LEICESTERSHIRE COUNTY COUNCIL PENSION FUND

ANNUAL GENERAL MEETING - JANUARY 7TH 2016

REPORT OF STAFF REPRESENTATIVES SITTING ON THE LOCAL PENSION COMMITTEE

1. The value of the Fund up to the end of March 2015 showed an increase of £388 million over the year, leaving the Fund's value at £3,128 million. This is a 14.2**%** increase over the twelve months, and reflected strong equity returns during the year. However, returns since then have been negative.

2. The liabilities of the fund however had risen to £4,446 million by September 2015 mainly due to falling gilt yields so that the funding level was estimated then at 66.4% which is down from that of 72% at the last actuarial valuation as of March 2013. This funding level is somewhat volatile and could improve slightly by the time of the next actuarial valuation as of March 2016, but it seems clear that it will be a long haul to get back to full funding status.

3. The Comittee has looked to diversify the Fund's assets to achieve growth independent to the volatility of equities. For example during the year, the fund appointed a credit manager to manage a pooled fund of private debt transactions and an emerging market debt manager.

4. 2015 also saw a change in the scheme governance with the establishment of a new Local Pension Board with equal member and employer representation, with a remit to scrutinise the operation of the fund. Time will tell as to what effect this new body will have.

5. 2015 saw a general election in which the Conservatives secured an overall majority. The new government has indicated that it wishes the investments of all 89 LGPS funds to be combined into six super funds. Discussions are ongoing about which superfund the Leicestershire fund will join.

6. Whilst combining into 6 superfunds may reduce investment management costs which would be in the interests of members, we remain concerned about the governance of such large funds and the likely reduction of local accountability. Investments should be chosen for the best return within reasonable risk parameters.

7. In particular, we strongly oppose the government's expectation that LGPS funds be directed to fund national infrastructure projects. As CIPFA'S chief executive has stated "The funds are not the government's money and the Treasury is incorrect to consider them as taxpayers' money simply because the staff and employers who contributed to them are from the public sector. LGPS investments must not become the investor of last resort for politically desirable investments that the markets do not see as investment grade proposals".

8. Staff were represented at all Committee meetings. We would like to thank the Pensions Section for their administration of the benefits of the fund which has a good reputation.

9. 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.