

LOCAL GOVERNMENT PENSION SCHEME LEICESTERSHIRE

Administered by

LEICESTERSHIRE COUNTY COUNCIL

Pension Fund Annual Report

Year ended 31st March 2019

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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 some have previously been seen by the Pensions Committee.

13. Statement of Accounts - <https://www.leicestershire.gov.uk/about-the-council/council-spending/accounts-and-payments>

14. Funding Strategy Statement - <https://www.leicestershire.gov.uk/sites/default/files/field/pdf/2019/5/1/funding-strategy-statement-v2.pdf>

15. Statement of Investment Principles - <https://www.leicestershire.gov.uk/sites/default/files/field/pdf/2016/12/19/2016statementofinvestmentprinciplesevennewversion.pdf>

16. Administration & 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 1,800 during 2018/19 and at the year-end stood at just over 93,000. During the year there was a small relative decrease in preserved members, however this was more than offset by increases in the number of pensioners and active members.

2. SCHEME MANAGEMENT AND ADVISORS

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. 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 pro-active approach to the Fund's investments, and also to deal with 'tactical' issues associated with implementing the strategy, such as investment manager appointments and the timing of asset allocation changes.

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

The Local Pension Board is a statutory committee required under LGPS Regulations. This board 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 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 section 10.

At a national level the LGPS is governed by the Ministry of Housing Communities and Local government (MHCLG) and the LGPS Scheme Advisory Board (SAB). The LGPS also takes account of guidance issued by the Pensions Regulator and Pensions Ombudsman determinations.

The role of the Scheme Advisory Board is to help and support MHCLG and administering authorities fulfil their statutory duties and obligations. SAB aims to be both reactive and proactive. It will seek to encourage best practice, increase transparency and coordinate technical and standards issues.

Scheme Management and Advisors

<u>Local Pension Committee</u>	
<u>Leicestershire County Council</u>	<u>Leicester City Council</u>
Mr. P. C. Osborne CC (Chairman)	Cllr. D. Bajaj
Mr. T. Barkley CC (Vice-Chairman)	Cllr. R. Govind
Mr. P. Bedford CC	
Dr. S. Hill CC	<u>District Council Representatives</u>
Mr. M. Hunt CC	Cllr. C. Frost
	Cllr. M. Graham MBE
<u>Employee Representatives</u>	<u>University Representative</u>
Mr. R. Bone	Dr. P. Cross
Mr. N. Booth	
Ms. J. Dean	
<u>Local Pension Board</u>	
<u>Employer Representatives</u>	<u>Employee Representatives</u>
Mr. D. Jennings CC (Chairman)	Ms. C. Fairchild
Mrs. R. Page CC (Vice-Chairman)	Ms. D. Haller
Cllr. E. Pantling	Ms. D. Stobbs
<u>Officers responsible for the Fund</u>	
<u>Finance</u>	<u>Pensions Administration</u>
Chris Tambini - Director of Resources - Leicestershire County Council	Ian Howe - Pensions Manager - Leicestershire County Council
<u>Investment Managers</u>	
Investments managed by LGPS central Pool	
LGPS Central	
Global equities (<i>Harris, Schroders & Union</i>)	
Others:	
Adams Street Partners	Kames Capital
Ashmore	Kravis Kohlberg Roberts
Aspect Capital	Legal & General Investment Management
La Salle Investment Management	Macquarie Investments
Catapult Venture Managers	Partners Group
Colliers Capital UK	Permal (formerly Fauchier Partners)
Cristofferson, Robb & Company	Pictet Asset Management
Industry Funds Management	M&G Investments
Millennium Global Investments Limited	Ruffer LLP
Internally Managed	Stafford Capital Partners
JP Morgan Asset Management	Standard Life Aberdeen
<u>Pooled investments</u>	
LGPS Central	
<u>Fund Custodian</u>	<u>Legal Advisor</u>
JPMorgan, Bournemouth	County Solicitor, Leicestershire County Council
<u>Independent Investment Advisor</u>	<u>Actuary and Investment Consultant</u>
Clare Scott	Hymans Robertson LLP, Glasgow
<u>Auditor</u>	<u>AVC Provider</u>
Grant Thornton LLP	Prudential, London
<u>Banker</u>	<u>Scheme Administrator</u>
National Westminster Bank, Leicester	Leicestershire County Council

3. 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. Regular reports are brought to the attention of the Local Pension Committee and Local Pension Board to provide the latest position on key risks.

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 quantified 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 considered. The Fund's 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 is supported by an independent investment advisor, and this assists in making decisions in respect of both overall investment policy, manager selection/retention and good governance.

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 to ensure that there are no issues which put the Fund's investments at risk.

Other investment managers that the fund employs are appointed by LGPS Central Ltd, a company which pools together pension fund assets from various pension funds across the

Midlands. Leicestershire County Council along with 8 other pension funds is a joint owner of the company. The company has its own governance and risk management structures in place.

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 officers involved in LGPS are knowledgeable and well-trained on an on-going basis. Ensuring that employers understand their responsibilities to the Fund and fulfil them efficiently is also crucial, and an on-going programme of support for them is in place.

4. Financial Performance

Non-investment cash inflows for the fund come via contributions from Employers. There were a small number of incidences of late payment of contributions by employers over the year, and these were exclusively because 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. Employer contributions ranged from 15.0% to 33.0% with average employer rate being 23.8%.

Administrative costs were at £7.1m for the year compared to £6.1m in the previous year (2017/18). This increase was largely due to additional investment in a new pensions administration system. 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. There were no material movements in non-investment assets and liabilities.

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 £26m in 2018/19, compared to £22m in 2017/18. In addition, the Fund received investment income of £37m. 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.

Cash flows are unlikely to reduce in the near future, despite cuts to budgets within Local Authorities that could reduce membership (and hence employee/employer contributions). Whilst benefits paid are increasing, due to increasing numbers of pensioners and inflation-linked annual increases, the value of this increase is offset by the increasing rate of employers' contribution. A recent Government consultation indicated that the Universities and Colleges could cease their offer of LGPS to non-academic staff this could result in a reduction in the available cashflow and will require monitoring. The Fund also has significant investments in accumulation 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 a strong positive cash flow is that the Fund has flexibility in the selection of investments and fewer restrictions due to liquidity concerns. 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 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.

Details of contributions in and payments out of the fund are shown below:

2017/18		2018/19
£m	Payments in:	£m
(139.2)	Employer Contributions	(149.5)
(38.3)	Member Contributions	(39.9)
(12.4)	Transfers in From Other Pension funds	(10.3)
(189.9)	Total Inflows	(199.7)
	Payments out:	
115.0	Pensions	124.8
31.8	Lump Sum Retirement Benefits	32.5
3.1	Lump Sum Death Benefits	4.6
18.0	Payments to and on Account of Leavers	11.9
167.9		173.8
(22.0)	Net Cash (inflows)	(25.9)

5. Pension Scheme Administration

The number of scheme members who are either receiving a benefit or who have a future entitlement to one increased by 1,874 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 774 from 33,638 to 34,412.

Pensioners increased by 1,503 from 26,470 to 27,973.

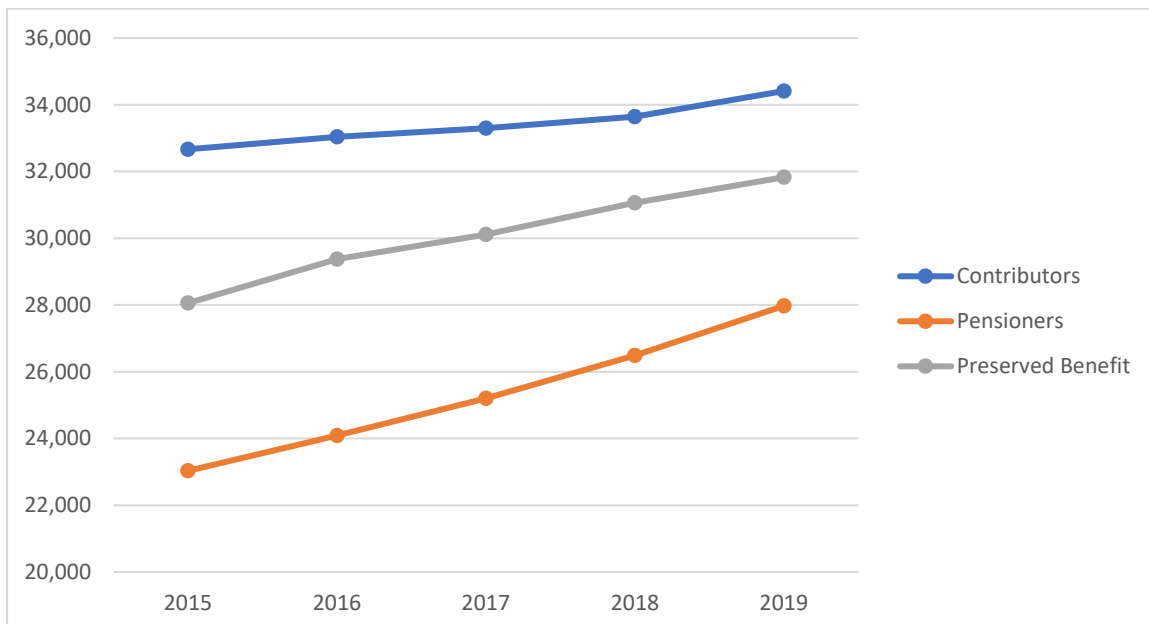
Preserved membership decreased by 403 from 31,064 to 30,661.

The Fund's employers have completed the 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.

The number of pensioners has been increasing at a rate of 4% per annum over the past 5 years, a trend that is expected to continue.

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

	% increase over 5 years
Contributors	5.3%
Pensioners	21.5%
Preserved Benefit	13.4%



Leicestershire Pension Fund contributions:

Employer Name	Employer Contributions	Employee Contributions
	£000	£000
Leicester City Council	40,445	10,729
Leicestershire CC	33,265	8,755
The Chief Constable & The OPCC	8,798	2,675
Leics De Montfort University	8,281	2,683
Loughborough University	5,627	1,524
Charnwood Borough Council	3,473	769
North West Leics DC	3,069	768
Rutland CC	2,481	723
Hinckley and Bosworth BC	2,308	641
Blaby District Council	2,150	495
ESPO	1,714	470
Leics Fire Service (Civilians)	882	251
Harborough District Council	1,506	348
Oadby and Wigston BC	1,152	237
Melton BC	1,105	260
Academies, Free and Studio Schools	24,821	6,290
FE and Sixth Form colleges	5,634	1,622
Other organisations	2,045	484
Town & Parish Councils	725	168
Total	149,481	39,892

There were 1,503 new pensioners in 2018/19 split out as follows:

	Ill Health	Early Retirement	Normal Retirement	Other	Total
2018/19 New Pensioners	41	1,135	64	263	1,503

The Leicestershire Local Government Pension Fund provides services in line with the requirements of a fund of this nature. This includes the correspondence with members, calculation of benefits, maintenance of members records and data and Pension payments through the payroll service. A service is also provided for members to log onto the online member site and a service for employers to upload member data monthly.

The fund has 27.9 full time equivalent working in Pension Scheme Administration. Scheme membership is 93,000 equating to 3,340 members per FTE.

The fund has several 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.

Pension Fund Annual Report

Leicestershire Pension Fund key administrative Performance Statistics

Full Year - 1 April 2018 to 31 March 2019							
Business Process Perspective	Target			Customer Perspective - Feedback	Target		
Retirement Benefits notified to members within 10 working days of paperwork received	92%	98%	▲	Establish members understanding of info provided - rated at least mainly ok or clear	95%	98%	▲
Pension payments made within 10 working days of receiving election	95%	95%	▲	Experience of dealing with Section - rated at least good or excellent	95%	93%	▶
Death benefits/payments sent to dependant within 10 working days of notification	90%	90%	▲	Establish members thoughts on the amount of info provided - rated as about right	92%	96%	▲
				Establish the way members are treated - rated as polite or extremely polite	97%	99%	▲
Good or better than target	▲			Email response - understandable	95%	95%	▲
Close to target	▶			Email response - content detail	92%	94%	▲
Below target	▼			Email response - timeliness	92%	97%	▲

Accuracy of Data	Common Data	99.20%
	Scheme Specific (Conditional Data)	88.70%
Average Cases Per Member of Staff	Average per FTE (Completed tasks)	491
Complaints	5 stage 2 IDRPs in 2018/19	Less than 0.5%
Types of cases dealt with (only KPI tasks)	Deaths	923
	Pension Estimate	1,039
	CETV Estimate	295
	Retirement	2,585
	Deferred Benefits	1,643
	Transfers in and Out	119
	Calculate and Pay a Refund	892
	Formal notification of Joining	6,870

Other fund information:

Help desk arrangements and information are as follows:

Contact Type	From	To	Contact
MSS Helpdesk Phones	8:00am	17:00pm	0116 3057886
Benefits Helpdesk Phone	8:00am	17:00pm	0116 3054000

Pensions Benefits Queries Pensionsbenefits@leics.gov.uk
 Email MSS Queries PensionsMSS@leics.gov.uk
 General Pensions Queries Pensions@leics.gov.uk

Address Pensions Section
 Leicestershire County Council
 County Hall
 Glenfield
 Leicester
 LE3 8RB

Internal Disputes

If you are not satisfied with any decision given by either the Pension Section or your employer/ former employer, relating to your Local Government Pension Scheme (LGPS) benefits, you may appeal in writing under the Internal Disputes Resolution Procedure (IDRP). You must write within 6 months of receiving the decision.

Any points of difference should firstly be addressed with the Pensions Office on an informal basis. You can write to:

The Leicestershire County Council Pension Section, County Hall, Glenfield, Leicester, LE3 8RB

Or, contact the Pensions Officer who has dealt with your case. Their name and contact details will be on your correspondence.

We will then try to resolve the matter for you. Should you still be unhappy and wish to take the matter further you can request an information sheet and form to complete. This will contain the name and address of the 'Specified Person' nominated by your employer or former employer who would formally investigate your complaint.

Following this, if you are still dissatisfied with their decision, a 'second stage' of complaint can be requested, which will be looked at by the Legal Services team at Leicestershire County Council in most cases.

Should you be dissatisfied with the outcome of this, further details of the next stages of complaint would be provided at the time, should this be necessary.

Further advice can be found at the following:

Pension Advisory Service	web	https://www.pensionsadvisoryservice
	phone	0800 011 3797
LGPS Regulation & Guidance		https://www.lgpsregs.org/

6. INVESTMENT POLICY AND PERFORMANCE

At the January 2019 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:

	Weighting	Benchmark	Difference
Equities	50.0%	48.0%	2.0%
Real Income Fund	24.8%	26.5%	-1.7%
Alternatives	25.3%	25.5%	-0.2%
	100.0%	100.0%	0.0%

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.

Although some investments have moved over to LGPS central as part of asset pooling, the Local Pension Committee still retain full responsibility for asset allocation and will continue to be accountable for the majority of the Fund's investment performance.

A comprehensive analysis of investment holdings by manager and their associated performance is provided in Appendix A. A summary is provided below:

	1 Year %p.a.		3 Years %p.a.	
	Fund	Benchmark	Fund	Benchmark
Equities	6.9	7.2	13.6	12.5
Income Assets	6.6	5.4	10.3	7.3
Alternative	0.5	4.9	5.0	4.9
TOTAL FUND	5.2	6.6	10.6	9.6

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, the Fund 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.

It is worth noting the performance of the following managers at the end of the 2018/19 financial year:

Adams Street – Private Equity, 9.1% excess return over benchmark. The benchmark of listed markets can be misleading, in the short-term, due to the less frequent valuations of private equity assets. As a riskier asset class they have greater potential volatility. The 3-year return is more representative and exceeds benchmark by 0.6%.

IFM and KKR - global infrastructure, both managers show 10%+ return over benchmark. Similarly to private equity a long-term view needs to be taken, potentially incorporating the initial investment period.

Aspect Capital Partners – Targeted Return, (12.7%) below benchmark. The nature of the product is highly volatile, and some reassurance can be gained from the long-term performance of the manager (exceeds benchmark over 5-years). In the January strategy review the fit of the product in the portfolio was considered and the diversification from equity stressed as a key benefit. LGPS Central's development of a Target Return product will provide a good opportunity to consider the Fund's approach to this class.

Christofferson Robb & Company –Other Opportunities - 13.4% excess return over benchmark. The other opportunities allocation targets a higher return, at a higher level of risk. The investments in the opportunities area should be looked at as a collective, as not all will perform to target.

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 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 1st 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.

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 is also a specialist emerging market equity manager (Delaware Investments). During the 2018/19 financial year Global equity investments transitioned from Kleinworth Benson and Kempen to the LGPS Central Pool in the LGPS Global Active Equity Fund.

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.

Real Income Fund

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 practical to buy directly, usually due to the size of individual investments (for example leisure complexes based around multiplex cinemas or Central London offices).

La Salle Investment Management 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.

Inflation-linked

UK inflation is one of the Fund's biggest risks, due to the direct link to benefits and 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 managed by Stafford Timberland

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. The Fund's exposure to Emerging Market Debt is in a pooled fund managed by emerging market specialist manager Ashmore.

Other opportunities Fund - 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.

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 undertaken by Kames Capital to reduce the impact of currency fluctuations, rather than being held for an investment return.

7. LGPS Central Pool

As mentioned earlier in the report the Fund is an investor in LGPS Central Ltd, a company which pools together pension fund assets from various pension funds across the Midlands. Leicestershire County Council along with 8 other funds is a joint owner of the company. The company has its own governance and risk management structures in place. The aim of the Company is to use the combined buying power of its partner funds to reduce costs, improve investment returns and widen the range of available asset classes for investment – all for the benefit of local government pensioners, employees and employers.

LGPS Central Ltd is based in Wolverhampton and their details can be found below:

Address:

LGPS Central Ltd,
Mander House,
Mander Centre,
Wolverhampton,
WV1 3NB

Website: <https://www.lgpscentral.co.uk>

e-mail: enquiries@lgpscentral.co.uk

During the 2018/19 financial year, 3 global equity investments were made via the pool by the Leicestershire Fund as follows:

	Value at 31st March 2019
LGPS Central	£m
Harris	117.7
Schroders	103.5
Union	112.0
Total	333.2

As at 31st March 2019 all other assets held by the fund were held outside the Pool. However, £184m was invested into emerging markets equity funds via the pool in July 2019.

There are also advisory and executions mandates held with the pool for the following assets:

	Assets under management
	£
Targeted Return	530,753,065
Property	395,976,132
Fixed Income	110,684,304

Post Pooling report

The information request set out below reflects the information required by Partner Funds to meet the CIPFA Annual Report Pooling Disclosures in 2018/19. Please note that the information request reflects the start-up nature of LGPSC, and the level and complexity of the disclosures required will increase in later years.

The analysis provided by LGPSC relates to the Leicestershire Pension Fund. The provision of the information by LGPSC to each Partner Fund should ensure consistent reporting across Partner Funds, and allow LGPSC to aggregate, and reconcile back the individual Partner Fund disclosures, to the Company's financial statements.

Set up costs

Leicestershire's share of the set-up cost associated with the pool were as follows:

£000	Cumulative 2014/15 to 2018/19 Total
Set Up Costs	
Recruitment	0
Procurement	27
Professional Fees	2
IT	187
Staff Costs	97
Other Costs	142
Premises	49
Staffing-Related Costs	5
Travel and Expenses	1
Training and Events	1
FCA Fees	1
General Admin Costs	2
Set-Up Costs Before Funding	514
Share Capital	1315
Debt	685
Other Costs	
Set-Up Costs After Funding	2514

£000	2016/17	2017/18	2018/19	Cumulative Total
Set-Up Costs Before Funding	95	419	-	514
Set-Up Costs After Funding	95	2,419	-	2,514
Transition Costs				

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Recharges By Partner Funds to LGPSC in respect of Set-Up Costs

£000	At 1 April-18	Recharges in Year	Settled in Year	At 31 March-19
Set-Up Cost Recharges	502	-	(502)	-

Governance, Operator and Product Development Charged by LGPSC to Partner Funds

£000	At 1 April-18	Charges in Year	Settled in Year	At 31 March-19
Governance Costs	-	198	(170)	28
Operator Costs	-	406	(345)	61
IMMC	-	16	-	16
Product Development Costs	-	102	(56)	46
Total	-	722	(571)	151

The following Investment management costs have been charged by the pool to the Leicestershire Fund.

	£000	Direct	Total	Bps Charge*
1	Ad Valorem	46	46	11.64
2	Performance	-	-	
3	Research	-	-	
4	PRIIIPS Compliance	-	-	
5	Other (provide details)	-	-	
	Management Fees	46	46	11.64
6	Commissions	4	4	1.14
7	Acquisition/issue costs	-	-	
8	Disposal costs	-	-	
9	Registration/filing fees	-	-	
10	Taxes and Stamp Duty	1	1	0.35
11	Other (provide details)	-	-	
	Transaction Costs	6	6	1.49
12	Custody/Depositary	3	3	0.82
13	Other (provide details)			
	Fund Accounting	1	1	0.15
	Transfer Agent	<1	<1	0.06
	External Audit	<1	<1	0.03
	Total Costs	56	56	14.19

*BPS= Basis points charged based on Assets under Management

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£000	1	2	3	4	5	6	7	8	9	10	11	12	13	Total 2018/19 Costs	AUM at 31 March 2019 £m	2018/19 Bps Charge
Global Multi-Manager	42					4				1		3	1	52	340	13.24
ACS Sub-Funds	42					4				1		3	1	52	340	
Private Equity 2018 V'tage	4													4		22.65
Alternative Vehicles	4													4		
Total	46					4				1		3	1	56	340	14.20

The above table does not include advisory and execution mandates. The costs for these did not start coming through to the fund till the 2019/20 financial year.

Items 1 – 13 relate to the categories highlighted in the management costs table.

Asset Under Management & Performance by Product / Service

£000	AUM At 1 April-18 £m	AUM At 31 March-19 £m	One Year Gross Performance % (*)	One Year Net Performance % (*)	Passive Benchmark Used	One Year Passive Index % (*)
Global Ex-UK Passive						
UK Passive						
Dividend Growth Fund						
Global Multi-Manager	0	340	2.60	2.59	FT: All World	3.43
ACS Sub-Funds	0	340				
Private Equity 2018 Vintage	0	0				
Alternative Vehicles	0					
Total	0	340				

(*) Inception to 31 March 2019

Transition Costs

Please note that Partner Funds are currently investigating the methodology which will be used to quantify transition costs for the purposes of the CIPFA Annual Report Pooling Disclosures. The details provided reconcile the starting unit price of £100 to the unit price when the assets are handed over to the manage

£000	<i>Global Multi-Manager Sub-Fund</i>
Starting Unit Price (A)	100.00
Manager Hand-Over Unit Price (B)	98.22
Change in Unit Price (B-A/A = C)	(1.78%)
Index Performance (D)	(1.24%)
Out/Under Performance (C-D)	(0.54%)
Total Transition Costs = Financial Impact of Out/Under Performance Calculated Above	
<i>Out/Under Performance Comprised of:</i>	
(1) Out/Under-performance between assets entering sub-fund and point of transition	(0.12%)
(2) Transition Costs/implementation Shortfall as reported by the Transition Manager	
- Commissions	(0.016%)
- Taxes	(0.033%)
- Market Impact	(0.118%)
- Spread	(0.024%)
- Forex	+ 0.011%
- Opportunity Cost	(0.126%)
- Transfer Taxes	(0.023%)
- Other (provide details)	
(3) Out/Under-performance between transition commencement and manager handover	(0.091%)
Total Transition Costs Using Above Methodology	

8. Actuarial Statement

Leicestershire County Council Pension Fund (“the Fund”) Actuarial Statement for 2018/19

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), effective from 15 February 2019. 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 at least a 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 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 forecasts by the Fund's actuary with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

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

*Aged 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 strong asset returns have been secured, however real bond yields have fallen indicating that future returns are likely to be lower than previous expected. 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.

Richard Warden FFA

For and on behalf of Hymans Robertson LLP

26 April 2019

Hymans Robertson LLP 20 Waterloo Street, Glasgow, G2 6DB

9. Financial Statements

The funds financial statements are attached in Appendix B to this report. The financial statements have been audited and an unqualified audit opinion given.

10. 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 Resources.

2.4 An Investment Subcommittee, with its members drawn from the LPC, 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 Resources.

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

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.

Principle	Compliance/Comments
Structure	
The strategic management of fund assets clearly rests with the main committee established by the appointing council.	Fully compliant
That representatives of participating LGPS employers, admitted bodies and scheme members are members of the committee.	Fully compliant
That where a secondary committee has been established, the structure ensures effective communication across both levels.	Fully Compliant
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 Fully Compliant
Representation	

That all key stakeholders are afforded the opportunity to be represented within the main committee structure (including employing authorities, scheme members, independent professional observers and expert advisors)	Fully Compliant
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	Fully Compliant
Selection and Role of Lay Members	
That committee members are fully aware of their status, role and function they are required to perform.	Fully Compliant
Voting	
The policy of the administering authority on voting rights is clear and transparent, including the justification for not extended voting rights to certain groups	Fully Compliant
Training/Facility Time/Expenses	
That the policy applies equally to all members of committees	Fully Compliant
Meetings (frequency/quorum)	
That the main committee meet at least quarterly	Fully Compliant
That secondary committees meet at least twice a year and the meetings are synchronised with the main committee	The Investment Subcommittee meets regularly, so Fully Compliant
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 Not Relevant
Access	
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	Fully Compliant
Scope	
That administering authorities have taken steps to bring wider scheme issues within the scope of the governance arrangements	Fully Compliant
Publicity	

<p>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 interest in wanting to be part of those arrangements</p>	<p>Fully Compliant. A copy of this statement has been sent to all employing authorities.</p>
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