chair, one other elected member of the County Council, the Universities representative and one member representing each of the City and District Councils, all of whom are members of the Local Pension Committee) and one non-voting staff representative. Its role is to consider action that is in-line with the strategic benchmark agreed by the Board and to take a proactive approach to the Fund's investments, and also to deal with investment manager issues including appointments.

The Committee and Subcommittee receive investment advice from Hymans Robertson LLP and an Independent Advisor, Scott Jamieson. Other consultants will also be utilised if there is felt to be an advantage to this.

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**Pension Fund Annual Report**


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**Leicestershire Pension fund administration and management.**

<b>County Council Representatives</b>	<b>Representatives of other bodies</b>
Mr. P. Osborne (Chairman)	Cllr L Moore
Mr. L. Breckon (Vice Chairman)	Cllr D Bajaj
Mr. P. Bedford	Cllr M Graham
Mr. M. Hunt	Cllr N Frost
Dr. S. Hill	
<b>University representative</b>	<b>Staff Representatives</b>
Ms. M Holden	Ms. J. Dean
	Mr. R. Bone
	Mr. N. Booth
<b>Local Pension Board</b>	
<b>Employer Representatives</b>	<b>Member Representatives</b>
Mr D Jennings	Ms. D Stobbs
Mrs R Page	Ms. D Haller
Cllr D Alfonso	Ms. A Severn-Morrell
<b>Officers responsible for the fund</b>	
<b>Finance</b>	<b>Pensions Administration</b>
Chris Tambini, - Director of Resources, Leicestershire County Council	Ian Howe, Pensions Manager, Leicestershire County Council
<b>Investment Managers</b>	
Adams Street Partners, Chicago	Kohlberg Kravis Roberts, London
Ashmore, London	Legal & General Investment Management, London
Aspect Capital, London	Cristofferson, Robb & Co
Aviva Investors, London	Prudential M & G Investment Management, London
Catapult Venture Managers, Leicestershire	Millennium Global Investments, London
Colliers Capital, London	Partners Group, London
Macquire Investments, Australia	Permal Investment Management, London
Industry Funds Management, London	Pictet Asset Management, London
JPMorgan Asset Management, London	Ruffer LLP, London
Kames Capital, Edinburgh	Stafford Timberland, London
Kempen Capital, Amsterdam	internally Managed (Farms and Cash)
Kleinwort Benson investors, Dublin	Infracapital
	Standard Life Aberdeen
<b>Fund Custodian</b>	<b>Legal Advisor</b>
JPMorgan, Bournemouth	County Solicitor, Leicestershire County Council
<b>Independent Investment Advisor</b>	<b>Actuary and Investment Consultant</b>
Scott Jamieson	Hymans Robertson LLP, Glasgow
<b>Auditor</b>	<b>AVC Provider</b>
KPMG LLP, Birmingham	Prudential, London
<b>Banker</b>	<b>Scheme Administrator</b>
National Westminster Bank, Leicester	Pensions Section, Leicestershire County Council

The Local Pension Board is a statutory committee required under LGPS Regulations. This committee consists of three member (i.e. employee) representatives – elected in the same manner as the employee representatives on the Local Pension Committee - and three employer representatives, with the latter being two elected members of Leicestershire County Council and one from Leicester City Council. Their role is to assist the administering authority in ensuring compliance with Regulations and the requirements of the Pensions Regulator, and as such their main focus is on pension administration issues.

There is a statutory requirement for the Fund to maintain a Governance Compliance Statement, and this is replicated in full in appendix A.

From 1<sup>st</sup> April 2018 individual LGPS Funds are required to operate pooled investment arrangements, in line with Central Government Policy. From this date the Leicestershire Fund has retained responsibility for deciding its asset allocation strategy, but implementation of this decision will rest with LGPS Central, a company owned by eight Midlands-based LGPS Funds (including the Leicestershire Fund) and set up to ensure that the investment requirements of the Funds are met in a cost-effective manner.

Investment pooling will lead to a requirement for small compromises on the part of individual Funds, but the expected outcome is that there will be significant cost savings made as a result of the economies of scale brought by having fewer, but much larger, investment portfolios. Set-up costs and the costs associated with the need to restructure assets into a series of co-mingled investment funds will lead to higher costs for a period of time, but meaningful medium and longer-term savings will accrue.

In the period since the LGPS Central Funds started discussing the potential to form an investment pool (late 2015) there has been significant progress made. All Funds are very closely aligned in terms of their broad investment beliefs and this has made progress easier than would otherwise have been the case. Central Government, which will ultimately decide which pools are acceptable and which are not, has indicated that LGPS Central's proposition is very much in line with their expectations and has approved the pool. The combined value of the assets of LGPS Central partner funds was c.£40bn at the year end.

With pooled investment arrangements due to commence in the near future, all changes to investments need to be considered more carefully than would have otherwise have been the case. As an example, the replacement of one investment manager with another (which brings with it restructuring costs and, as a result, a short-term negative impact onto investment returns) may turn out to be only a short-term appointment as LGPS Central could dispense with the new manager's services within a few years. There is, however, still a necessity to take actions that are believed to be in the best interests of the Fund rather than to simply allow the Fund to 'drift' for a period of time.



## 5. Investment Management Arrangements

At the January 2018 meeting of the Local Pension Committee there were a number of relatively minor changes made to the Fund's strategic asset allocation benchmark. At the year end the benchmark in place was:

Equities	44% - 48%
Alternative Assets:	25.5% - 29.5%
<i>Targeted Return</i>	9.5% - 11.5%
<i>Credit</i>	7.5%
<i>Emerging Market Debt</i>	2.5%
<i>Other</i>	4% - 8%
Property	10%
Inflation-Linked	16.5%

The setting of the strategic benchmark is the most important decision that the Committee makes. It is this decision that will have by far the most significant impact onto the investment return achieved and approximately 90% of the Fund's overall risk is encompassed within the choice of benchmark. Individual investment manager choices are important as they can produce added value by outperforming their benchmarks, but their influence is small in comparison to the choice of benchmark.

After investment pooling within the LGPS becomes effective, the Local Pension Committee will retain full responsibility for asset allocation and will continue to be accountable for the majority of the Fund's investment performance.

The management of the individual asset classes is carried out as follows:

### *Equities*

The Fund has a global passive equity manager (Legal & General) that manages against both market capitalisation benchmarks and also against alternative benchmarks. There are also two global dividend-focused equity managers (KBI and Kempen) and a specialist emerging market equity managers (Macquarie investments).

Within equities the Fund also has private equity investments (i.e. investment in unquoted companies), the vast majority of which is managed on a global basis by Adams Street Partners. There are also relatively small investments into two locally-based private equity funds managed by Catapult Partners, which are both now in 'wind-down' mode.

### *Alternative Assets*

Targeted return - The Fund's targeted return exposure can generally be categorised as investments that are seeking to make a return of 4% p.a. more than could be achieved by

an investment in cash (i.e. only slightly below the expected long-term return from equities), and with the expectation that the return will be achieved with relatively low volatility. There are many different ways of achieving this goal and the Fund has three different managers in this area - Aspect Capital Partners, Ruffer and Pictet Asset Management.

Credit - The major exposure within credit is in a private debt fund managed by Partners Group, although there are also modest exposures to a 'best ideas' bond fund managed by JPMorgan and a Prudential/M & G Fund that lent directly to UK medium sized companies in the aftermath of the credit crunch. This latter investment is in its wind-down stage and a number of the companies have repaid the loans early. The Fund's exposure to Emerging Market Debt is in a pooled fund managed by emerging market specialist manager Ashmore.

Other - The 'Other' weighting is often referred to as the 'opportunity pool'. The broad principle of these investments is that they will offer the prospect of excellent returns, but they will not generally fit neatly into the Fund's strategic benchmark. The high returns will often be available as a result of a market disconnection or a misunderstanding of the risks and this situation will not last indefinitely, and hence the opportunities cannot be considered for inclusion within the strategic benchmark. At the year-end the opportunity pool consisted of three different funds managed by M & G that have virtually identical investment aims. The intention is for the manager to utilise their expertise in restructuring the balance sheets of companies that are stressed, to the advantage of bond holders. The first two of these funds have passed their investment periods and distributions so far point to very strong investment returns, whilst the third is still only partially invested. A commitment of \$40m to a further investment within the opportunity pool strategy has also been made, to the Markham Rae Trade Capital Partners fund, but only a very limited amount of this commitment had been drawn by the year end.

#### *Property*

Colliers Capital UK manage a directly owned property portfolio but have scope to invest in specialist pooled property funds which are in areas that they find attractive but would not be able to buy directly, usually due to the size of individual investments (for example leisure complexes based around multiplex cinemas or Central London offices).

Aviva Investors manage a portfolio of pooled property funds, which includes some covering a wide range of property types and some which are specialist in nature. Via their ability to research the underlying holdings and the skills of the property managers, it is expected that they will add value to the Fund.

The Fund has also invested in two stand-alone property 'recovery' funds, managed by Kames Capital. The first of these was originally considered to be part of the opportunity pool but was re-allocated to the property weighting, partly to 'free up' capital for future opportunity pool investments.

#### *Inflation-linked*

UK inflation is one of the Fund's biggest risks, due to the direct link to benefits and also the less-direct link to salary growth of active members. Protecting against this risk is, therefore, sensible but it is also very expensive – it would involve taking money out of assets that are seeking investment growth (e.g. equities) and investing it in safer, and therefore lower-returning, index-linked bonds. This would push up employers'

contribution rates to levels which are unaffordable, so cannot be implemented in a large scale manner.

The most natural asset for protecting the Fund against its inflation risk is UK Government index-linked bonds, but these are expensive as there are a number of price-insensitive buyers and a lack of supply. As a result the Fund has a three-pronged approach to obtaining some protection against inflation – investment in infrastructure and timberland (both of which have a good historic link to inflation, and also good return prospects), and also a global government index-linked portfolio.

Kames Capital manages a portfolio of global index-linked stocks. The Fund has three global infrastructure managers - IFM, KKR and JPMorgan - whilst the timberland investment is through two pooled funds managed by Stafford Timberland.

*Other portfolios*

The Fund also has a currency portfolio that looks to profit from relative movements in currency values, which is managed by Millennium. No 'cash backing' is required, and this portfolio is not included within the strategic asset allocation benchmark. Foreign Exchange hedging is also carried out to protect against currency fluctuations rather than being held for an investment return.

## 6. Risk Management

There are many risks associated with the Local Government Pension Scheme, covering both the investment of the assets and the administration of the benefits payable. It is almost impossible to create a definitive list of these risks and many of the on-going risks are monitored by Officers and only brought to the attention of the Local Pension Committee and/or Local Pension Board as-and-when it is felt to be necessary and appropriate. When this is deemed necessary a report will be produced by Officers for consideration at the appropriate meeting.

The biggest risk for the Fund is that the value of assets held will ultimately be insufficient to pay for all the benefits due. This risk is managed by a triennial actuarial valuation, which compares the value of assets to the accrued liabilities and sets employer contribution rates that are considered appropriate to ensure that all benefits can be paid; the Fund is currently in deficit (i.e. the value of assets is less than the accrued liabilities) so the employer contribution rates, at a whole Fund level, include payment for not only future service as it accrues but also contributions towards the deficit. Given that many benefits will not become payable for a long time, and taking into account the financial strength of most employers, the actuary is able to take a long-term approach to recovery of the deficit.

The performance of the assets of the Fund is an important element in helping to maintain affordable employer contribution rates – the higher the long-term investment return achieved, the more of the benefits will be funded by investment returns rather than employer and employee contributions. A long-term approach is taken to agreeing an asset allocation benchmark, with both return and risk taken into account. Asset allocation policy is reviewed annually.

Individual investment manager performance is of lower importance than the asset allocation benchmark, but individual manager performance does have an impact and their performance is considered and reviewed regularly. When there are doubts about a manager's ability to generate future performance that is in line with the Fund's requirements/expectations appropriate action will be taken, and this may include the release of a manager. It is not generally optimal to change managers on a frequent basis due to the associated costs (which are mainly the impact of bid/offer spreads and charges within markets), and as a result changes are considered very carefully before they are agreed.

The Local Pension Committee receives advice from the investment practice of Hymans Robertson and an independent investment advisor, and this assists in making decisions in respect of both overall investment policy and manager selection/retention.

The Fund employs a large number of investment managers, and all of these invest in a specific asset class and can be termed 'specialist'. Many of these managers are required to have external assessments of their systems and operations and these are reviewed in order to ensure that there are no issues which put the Fund's investments at risk.

Under the Pensions Regulations all employers must pay over contributions deducted from employees, plus the required employer contributions, to the administering authority within certain timescales. These payments are monitored closely and immediate action is taken in the event of a late payment. Late payment does not put the benefits of individuals at risk.

Many of the risks associated with providing efficient and cost-effective Pensions Administration are mitigated by ensuring that employees are knowledgeable and well-trained, and this is an on-going issue that is taken very seriously by the administering authority. Ensuring that employers understand their responsibilities to the Fund and fulfil them efficiently is also crucial, and an on-going programme of support and training for them is in place.

## 7. FINANCIAL PERFORMANCE

Guidance issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) in August 2014 suggests that the Annual Report should be used for the administering authority to 'demonstrate to stakeholders the effectiveness of its stewardship' from a financial, rather than an investment performance, perspective. This stewardship relates to the general management of pension fund income and expenditure.

It would be possible to produce performance indicators about many aspects of the Fund's financial performance to attempt to demonstrate effective financial stewardship, but ironically this will involve the need to employ greater resource and incur higher cost. As a result the preferred option is to comment in general terms about financial governance.

There were a small number of incidences of late payment of contributions by employers over the year, and these were exclusively as a result of administrative failings on their part. On each occasion the employer was reminded of their responsibilities, and it was not felt necessary to levy interest on overdue contributions.

Administrative costs were at £6.4m for the year. Investment management fees are variable as they are based on market values that are impossible to predict in advance. Action was taken during the year to reduce investment management costs where there was opportunity to do so.

The general trend of overall net cash flows is monitored, whether these are derived from investment or non-investment related sources. Non-investment cash flows were positive by almost £21m in 2017/18, compared to £22m in 2016/17. This small reduction comes as a result of a number of relatively small changes in the various income and expenditure categories, and none of these changes were out-of-line with expectations. Employer contribution rates are on an upward trajectory, and whilst the pension increase in April 2018 (3%) was higher than recent years it is not expected that the deficit position will change in the short term. In addition the Fund received net income (investment income less investment management expenses) of £43m. In the context of the funds, £4 billion of assets, the cash flow movements are not material. Any short term cash surpluses or shortfall can be managed through the funds passive investments that have good levels of liquidity.

There are some concerns that cash flows will start to reduce. Cuts to budgets within Local Authorities over the coming years may reduce membership (and hence employee/employer contributions) at the same time that benefits paid are increasing - partly as a result of increasing numbers of pensioners and partly as a result of inflation-linked annual increases - but it is also highly likely that the rate of employers' contribution will increase for a number of years to come. The Fund also has significant investments in pooled funds where the investment income is reinvested rather than distributed, and these could, if required, be changed to income producing funds with the generation of an extra £30m+ cash flow p.a.

The overall impact of all of these facts is that it is expected that the Fund will remain strongly cash flow positive for many years, and has no need to currently consider the impact that cash flows might have on the suitability of investments. There are strong controls in place for ensuring that all income due is received and that benefits are not overpaid. A monthly automated check of pensioners is carried out through a reliable tracing agency in order to ensure that pensions cease upon death, and the Fund has a very

low incidence of overpayments that occur either as a result of fraud, late notification or error.

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### 8. ADMINISTRATIVE MANAGEMENT PERFORMANCE

The fund has a number of performance indicators in respect of administration performance, which are split between speed of processes and customer satisfaction. These are reported on a quarterly basis to the Local Pension Board.

The results 1 April 2017 to 31 March 2018 are detailed in the following table;

#### Leicestershire Pension Fund administrative Performance Statistics

Full Year - 1 April 2017 to 31 March 2018						
Business Process Perspective	Target			Customer Perspective - Feedback	Target	
Retirement Benefits notified to members within 10 working days of paperwork received	92%	97%	▲	Establish members understanding of info provided - rated at least mainly ok or clear	95%	97% ▲
Pension payments made within 10 working days of receiving election	95%	96%	▲	Experience of dealing with Section - rated at least good or excellent	95%	90% ▼
Death benefits/payments sent to dependant within 10 working days of notification	90%	91%	▲	Establish members thoughts on the amount of info provided - rated as about right	92%	94% ▲
				Establish the way members are treated - rated as polite or extremely polite	97%	98% ▲
Good or better than target	▲			Email response - understandable	95%	97% ▲
Close to target	▶			Email response - content detail	92%	98% ▲
Below target	▼			Email response - timeliness	92%	99% ▲

The Fund has 27.1 full time equivalent staff working on Local Government Pension Scheme administration. Scheme membership is 91,195 equating to 3,365 cases per person.

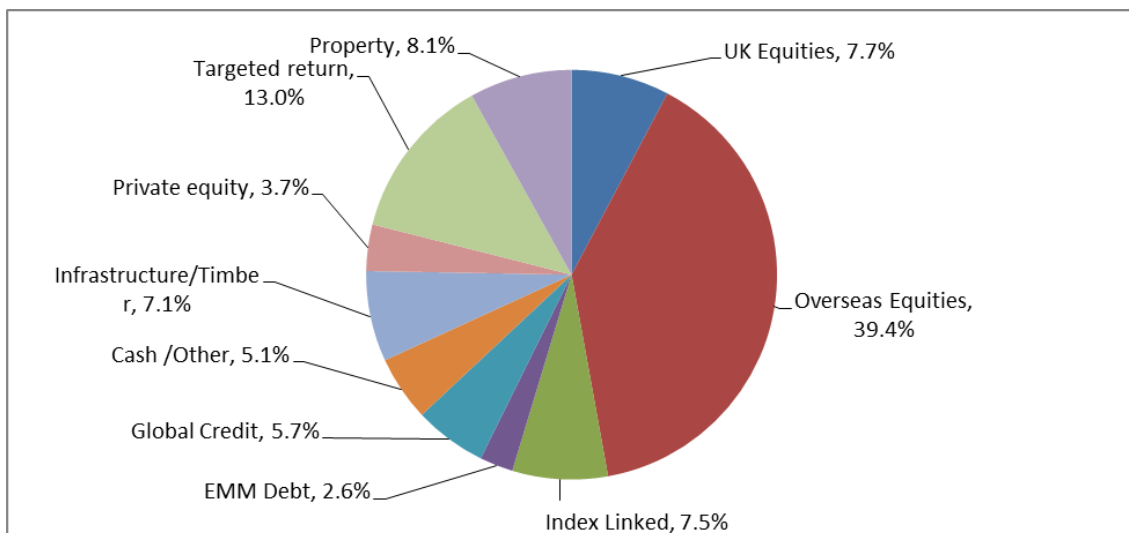


## 9. INVESTMENT RETURNS AND PERFORMANCE

The table below shows the investment returns achieved (in sterling terms) by different markets in the last two financial years:-

	Year to 31 March 2018 %	Year to 31 March 2017 %
UK Government Bonds	+0.5	+6.6
UK Index-Linked	+0.5	+19.9
UK Equities	+1.2	+22.0
United States Equities	+1.6	+34.7
European (Ex UK) Equities	+4.1	+27.9
Japanese Equities	+7.5	+32.8
Pacific (Ex Japan) Equities	+1.9	+36.3
UK Property	+11.3	+3.9
Cash	+0.4	+0.4

Asset allocation:



Investment returns from equities were not as strong in 2017/18 as they in the prior year, this was always likely as 2016/17 was an exceptionally strong year. On the plus side, overseas equities did outperform the UK market and as approximately 80% of the funds equities are held overseas this helped to boost performance.

The Fund has a large number of investment managers and it is inevitable that some of them will have periods of disappointing performance – sometimes this disappointing performance can last multiple years, and can be the result of a particular investment ‘style’ not being in favour with market sentiment. It is important to understand why managers are performing as they are – regardless of whether this is above or below their benchmark – and to assess whether this is of cause for concern. Knee-jerk reactions that are based on relatively short periods of poor performance are not sensible, and understanding the reasons for poor performance is vital. It is implausible to believe that all managers appointed by the Fund can simultaneously perform well – in fact the Fund is aware of the fact that it needs to have a reasonable spread of management styles and asset classes and occasionally a manager is chosen specifically because they are different to other managers.

In the five years to the end of 2017/18 the Fund has outperformed its benchmark on four occasions and underperformed once, although one of the years of outperformance was very marginal. Whilst individual years do matter, it is more important to focus on the medium term and it is pleasing that over the last five years the Fund has outperformed its objective by 1.2% p.a. (9.2% vs. 8.0%).

The Local Pension Committee and Investment Subcommittee will continue to monitor the performance of managers and make changes when it is deemed appropriate, although the impending pooling of investments within the Local Government Pension Scheme mentioned earlier in this report means that there needs to be a greater awareness of when action is appropriate and when it is not and indeed action will be taken at a pooled level rather than an individual pension fund level. Since 1<sup>st</sup> April 2014 all investment performance has been measured net of investment management fees and the figures quoted above are, therefore, after taking these into account.

Brief comments on the performance of the individual managers (fund value over (£100m) who were employed during the year are given on the next page:

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**Pension Fund Annual Report**


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Investment Manager	Fund Value at 31 March 2018 £m	Benchmark (%)	Return (%)	Variance	Comments
Legal & General	1369.4	1.72	1.88	0.16	LGIM manage the majority of the funds passive equities. This return represents the weighted return of 6 different funds managed by LGIM.
Kames Capital	391.4	0.5	0.7	0.2	
Ruffer LLP	251.7	4.4	1.4	-3.0	Fund is positioned to protect against significant market volatility and declines. Makes meeting benchmark more difficult in the favourable market conditions experienced in 2017/18
Partners	199.4	4.4	5.0	0.6	
Aviva Investors	190.8	11.3	15.4	4.1	
Northern Trust (formerly KBI)	187.1	2.9	1.1	-1.8	Value bias (firms with strong cash flows paying dividends) Has underperformed recently as investors have been preferring stock with high growth potential. Should offer reduced volatility and some protection in the event of a market decline.
Macquarie Investments	177.5	11.8	13.5	1.7	
Adams Street Partners	144.0	2.9	3.3	0.4	
Aspect Capital	142.1	4.4	5.3	0.9	
Kempen Capital	132.3	4.4	1.5	-2.9	Value bias (firms with strong cash flows paying dividends) Has underperformed recently as investors have been preferring stock with high growth potential. Should offer reduced volatility and some protection in the event of a market decline.
Colliers Capital UK	126.3	11.3	12.8	1.5	This is the weighted return for both the indirect and direct property fund. The direct fund had a significantly higher return, 14.2%, compared to the indirect fund which returned 8%.
Pictet	119.9	4.4	3.4	-1	
JP Morgan	104.0	4.4	2.5	-1.9	
Ashmore	103.9	-2.5	-3.0	-0.5	
Millennium Asset (currency manager)	n/a	1.5	-0.2	-1.7	Volatile by nature, intervention by central banks (QE) has made more difficult. Positive return in past 5 years

**Appendix A****LEICESTERSHIRE COUNTY COUNCIL PENSION FUND****GOVERNANCE COMPLIANCE STATEMENT****1.0 INTRODUCTION**

1.1 This is the governance compliance statement of the Leicestershire Pension Fund. The Fund is a statutory one that is set up under an Act of Parliament and the administering authority is Leicestershire County Council (the Council). This statement has been prepared as required by the Local Government Pension Scheme (Amendment) (No. 3) Regulations 2007.

**2.0 FUNCTIONS AND RESPONSIBILITIES**

2.1 Leicestershire County Council has delegated the responsibility for decisions relating to the investment of the Fund's assets to the Local Pension Committee (the LPC). This delegation to a specialist committee is in line with guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA).

2.2 The LPC meets five times a year and its members act in a quasi-trustee capacity. One of these meetings is specifically used to focus entirely on investment strategy. No substantive issues of investment policy will be carried out without the prior agreement of the LPC or, in extreme circumstances and where it is impractical to bring a matter to the LPC, following consultation with the Chair and Vice-Chair.

2.3 The LPC may delegate certain actions to the Director of Resources. It is the expectation of the LPC that some of the more administrative matters relating to investment management, such as the appointment of a custodian, are carried out by the Director of Finance.

2.4 An Investment Subcommittee, with its members drawn from the LPC, meets in the months that there is no LPC meeting. It is a decision-making Committee and will generally deal with more technical aspects of investment (such as looking at potential new investment opportunities or dealing with the appointment of new investment managers).

2.5 Pensions Administration issues are the responsibility of the Local Pension Board, where this is relevant to their role of assisting the administering authority to meet the requirements of Regulations or the Pension Regulator. Many of the day-to-day pension administration issues are the responsibility of the Director of Finance.

**3.0 REPRESENTATION**

3.1 The LPC is made up of 13 members – 5 members representing Leicestershire County Council, 2 representing Leicester City Council, 2 jointly representing the District Councils, 1 jointly representing De Montfort/Loughborough Universities and 3 non-voting staff representatives. The 10 voting members are appointed using the

due political process or, in the case of the two universities, by joint arrangement. There will be at least one staff representative position available annually and a vote will be held to fill any vacancies at the Annual Meeting of the Fund.

3.2 The LPB is made up of 6 members – 3 employer representatives (2 elected politicians of Leicestershire County Council and 1 from Leicester City Council) and 3 member representatives. There will be at least one member representative position available annually and a vote will be held to fill any vacancies at the Annual Meeting of the Fund.

#### **4.0 STAKEHOLDER ENGAGEMENT**

4.1 An Annual Meeting of the Pension Fund is held annually, usually in January, to which all employee members and other interested parties are welcome. The purpose of the meeting is to present the Annual Report of the Fund and to report on current issues, as well as to elect staff representatives for any vacant positions on the LPC and member representatives for any vacant positions on the LPB.

4.2 A number of other initiatives to involve stakeholders also take place, including:

- Presentations by the Fund/Actuary to employing bodies;
- Pensions roadshows at various venues;
- The Annual Report and Account of the Pension Fund;
- Other communications to members.

#### **5.0 REVIEW AND COMPLIANCE WITH BEST PRACTICE**

<b>Principle</b>	<b>Compliance/Comments</b>
<b>Structure</b>	
The strategic management of fund assets clearly rests with the main committee established by the appointing council.	<b>Fully compliant</b>
That representatives of participating LGPS employers, admitted bodies and scheme members are members of the committee.	<b>Fully compliant</b>
That where a secondary committee has been established, the structure ensures effective communication across both levels.	<b>Fully Compliant</b>
That where a secondary committee has been established, at least one seat on the main committee is allocated for a member of the secondary committee	Investment Subcommittee will be full LPC members, so <b>Fully Compliant</b>
<b>Representation</b>	
That all key stakeholders are afforded the opportunity to be represented within the main committee structure (including	<b>Fully Compliant</b>

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employing authorities, scheme members, independent professional observers and expert advisors)	
That where lay members sit on a main committee, they are treated equally and are given full opportunity to contribute to decision making, with or without voting rights	<b>Fully Compliant</b>
<b>Selection and Role of Lay Members</b>	
That committee members are fully aware of their status, role and function they are required to perform.	<b>Fully Compliant</b>
<b>Voting</b>	
The policy of the administering authority on voting rights is clear and transparent, including the justification for not extended voting rights to certain groups	<b>Fully Compliant</b>
<b>Training/Facility Time/Expenses</b>	
That the policy applies equally to all members of committees	<b>Fully Compliant</b>
<b>Meetings (frequency/quorum)</b>	
That the main committee meet at least quarterly	<b>Fully Compliant</b>
That secondary committees meet at least twice a year and the meetings are synchronised with the main committee	The Investment Subcommittee meets regularly, so <b>Fully Compliant</b>
If lay members are not included in formal governance arrangements, a forum is available outside of these arrangements by which their interests can be represented	Lay members are included on main committee, so <b>Not Relevant</b>
<b>Access</b>	
That, subject to any rules in the Council's constitution, all members have equal access to committee papers, documents and advice that falls to be considered by the main committee	<b>Fully Compliant</b>
<b>Scope</b>	
That administering authorities have taken steps to bring wider scheme issues within the scope of the governance arrangements	<b>Fully Compliant</b>
<b>Publicity</b>	
That the administering authority have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an	<b>Fully Compliant.</b> A copy of this statement has been sent to all employing

interest in wanting to be part of those arrangements	authorities.
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- 5.1 This statement will be kept under review and will be revised and published following any material change in the governance arrangements of the Pension Fund.
- 5.2 The regulations require a statement as to the extent to which the governance arrangements comply with guidance issued by the Secretary of State. This guidance contains a number of best practice principles and these are shown below with the assessment of compliance.

## Appendix B - Pension Fund Accounts 2017/2018

(Registration number: 00328856RQ)

### Introduction

- Under Local Government Pension Scheme Regulations the County Council is required to maintain a Pension Fund for certain categories of its employees together with the majority of employees of District Councils and other bodies that were formerly under the control of Local Authorities.

In addition, certain other bodies are eligible to join if the County Council agrees, and a number of voluntary/charitable bodies have obtained membership in this way. Membership of the scheme is optional for all employees, although a written election not to join must be made if employees wish to remain outside the scheme. Teachers, Firefighters and Police Officers all have their own schemes.

Details of the other admitted and scheduled bodies in the Fund are shown in note 5.

There were 33,638 contributors to the Fund as at 31 March 2018.

- Actuarial Position:

- Local Government Pension Funds, in common with other pension funds in both public and private sectors, have periodic valuations to assess the extent to which assets accumulated are adequate to meet future liabilities. To ensure that the fund remains financially sound to meet benefit payments, the actuary recommends the rate of employer contributions on an individual employer basis for each employing body in the fund on a triennial basis.

The Council's actuary, Hymans Robertson LLP completed the latest triennial valuation, as at 31 March 2016. The change in contribution rates resulting from the actuarial valuation as at 31 March 2016 was effective from 1 April 2017 and for many employers there will be phased increases covering the period 1 April 2017 to 31 March 2020.

- The valuation method adopted by the actuary is the projected unit valuation method which is consistent with the aim of achieving a 100% funding level. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases.
- The 2016 valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,164m, were sufficient to meet approximately 76.2% of the liabilities accrued up to that date. Assets were valued at their market value.
- In order to value both those liabilities which have accrued at the valuation date and those accruing in respect of future service; it has been assumed that the Fund's assets are invested in line with its long term investment strategy.
- The key financial assumptions adopted for the 2016 valuation were as follows:

Financial Assumptions	31 Mar 2016
Pension Increase Rate	2.1%
Salary Increase Rate	3.2%
Discount Rate	4.0%

- On an annual basis the fund's actuary also calculates the actuarial present value of promised retirement benefits in accordance with IAS 19. This involves the Actuary rolling forward the value



## Pension Fund Annual Report

of the Employers liabilities calculated for the triennial valuation as at 31 March 2016 allowing for the different financial assumptions required by IAS19. The assumptions used for the purposes of the IAS19 calculations are as follows:

	31 March 17	31 March 18
Pension Increases	2.4%	2.4%
Salary Increases	3.4%	3.4%
Discount Rate	2.6%	2.7%

The net liability under IAS19 is shown below:

	31 March 17 £m	31 March 18 £m
Present Value of funded obligation	5,987	6,141
Net Scheme Assets	3,881	4,084
<b>Net Liability</b>	<b>2,106</b>	<b>2,057</b>

These figures are presented only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes.

3. In 2017/18 the average employer rate was 22.7% of pay (21.8% 2016/17).
4. The County Council has delegated the management of the Fund to its local Pension Committee, which consists of ten voting members and three non-voting staff representatives. The voting members are split into five County Council members, two from Leicester City Council and two representing the District Councils and a single member representing Universities. The Board receives investment advice from Hymans Robertson LLP and meets quarterly to consider relevant issues.
5. List of admitted and scheduled bodies (with active membership):

The Pension Fund contributors include Authorities consisting: of Blaby District Council, Charnwood Borough Council, De Montfort University, Harborough District Council, Hinckley & Bosworth Borough Council, Leicester City Council, Leicester, Leicestershire and Rutland Combined Fire Authority, Office of the Police and Crime Commissioner for Leicestershire, Leicestershire County Council, Loughborough University, Melton Borough Council, North West Leicestershire District Council, Oadby & Wigston Borough Council, Rutland County Council.

Schools consisting of: Apollo Partnership Trust, Asfordby Hill, Ashby Hill Top, Ashby School, Ash Field Academy, Barwell C of E, Battling Brook, Beacon Academy, Birkett House, Blessed Cyprian Tansi MAT, Bottesford, Bradgate Education Partnership, Brockington, Brocks Hill, Brooke Hill, Brookvale Groby Learning Trust, Broom Leys, Casterton Business and Enterprise College, Castle Donington College, Church Hill Junior, Cobden, Corpus Christi MAT, Cottesmore Primary, Countesthorpe Leysland Community College, David Ross Education Trust, Diocese of Leicester Academy Trust, Discovery Schools, Dorothy Goodman, Falcon Primary School, Forest Way, Frisby, Gartree, Hall Orchard, Hastings High, Hinckley Academy, Holywell, Humphrey Perkins, Huncote, Ibstock Community College, Inspiring Primaries Academy Trust, Ivanhoe College, Ivanhoe under 5s, The Kibworth School, L.E.A.D. Academy Trust, King Edward VII, Kirby Muxloe, Krishna Avanti Free School, Lady Jane Grey, Launde, Learn Academies Trust, Learning Without Limits Academy Trust, LiFE Academy Trust, Limehurst, Lionheart Academies Trust, Long Field, Loughborough C of E Primary, Lutterworth Academies Trust, Lutterworth High, Market Bosworth High, Martin High, Measham, Mercenfeld, Midland Academies Trust, Mountfields Lodge, Mowbray Education Trust, Nova Ed Trust (melton Vale), OAK Multi Academy Trust, Odyssey Educational Trust, Old Dalby, Outwoods Edge, Oval Learning Trust, OWLS Academy Trust, The Pastures, Queensmead, Queniborough, Ratby, Rawlins, Red Hill Field, Redmoor, Rendell, Robert Bakewell, Robert Smyth, Rothley, Rushey Mead Educational Trust, Rutland & District Schools' Federation, Rutland Learning Trust, Ryhall, St Dominics Catholic MAT, St. Gilbert of Sempringham, St. Michael & All Angels, St Peters C of E, South Charnwood, South Wigston High, Stafford Leys, Stanton under Bardon, Stephenson Studio School, Stonebow, Success Academy Trust, Symphony Learning Trust, The Priory Academy Trust Belvoir Academy, Thringstone, Thrussington, Townlands, Tudor Grange, Uppingham Community College, Welland Park, Wigston Academies Trust, Woodbrook Vale, Wreake Valley.

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Colleges consisting of Brooksby Melton College, Gateway Sixth Form College, Leicester College, Loughborough College, WQE and Regent College Group, South Leicestershire College, Stephenson College.

Other employers consisting of: ABM Catering, Aspens Services, Bradgate Park Trust, Capita Business Services, Capita Managed IT Solutions, Caterlink, Chartwells, CSE Ltd, East Midlands Shared Services, East West Community Project, Eastern Shires Purchasing Organisation, EMH Homes, Fusion Lifestyle, Future Cleaning Services, G4S, G Purchase, MCS Cleaning, Melton Learning Hub, Pinnacle Group, Prospect Services, Quadron Services, Rushcliffe Care, Seven Locks Housing, SLM Community Leisure, Solo Service Group, Spire Homes, Turning Point, Voluntary Action Leicester.

Parish and Town Councils consisting of: Anstey PC, Ashby TC, Ashby Woulds TC, Bagworth & Thornton PC, Barrow Upon Soar PC, Barwell PC, Blaby PC, Braunstone TC, Broughton Astley PC, Countesthorpe PC, East Goscote PC, Enderby PC, Glen Parva PC, Groby PC, Kirby Muxloe PC, Leicester Forest East PC, Lutterworth TC, Market Bosworth PC, Mountsorrell PC, Oakthorpe, Donisthorpe & Acresford PC, Shepshed TC, Sibley PC, Syston TC, Thurcaston & Cropston PC, Thurmaston PC, Twycross PC, Whetstone PC.

## Fund Account for the Year Ended 31 March 2018

2016/17 £m		Notes	2017/18 £m
	<b>Contributions</b>		
131.9	Employer Contributions	3	139.2
37.6	Member Contributions	3	38.3
8.7	Transfers in from Other Pension Funds	4	15.9
	<b>Benefits</b>		
(108.9)	Pensions	5	(115.0)
(30.6)	Commutation of Pensions and Lump Sum Retirement Benefits	5	(31.8)
(3.6)	Lump Sum Death Benefits		(3.1)
(11.9)	Payments to and on Account of Leavers	6	(21.5)
<b>23.2</b>	<b>Net Additions)/(Withdrawals) from Dealings with Members</b>		<b>22.0</b>
(6.0)	Management Expenses	7	(6.4)
<b>17.2</b>	<b>Net Additions)/(Withdrawals) Including Fund Management Expenses</b>		<b>15.6</b>
	<b>Returns on investments</b>		
37.5	Investment income	8	42.9
662.2	Profit and Losses on Disposal of Investments and Changes in Value of Investments	9	144.0
<b>699.7</b>	<b>Net Returns on Investments (Sub Total)</b>		<b>186.9</b>
<b>716.9</b>	<b>Net Increase / (Decrease) in the Net Assets Available for Benefits fund During the Year</b>		<b>202.5</b>
3,163.9	Net assets of the scheme At 1 April		3,880.8
<b>3,880.8</b>	<b>Net assets of the scheme At 31 March</b>		<b>4,083.3</b>

## Net Assets Statement as at 31 March 2018

2016/17 £m		Notes	2017/18 £m
3,876.3	Investment assets	9	4,076.1
(3.7)	Investment liabilities	9	(1.2)
<b>3,872.6</b>			<b>4,074.9</b>
11.4	Current Assets	12	11.7
(3.2)	Current Liabilities	12	(3.3)
<b>3,880.8</b>	<b>Net Assets of the Fund at 31 March</b>		<b>4,083.3</b>

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position on the Scheme, which does take account of such obligations, is set out in the Actuary's Report.

The notes on pages 95 to 114 form part of the Financial Statements.

## Notes to the Accounts

### 1. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31<sup>st</sup> March 2018. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

### 2. Accounting policies

The following principal accounting policies, which have been applied consistently, have been adopted in the preparation of the financial statements:

#### Investments

Equities traded through the Stock Exchange Electronic Trading Service (SETS) are valued at bid price. Other quoted securities and financial futures are valued at the last traded price. Private equity investments and unquoted securities are valued by the fund managers at the year end bid price, or if unavailable in accordance with generally accepted guidelines. Accrued interest is excluded from the market value of fixed interest securities and index-linked securities but is included in investment income receivable.

Pooled Investment Vehicle units are valued at either the closing bid prices or the closing single price reported by the relevant investment managers, which reflect the accepted market value of the underlying assets.

Private equity, global infrastructure and hedge fund valuations are based on valuations provided by the managers at the year end date. If valuations at the year end are not produced by the manager, the latest available valuation is adjusted for cash flows in the intervening period.

Property investments are stated at open market value based on an expert valuation provided by a RICS registered valuer and in accordance with RICS guidelines.

Options are valued at their mark to market value. Forward foreign exchange contracts outstanding at the year end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. The investment reconciliation table in note 9 discloses the forward foreign exchange settled trades as net receipts and payments.

### ***Investment Income***

Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded net of any withholding tax.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

The change in market value of investments (including investment properties) during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value but excluding translation gains and losses arising from assets denominated in foreign currency.

### ***Foreign currencies***

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated at a rate that is relevant at the time of the receipt of the income or the exchange rate at the year end, whichever comes first.

Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

### ***Contributions***

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate issued by the Fund's actuary. Additional contributions from the employer are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

Additional payments for early retirements relate to the actuarially assessed extra cost to the Fund of employing bodies allowing their members to retire in advance of normal retirement age. These costs are reimbursed to the Fund by employing bodies and are accounted for on an accrual basis.

### ***Benefits payable***

Where members can choose to take their benefits as a full pension or a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Other benefits are accounted for on the date the member leaves the scheme or on death.

*Transfers to and from other schemes*

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the Scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

*Other Expenses*

Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.

Employee expenses have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged on an accruals basis.

**3. Contributions**

2016/17 £m		2017/18 £m
	<b>Employers</b>	
126.5	Normal	134.5
0.1	Voluntary additional	0.1
4.2	Advanced payments for early retirements	3.9
1.1	Additional payments for ill-health retirements	0.7
	<b>Members</b>	
37.2	Normal	37.9
0.4	Purchase of additional benefits	0.4
<b>169.5</b>	<b>Total</b>	<b>177.5</b>

Additional payments for early retirements are paid by employers, once calculated and requested by the Fund, to reimburse the Pension Fund for the cost to the Fund of employees who are allowed to retire before their normal retirement age. Additional payments for ill-health retirements are generally paid by the insurance company, where the employer has taken out ill-health insurance and the claim has been accepted as valid. On occasions employers without ill-health insurance are charged for at least part of the ill-health costs. Purchase of additional benefits by members allows either extra service to be credited on top of any service earned via employment, or an additional annual pension amount in cash to be paid following retirement. Termination valuation payments relate to the actuarially assessed deficit within an employer's sub-fund when their last active employee leaves.

The contributions can be analysed by the type of Member Body as follows:

2016/17 £m		2017/18 £m
42.8	Leicestershire County Council	42.4
118.8	Scheduled bodies	126.4
7.9	Admitted bodies	8.7
<b>169.5</b>	<b>Total</b>	<b>177.5</b>

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**4. Transfers In**

2016/17 £m		2017/18 £m
8.7	Individual transfers in from other schemes	13.2
0.0	Bulk transfers in from other schemes	2.7
<b>8.7</b>	<b>Total</b>	<b>15.9</b>

**5. Benefits**

The benefits paid can be analysed by type of Member Body as follows:-

2016/17 £m		2017/18 £m
52.2	Leicestershire County Council	53.6
80.8	Scheduled bodies	86.0
10.1	Admitted bodies	10.3
<b>143.1</b>	<b>Total</b>	<b>149.9</b>

**6. Payments to and on Account of Leavers**

2016/17 £m		2017/18 £m
0.7	Refunds to members leaving the scheme	0.8
0.2	Payments for members joining state scheme	0.1
11.0	Individual transfers to other schemes	20.6
0.0	Bulk transfers to other schemes	0.0
<b>11.9</b>	<b>Total</b>	<b>21.5</b>

**7. Management Expenses**

2016/17 £m		2017/18 £m
4.6	Investment Management Expenses	4.9
1.1	Pension Scheme Administration Costs	1.1
0.3	Oversight and Governance Expenses	0.4
<b>6.0</b>	<b>Total</b>	<b>6.4</b>

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**8. Investment Income**

2016/17 £m		2017/18 £m
0.0	Income from fixed interest securities	0.0
2.2	Dividends from equities	2.9
0.1	Income from Government Bonds	0.0
1.8	Income from index-linked securities	2.2
25.2	Income from pooled investment vehicles	30.9
7.3	Net rents from properties	7.0
0.3	Interest on cash or cash equivalents	0.3
0.6	Net Currency Profit / (Loss)	(0.5)
0.0	Securities Lending Commission	0.0
0.0	Insurance Commission	0.1
<b>37.5</b>	<b>Total</b>	<b>42.9</b>

**9. Investments**

	Value at 1 April 2017 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change In Market Value £m	Value at 31 March 2018 £m
Equities	77.5	47.0	(43.8)	(0.4)	80.3
Government Bonds	0.0	0.7	0.0	0.0	0.7
Index-linked securities	373.3	289.7	(275.9)	(2.9)	384.2
Pooled investment vehicles	3,070.1	365.6	(184.9)	81.2	3,332.0
Properties	96.3	0.1	(0.1)	5.8	102.1
Cash and currency	238.1	0.0	(80.5)	0.0	157.6
Derivatives contracts	15.6	6.7	(67.7)	60.3	14.9
Other investment balances	1.7	1.4	0.0	0.0	3.1
<b>Total</b>	<b>3,872.6</b>	<b>711.2</b>	<b>(652.9)</b>	<b>144.0</b>	<b>4,074.9</b>

The change in the value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The Fund has investments of £270.410m in the Legal & General North America index fund (31/3/17, £267.804m) and £260.370m in the Legal & General FTSE RAFI North America fund (31/3/17, £261.991m) that exceed 5% of the total value of net assets.

The Fund had no investments which exceed 5% of any class or type of security.

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2016/17 £m		2017/18 £m
	<b>Equities</b>	
24.6	UK quoted	23.2
0.0	UK unquoted	1.3
52.9	Overseas quoted	55.8
<b>77.5</b>		<b>80.3</b>
	<b>Government Bonds</b>	
<b>0.0</b>	<b>UK Government Unquoted</b>	<b>0.7</b>
	<b>Index Linked Securities</b>	
331.8	UK quoted	347.1
41.4	Overseas quoted	37.0
<b>373.2</b>		<b>384.1</b>
	<b>Pooled investment vehicles (unquoted)</b>	
223.0	Property funds	262.6
142.7	Private equity	152.5
337.9	Bond and debt funds	468.3
0.6	Hedge funds	0.3
1,876.7	Equity-based funds	1,887.2
9.8	Commodity-based funds	12.1
80.4	Timberland fund	91.4
124.8	Managed futures fund	142.1
96.2	Targeted return fund	119.9
178.1	Infrastructure fund	195.6
<b>3,070.2</b>		<b>3,332.0</b>
	<b>Properties</b>	
<b>96.3</b>	<b>UK (Note 11)</b>	<b>102.1</b>
<b>238.1</b>	<b>Cash and currency</b>	<b>157.6</b>
	<b>Derivatives contracts</b>	
15.7	Forward foreign exchange assets	12.9
0.9	Currency option assets	0.1
2.7	Other option assets	3.1
(3.7)	Forward foreign exchange liabilities	(1.1)
0.0	Currency option liabilities	0.0
<b>15.6</b>	<b>Sterling Denominated</b>	<b>15.0</b>
<b>1.7</b>	<b>Other Investment Balances</b>	<b>3.1</b>
<b>3,872.6</b>	<b>Total Investments</b>	<b>4,074.9</b>

At 31 March 2018 pooled investment vehicles include investments in fund-of-funds which have an underlying value of £151.378m in private equity, £14.773m in illiquid corporate bonds and £91.384m in timberland.

## 10. Derivatives

The Fund holds derivatives for a number of different reasons. Forward foreign exchange contracts are held to benefit from expected changes in the value of currencies relative to each other. Futures can be held to gain full economic exposure to markets without the requirement to make a full cash investment, and can be held to ensure that the Fund's exposures are run efficiently. Options are generally used to express an investment view but can give a much higher economic exposure than is required to be paid for the options – they also ensure that the potential loss is limited to the amount paid for the option.



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### Forward Foreign Exchange Contracts

All forward foreign exchange contracts are classed as 'Over the Counter' and at the year end the net exposure to forward foreign exchange contracts can be summarised as follows:

2016/17 £m		2017/18 £m
(0.8)	Active currency positions (those whose purpose is solely to seek economic gain)	0.3
12.7	Passive currency positions (those whose purpose is to hedge the Fund's benchmark exposure to currencies back to sterling)	11.4
<b>11.9</b>	<b>Total</b>	<b>11.7</b>

### Options

All options held by the Fund were exchange traded. The value of these options and the assets to which they were exposed can be summarised as follows:

2016/17 £m		2017/18 £m
0.9	Currency-based	0.1
2.7	Equity rate-based	3.1
<b>3.6</b>	<b>Total</b>	<b>3.2</b>

## 11. Property Investments

31 March 2017 £m		31 March 2018 £m
64.9	Freehold	71.3
16.1	Long Leasehold (over 50 years unexpired)	16.2
15.3	Medium/Short Leasehold (under 50 years unexpired)	14.6
<b>96.3</b>	<b>Total</b>	<b>102.1</b>

All properties the Fund's farm investment, were valued on an open market basis by Nigel Holroyd and Adrian Payne of Colliers Capital UK at 31st March 2018. The Fund's farm was valued on an open market basis by James Forman of Leicestershire County Council. All valuers are Members of the Royal Institute of Chartered Surveyors.

## 12. Current Assets and Liabilities

2016/17 £m		2017/18 £m
8.5	Contributions due from employers	8.4
0.1	Cash Balances	1.0
1.3	Other Debtors	1.2
1.5	Due from Ministry of Justice	1.1
<b>11.4</b>	<b>Current assets</b>	<b>11.7</b>
(0.8)	Due to Leicestershire County Council	<b>(1.2)</b>
(0.9)	Fund Management Fees Outstanding	<b>(0.9)</b>
(1.5)	Other Creditors	<b>(1.2)</b>
<b>(3.2)</b>	<b>Current liabilities</b>	<b>(3.3)</b>
<b>8.2</b>	<b>Net current assets and liabilities</b>	<b>8.4</b>

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Contributions due at the year end were received by the due date.

The amount due from the Ministry of Justice relates to the actuarially assessed deficit in respect of Magistrates' Court staff that were formerly in the LGPS. The amount is payable over 10 years at £365,000 per annum, and at 31<sup>st</sup> March 2018 there were three more payments due.

### 13. Analysis of Investments by Manager

The Fund employs external investment managers to manage all of its investments apart from an amount of cash and a farm property, which are managed by Leicestershire County Council. This structure ensures that the total Fund performance is not overly influenced by the performance of any one manager.

The market value of investments in the hands of each manager is shown in the table below:-

At 31 March 2017			At 31 March 2018	
£m	%		£m	%
		<b>Investment Manager</b>		
1,379.1	35.6	Legal & General	1,369.4	33.6
352.3	9.1	Kames Capital	391.4	9.6
243.2	6.3	Ruffer LLP	251.7	6.2
185.4	4.8	KBI (formerly Kleinwort Benson Investors)	187.1	4.6
172.0	4.4	Aviva Investors	190.8	4.7
156.4	4.0	Macquarie Investments	177.5	4.4
141.3	3.7	Adams Street Partners	144.0	3.5
136.3	3.5	Kempen Capital	132.3	3.2
124.8	3.2	Aspect Capital	142.1	3.5
116.8	3.0	Colliers Capital UK	126.3	3.1
107.2	2.8	Ashmore	103.9	2.6
106.0	2.7	Partners Group	199.4	4.9
96.5	2.5	JP Morgan Asset Management	104.0	2.6
96.2	2.5	Pictet Asset Management	119.9	2.9
87.0	2.2	Prudential / M&G	85.2	2.1
80.4	2.1	Stafford Timberland	91.4	2.2
59.7	1.6	Industry Funds Management	62.6	1.5
48.1	1.3	Kravis Kohlberg Roberts	52.0	1.3
0.0	0.0	Cristofferson, Robb & Co	40.4	1.0
0.0	0.0	Standard Life Aberdeen	7.3	0.2
0.0	0.0	Infracapital	3.9	0.1
1.4	0.0	Catapult Venture Managers	1.1	0.0
0.6	0.0	Permal (formerly Fauchier Partners)	0.4	0.0
181.9	4.7	Internally Managed and Currency Managers	90.8	2.2
<b>3,872.6</b>		<b>Total</b>	<b>4,074.9</b>	

**14. Custody of Assets**

All the Fund's directly held assets are held by external custodians and are therefore not at risk from the financial failure of any of the Fund's investment managers. Most of the pooled investment funds are registered with administrators that are independent of the investment manager.

**15. Operation and Management of fund**

Details of how the Fund is administered and managed are included in the Pension Fund Annual Report.

**16. Employing bodies and fund members**

A full list of all bodies that have active members within the Fund is included on page 104.

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

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

**Level 1**

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprised quoted equities, quoted fixed interest securities, quoted index-linked securities and pooled investment vehicles where the underlying assets fall into one of these categories.

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

**Level 2**

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

**Level 3**

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, hedge funds and infrastructure, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Leicestershire County Council Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

The values of the investment in hedge funds and infrastructure are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following tables provide an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which fair value is observable.

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Values at 31 <sup>st</sup> March 2018	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets at fair value	2,828.1	806.2	441.8	4,076.1
Financial liabilities at fair value	(1.2)			(1.2)
<b>Net financial assets</b>	<b>2,826.9</b>	<b>806.2</b>	<b>441.8</b>	<b>4,074.9</b>

Values at 31 <sup>st</sup> March 2017	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets at fair value	2,843.6	631.0	401.7	3,876.3
Financial liabilities at fair value	(3.7)			(3.7)
<b>Net financial assets</b>	<b>2,839.9</b>	<b>631.0</b>	<b>401.7</b>	<b>3,872.6</b>

## 18. Nature and Extent of Risks Arising from Financial Instruments

### Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the Fund's required cash flows. These investment risks are managed as part of the overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with Leicestershire County Council's Local Pension Committee (formerly called the Pension Fund Management Board).

#### a) Market risk

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

The objective of the Fund's risk management strategy is to identify, manage and control market risk within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, Leicestershire County Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks via an annual strategy review which ensures that market risk remains within acceptable levels. On occasion equity futures contracts and exchange traded option contracts on individual securities may be used to manage market risk on investments, and in exceptional circumstances over-the-counter derivative contracts may be used to manage specific aspects of market risk.

#### **Other price risk**

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

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. For all investments held by the Fund, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure that it is within the limits specified in the Fund's investment strategy.

#### **Other price risk – sensitivity analysis**

Following analysis of historic data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, Leicestershire County Council has determined that the following movements in market prices risk are reasonably possible for the 2017/18 reporting period:

<b>Asset type</b>	<b>Potential market movements (+/-)</b>
Overseas government bonds	8%
Global credit	10%
Global government index-linked bonds	8%
UK equities	16%
Overseas equities	19%
UK property	15%
Private equity	28%
Infrastructure	14%
Commodities	14%
Hedge funds and targeted return funds	12%
Timberland	16%
Cash	1%

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

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

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Asset type	Value at 31 <sup>st</sup> March 2018	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
UK equities	24.5	16	28.4	20.6
Overseas equities	55.8	19	66.4	45.2
UK Corporate Bonds	0.7	10	0.8	0.6
Global index-linked bonds	384.1	8	414.9	353.4
Pooled property funds	262.6	15	302.0	223.2
Pooled private equity funds	152.5	28	195.2	109.8
Pooled bond and debt funds	468.3	10	515.2	421.5
Pooled hedge funds	0.3	12	0.4	0.3
Pooled equity funds	1,887.2	19	2,245.7	1,528.6
Pooled commodity funds	12.1	14	13.7	10.4
Pooled targeted return funds	119.9	12	134.3	105.5
Pooled timberland fund	91.4	16	106.0	76.8
Pooled managed futures fund	142.1	12	159.2	125.1
Pooled infrastructure fund	195.6	14	223.0	168.2
UK property	102.1	15	117.4	86.8
Cash and currency	157.6	1	159.1	156.0
Options, futures, other investment balances, current assets and current liabilities	26.5	1	26.8	26.2
<b>Total assets available to pay benefits</b>	<b>4,083.3</b>		<b>4,708.5</b>	<b>3,458.2</b>

Asset type	Value at 31 <sup>st</sup> March 2017	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
UK equities	24.6	16	28.5	20.7
Overseas equities	53.0	19	63.0	42.9
UK Corporate Bonds	0.0	0	0.0	0.0
Global index-linked bonds	373.3	8	403.2	343.4
Pooled property funds	223.0	15	256.5	189.6
Pooled private equity funds	142.7	28	182.7	102.7
Pooled bond and debt funds	337.9	10	371.7	304.1
Pooled hedge funds	0.6	12	0.7	0.5
Pooled equity funds	1,876.7	19	2,233.3	1,520.1
Pooled commodity funds	9.8	14	11.2	8.4
Pooled targeted return funds	96.2	12	107.7	84.6
Pooled timberland fund	80.3	16	93.1	67.5
Pooled managed futures fund	124.8	12	139.8	109.8
Pooled infrastructure fund	178.1	14	203.0	153.2
UK property	96.3	15	110.7	81.9
Cash and currency	238.1	1	240.5	235.7
Options, futures, other investment balances, current assets and current liabilities	25.4	1	25.7	25.2
<b>Total assets available to pay benefits</b>	<b>3,880.8</b>		<b>4,471.3</b>	<b>3,290.3</b>

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### Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is not highly exposed to interest rate risk but monitoring is carried out to ensure that the exposure is close to the agreed asset allocation benchmark.

The Fund's direct exposure to interest rate movements as at 31st March 2018 and 31st March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

As at 31 <sup>st</sup> March 2017 £m	Asset type	As at 31 <sup>st</sup> March 2018 £m
238.1	Cash and Currency	157.6
337.9	Fixed interest securities	469.0
<b>576.0</b>	<b>Total</b>	<b>626.6</b>

### Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets to pay benefits. A 1% movement in interest rates (100 BPS) is consistent with the level of sensitivity expected within the Fund's asset allocation strategy and the Fund's investment advisors expect that long-term average rates are expected to move less than 100 BPS from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates.

Asset type	Carrying amount as at 31 <sup>st</sup> March 2018 £m	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
		£m	£m
Cash and Currency	157.6	1.6	(1.6)
Fixed interest securities	469.0	4.7	(4.7)
<b>Total</b>	<b>626.6</b>	<b>6.3</b>	<b>(6.3)</b>

Asset type	Carrying amount as at 31 <sup>st</sup> March 2017 £m	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
		£m	£m
Cash and Currency	238.1	2.4	(2.4)
Fixed interest securities	337.9	3.4	(3.4)
<b>Total</b>	<b>576.0</b>	<b>5.8</b>	<b>(5.8)</b>

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk in financial instruments that are denominated in any other currency other than sterling. The Fund holds both monetary and non-monetary assets denominated in currencies other than sterling.

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The Fund's currency rate risk is actively managed and the neutral position is to hedge 70% of the exposure back to sterling. The table below summarises the Fund's currency exposure if it was unhedged at as 31st March 2018 and as at the previous period end:

Asset value as at 31 <sup>st</sup> March 2017 £m	Currency exposure – asset type	Asset value as at 31 <sup>st</sup> March 2018 £m
52.9	Overseas equities	55.8
41.4	Overseas government index-linked bonds	37.0
141.3	Private equity pooled funds	151.4
0.6	Pooled hedge Funds	0.3
1,876.7	Overseas and Global equity-based pooled funds	1,577.9
9.8	Commodity-based pooled funds	12.1
178.1	Infrastructure pooled funds	195.6
80.4	Timberland pooled fund	91.4
107.2	Emerging Market Debt pooled fund	103.9
<b>2,488.4</b>	<b>Total overseas assets</b>	<b>2,225.4</b>

### *Currency risk – sensitivity analysis*

Following analysis of historical data in consultation with the Fund's investment advisors, it is considered that the likely volatility associated with foreign exchange rate movements is 13% (as measured by one standard deviation).

A 13% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of the long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Current exposure – asset type	Asset value as at 31 <sup>st</sup> March 2018	Change to net assets available to pay benefits	
	£m	+13% £m	-13% £m
Overseas equities	55.8	63.1	48.5
Overseas government index-linked bonds	37.0	41.8	32.2
Private equity pooled funds	151.4	171.1	131.7
Pooled hedge funds	0.3	0.3	0.3
Overseas equity-based pooled funds	1,577.9	1,783.0	1,372.8
Commodity-based pooled funds	12.1	13.6	10.4
Infrastructure pooled funds	195.6	221.0	170.2
Timberland pooled fund	91.4	103.3	79.5
Emerging Market Debt pooled fund	103.9	117.5	90.5
<b>Total change in assets available</b>	<b>2,225.4</b>	<b>2,514.7</b>	<b>1,936.1</b>

At 31st March 2018 and 31st March 2017 the Fund has an active currency manager with a portfolio based on a notional value of £340m, and this is the maximum exposure that they are allowed to have. In order to achieve gains within their portfolios they utilise forward foreign exchange contracts and currency options. The portfolios have an average target volatility of 2.5% and as a result the Fund is exposed to currency risk through these portfolios. The table below shows the likely impact onto the net assets available to pay benefits.



Currency exposure – asset type	Asset value as at 31 <sup>st</sup> March 2018	Change to net assets available to pay benefits	
	£m	+2.5% £m	-2.5% £m
Active currency portfolios	340.0	348.5	331.5
<b>Total change in assets available</b>	<b>340.0</b>	<b>348.5</b>	<b>331.5</b>

Currency exposure – asset type	Asset value as at 31 <sup>st</sup> March 2017	Change to net assets available to pay benefits	
	£m	+2.5% £m	-2.5% £m
Active currency portfolios	340.0	348.5	331.5
<b>Total change in assets available</b>	<b>340.0</b>	<b>348.5</b>	<b>331.5</b>

### b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Deposits are not made with banks and financial institutions unless they are rated independently and have a high credit rating. Many of the Fund's investment managers use the money market fund run by the Fund's custodian to deposit any cash within their portfolios, although one manager (Kames Capital) lends cash directly to individual counterparties in the London money markets. Any cash held directly by the Fund is deposited in a Standard Life Money Market Fund.

The Fund believes it has managed its exposure to credit risk, and has never had any experience of default of uncollectible deposits. The Fund's cash holding at 31st March 2018 was £157.6m (31st March 2017: £238.1m).

### c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. All of the Fund's cash holdings are available for immediate access, although on some occasions this will involve withdrawing cash balances from the portfolios of investment managers.

The Fund is allowed to borrow to meet short-term cash flow requirements, although this is an option that is only likely to be used in exceptional circumstances.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31st March 2018 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity, timberland and infrastructure) was £804.5m, which represented 19.7% of total Fund assets. (31st March 2017: £721.1m, which represented 18.6% of total Fund assets).

The Fund remains cash flow positive for non-investment related items so there is no requirement to produce detailed cash flow forecasts. All investment related cash flows are known about sufficiently far in advance that they can be covered by taking action in a manner that is both cost-effective and in line with the Fund's investment strategy.

All financial liabilities at 31st March 2018 are due within one year.

#### *Refinancing risk*

The key risk is that the Fund will be forced to sell a significant proportion of its financial instruments at a time of unfavourable interest rates, but this appears a highly unlikely scenario. The Fund's investment strategy and the structure of its portfolios have sufficient flexibility to ensure that any required sales are considered to be the ones that are in the best financial interests of the Fund at that time. There are no financial instruments that have a refinancing risk as part of the Fund's treasury management and investment strategies.

#### *Securities Lending*

The Fund ceased to take part in securities lending activities towards the end of the financial year and there was no stock on loan at 31 March 2018

Income from stock lending for the part-year that it was undertaken amounted to £0.0m and is detailed in note 8 to the accounts.

#### *Reputational Risk*

The Fund's prudent approach to the collective risks listed above and through best practice in corporate governance ensures that reputational risk is kept to a minimum.

### **19. Related Party Transactions**

Leicestershire County Council is the administering authority for the Local Government Pension Scheme (LGPS) within Leicestershire and is one of the major employers within the scheme. Information regarding key management personnel is provided within the main accounts of Leicestershire County Council. Members and officers of the Council involved in managing the Fund are allowed to be members of the LGPS. All transactions between Leicestershire County Council and the Fund and all benefit payments from the Fund are in accordance with the regulations governing the LGPS. There are no transactions therefore that are made on a different basis from those with non-related parties.

LGPS Central Ltd has been established to manage, on a pooled basis, investment assets of nine Local Government Pension Schemes across the Midlands. It is jointly owned in equal amounts by the eight Administering Authorities participating in the Pool.

No Services were provided by LGPS Central Ltd during 2017/18 as operations only commenced in April 2018.

£1.3m has been invested in the share capital and £0.7m in a corporate bond with LGPS Central Ltd during the year. These are the balances at the year end, and the assets are valued at the cost price.

£0.4m has been spent during 2017/18 by the Leicestershire Pension Fund on setting up LGPS Central Ltd. These costs were borne by West Midlands Pension fund and recharged equally to the Administering Authorities. It is expected that all set up costs recharged by West Midlands Pension Fund, including those incurred in the previous financial year, will be refunded to the Leicestershire Fund in 2018/19.

From the information currently available there were no other material transactions with related parties in 2017/18 that require disclosure under FRS8.

## 20. *Contingent Liabilities*

When a member has left the Pension Fund before accruing sufficient service to qualify for a benefit from the scheme, they may choose either a refund of contributions or a transfer value to another pension fund. There are a significant number of these leavers who have not taken either of these options and as their ultimate choice is unknown, it is not possible to reliably estimate a liability. The impact of these 'frozen refunds' has, however, been considered in the calculation of the actuarial liabilities of the fund.

If all of these individuals choose to take a refund of contributions the cost to the Fund will be around £1.6m, although the statutory requirement of the Fund to pay interest to some members would increase this figure. Should all of the members opt to transfer to another scheme the cost will be considerably higher.

## 21. *Contractual Commitments*

At 31<sup>st</sup> March 2018, the Fund had the following contractual commitments:-

- (i) Undrawn commitments totalling \$212,741.6 (£151,385.2) to thirty two different pooled private equity funds managed by Adams Street Partners (31<sup>st</sup> March 2017 £159,855.9 to thirty one different funds).
- (ii) An undrawn commitment of £0.5m to two private equity funds managed by Catapult Venture Managers (31<sup>st</sup> March 2017 £0.5m to two funds).
- (iii) An undrawn commitment of \$59.9m (£42.6m) to three KKR Global Infrastructure funds (31<sup>st</sup> March 2017 £17.8m to two funds)
- (iv) An undrawn commitment of €1.7m (£1.5m) to the Stafford International Timberland VI Fund (31<sup>st</sup> March 2017 £4.6m)
- (v) An undrawn commitment of \$61.6m (£43.8m) to two USD-denominated Stafford International Timberland funds (31<sup>st</sup> March 2017 £2.6m to one fund).
- (vi) An undrawn commitment of £40.0m to the M & G Debt Opportunities Fund IV (31<sup>st</sup> March 2017 £20.0m to M & G Debt Opportunities Fund III)
- (vii) An undrawn commitment of \$30.0m (£21.3m) to the IFM Global Infrastructure Fund (31<sup>st</sup> March 2017 £5.6m).
- (viii) An undrawn commitment of \$30.9m (£22.0m) to the SL Capital SOF III Fund (31<sup>st</sup> March 2016 £27.8m)
- (ix) An undrawn commitment of £18.2m to the Kames Active Value Property Unit Trust II.
- (x) An undrawn commitment of £26.9m to the Infracapital Greenfield Partners I Fund
- (xi) An undrawn commitment of \$20.0m (£14.2m) to the JPM Infrastructure Investment Fund.
- (xii) An undrawn commitment of £78.0m to the Partners 2018 Multi Asset Credit Fund.

## 22. *Additional Voluntary Contributions (AVC's)*

The Fund has an arrangement with Prudential whereby additional contributions can be paid to them for investment, with the intention that the accumulated value will be used to purchase additional retirement benefits. AVCs are not included in the Pension Fund Accounts in accordance with Regulation 4(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

During 2017/18 £1.8m (2016/17 £1.8m) in contributions were paid to Prudential. At the year end the capital value of all AVC's was £14.1m (31.3.17, £14.2m).

### 23. Policy Statements

The Fund has a number of policy statements that are available on request from the Technical Accounting Team, Strategic Finance, Leicestershire County Council, County Hall, Glenfield, Leicester. LE3 8RB (email [technical.accountingteam@leics.gov.uk](mailto:technical.accountingteam@leics.gov.uk)). They have not been reproduced within the Accounts as, in combination, they are sizeable and it is not considered that they would add any significant value to most users of the accounts. The Statements are:

**Statement of Investment Principles (SIPs)**  
**Communications Policy Statement**  
**Funding Strategy Statement (FSS)**

### 24. Compliance Statement

#### *Income and other taxes*

The Fund has been able to gain either total or partial relief from local taxation on the Fund's investment income from eligible countries. The Fund is exempt from UK Capital Gains and Corporation tax.

#### *Self-investment*

There has been no material employer related investment in 2017/18 (or 2016/17). There were occasions on which contributions were paid over by the employer later than the statutory date, and these instances are technically classed as self-investment. In no instance were the sums involved material, and neither were they outstanding for long periods.

#### *Calculation of transfer values*

There are no discretionary benefits included in the calculation of transfer values.

#### *Pension Increase*

All pension increases are made in accordance with the Pensions Increase (Review) Order 1997.

#### *Changes to LGPS*

All changes to LGPS are made via the issue of Statutory Instruments by Central Government.

### 25. Pension Fund Accounts Reporting Requirement

#### **Leicestershire County Council Pension Fund ("the Fund") Actuarial Statement for 2017/18**

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

#### Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated January 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 66% chance that the Fund will return to full funding over 20 years.

#### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme (Administration) Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,164 million, were sufficient to meet 76.2% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £989 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a specified time period as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

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

Full details of the methods and assumptions used are described in the 2016 valuation report.

#### **Method**

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

#### **Assumptions**

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

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	3.2%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI\_2013 model, assuming the current rate of improvements has reached a peak and will

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**Pension Fund Annual Report**


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converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.3 years
Future Pensioners*	23.8 years	26.2 years

\* Age 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

#### Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.



Barry McKay FFA

For and on behalf of Hymans Robertson LLP, 20 Waterloo Street, Glasgow, G2 6DB

25 April 2018

## Statement of Responsibilities for Leicestershire County Council Pension Fund

### THE AUTHORITY'S RESPONSIBILITIES

The Authority is required to:

- Make arrangements for the proper administration of the financial affairs of its Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Corporate Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts

The Director of Corporate Resources is responsible for the preparation of the Authority's Pension Fund Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Director of Corporate Resources has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Local Authority Code.
- Kept proper accounting records which were up to date,
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.
- Assessed the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- Used the going concern basis of accounting on the assumption that the functions of the Pension Fund will continue in operational existence for the foreseeable future; and
- Maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the Leicestershire County Council Pension Fund as at 31 March 2018 and its income and expenditure for the year ended the same date.



**C TAMBINI**  
**DIRECTOR OF CORPORATE RESOURCES**  
**27 JULY 2018**



**Independent auditor's report to the members of Leicestershire County Council  
on the pension fund financial statements published with the Leicestershire  
Pension Fund Annual Report**

**Opinion**

We have examined the pension fund financial statements for the year ended 31 March 2018 which comprise the Fund Account, Net Asset Statement and the related notes, including the accounting policies in note 2.

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of Leicestershire County Council for the year ended 31 March 2018 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We have not considered the effects of any events between the date we signed our report on the full annual published statement of accounts on 31 July 2018 and the date of this report.

**Respective responsibilities of the Director of Corporate Resources and the auditor**

As explained more fully in the Statement of the Director of Corporate Resource's Responsibilities the Director of Corporate Resources is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of Leicestershire County Council, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements, the purpose of our audit work and to whom we owe our responsibilities.

**Matters on which we are required to report by exception**

The Code of Audit Practice requires us to report to you if we have exercised our responsibilities in respect of the pension fund in the following areas:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.





We have nothing to report in these respects

A handwritten signature in blue ink, appearing to read 'J. Cornett', with a horizontal line underneath.

**John Cornett**

**For and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
St Nicholas House  
31 Park Row  
Nottingham  
NG1 6FQ

15 November 2018



**LEICESTERSHIRE COUNTY COUNCIL PENSION FUND**

**ANNUAL GENERAL MEETING – JANUARY 11TH 2019**

**REPORT OF STAFF REPRESENTATIVES OF THE LOCAL PENSION  
COMMITTEE**

1. The provision of a good defined benefit pension open to all staff such as the Local Government Pension Scheme is a very valuable benefit which is becoming increasingly rare outside the public sector. Thus the performance of the fund is important to ensure that the scheme can continue in its current form and remains open to further accrual for existing and new employees.
2. The value of the Fund up to the end of March 2018 showed an increase of £203 million over the year, leaving the Fund's value at £4,083 million. This is a 5.2% increase over the twelve months. Equity returns during 2017-18 were not as strong as the prior year though overseas equities were stronger than those from the UK.
3. In recent weeks however equity markets have declined partly due to trade war worries between the US and China, and specifically in the UK due to fears of a disorderly Brexit. It should be noted though that the pension fund has a long term funding horizon, and has no need to sell assets in the short term to fund its liabilities.
4. Over the last five years up to 31<sup>st</sup> March 2018, the fund has outperformed its benchmark by 1.2% (9.2% p.a. compared to 8% p.a.).
5. The latest full actuarial valuation of the fund showed that as of 31<sup>st</sup> March 2016, the assets represented 76% of the liabilities, though a review by the Government Actuary using slightly different assumptions calculated the figure as 92%. However, it seems clear that it will still be a long haul to get back to full funding status.
6. An independent review by the Government Actuary on the solvency and long-term cost efficiency of funds found that the Leicestershire fund was one of 70 out of 89 funds given green flags on all solvency and long-term cost efficiency measures.
7. LGPS Central in which the Leicestershire pension fund is one of nine separate funds to pool assets of ultimately approx. £40 billion went live on 1<sup>st</sup> April 2018. LGPS Central will be responsible for implementing the Fund's investment wishes, although asset allocation (i.e. the markets in which the assets are invested), which is the major determinant of investment performance, will remain the responsibility of the Fund.
8. It is expected that in the long-term, combining into a few pools or superfunds should reduce investment management costs.

9. Staff were represented at all board meetings. We would like to thank the Pensions Section for their administration of the benefits of the fund which has a good reputation.
10. To conclude, the Staff representatives are satisfied that the Fund is currently being managed in a professional manner in the best interests of the scheme members and beneficiaries.