

Annual Report
and Accounts

For the Year Ended 31st March

2008

**Pension
Fund**

ANNUAL REPORT FOR 2007/08
LINCOLNSHIRE COUNTY COUNCIL
LOCAL GOVERNMENT PENSION SCHEME
ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2008

CONTENTS	Page
Management arrangements	2
Report of the Pensions Committee	3
Management Report of the Administering Authority	5
Fund Account	9
Audit Opinion	16
Actuarial Statement	17
Investment Background	19
Summary of Benefits	23
Participating Employers	26
Additional Information Available	27

MANAGEMENT ARRANGEMENTS

Administering Authority Lincolnshire County Council

Pensions Committee Members at 31 March 2008

County Councillors

C Farrar (Chairman)

A M Bakewell

E R Chapman

A Davidson

D R Dickinson

G J Ellis

N I Jackson

J R Marriott

O R Snell

R J Phillips

P S Przyszlak

Mrs S E Roy (deceased)

Mrs J A Taylor

A H Turner

Mrs P F Watson (Vice-Chairman)

Lincolnshire Local Government Association

Cllr E Strenziel

Cllr M Leaning

Representatives of Other Employers

M J Scott

Trade Union representative

J Sharman

Professional Advisors

County Council Officers

Director of Resources

Assistant Director of Resources

P Moore BA CPFA

D C Forbes BSc CPFA

Independent Advisor

N Dunford

Consulting Actuary

Hymans Robertson, Glasgow

Voting Advisor

Manifest Voting Agency

Investment Managers of Segregated Portfolios

Invesco

Alliance Bernstein

New Star

Martin Currie

Morley

Threadneedle

Auditors

Audit Commission

Investment Custodian

JP Morgan Securities Services

REPORT OF THE PENSIONS COMMITTEE

Introduction

The Pensions Committee of Lincolnshire County Council approves the investment policy of the Fund and monitors its implementation during the year. The Committee meets, as a minimum, on a quarterly basis and special meetings are convened if considered necessary. During the year the Committee held one special meeting to select currency managers.

Members of the Committee as at 31 March 2008 are listed on page 1. It is with much sadness that I must report the untimely death of Cllr Sheila Roy in May 2008, who was a previous Vice Chairman of the Committee and made numerous valuable contributions to the work of the Committee over many years.

All members of the Committee can exercise voting rights.

Reform of the Local Government Pension Scheme

The Department for Communities and Local Government (CLG) finalised regulations for a "New Look" Local Government Pension Scheme. The amended pension scheme is intended to deliver viable and affordable new arrangements from April 2008.

Appointment of Currency Managers

Following a special meeting of the Committee in September, two currency managers have been appointed. Record Currency Management and HSBC Trinkaus and Berkhardt are now managing a currency overlay strategy across the Global Equity Portfolio managed by Invesco.

Corporate Governance and Social Responsibility

The Fund complies with corporate governance best practice by voting its shareholdings at all UK and some overseas company meetings. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), an organisation that monitors the governance of UK companies. The LAPFF seeks to protect and enhance shareholder returns by engaging with companies on a wide range of social, environmental and governance issues.

Investment Performance

The year ended 31 March 2008 was a volatile year for world equity markets. The returns ranged from +9% for Far Eastern Equities, to -16% for Japanese Equities. The Fund's annualised performance over 3, 5 and 10 years is 8.3%, 11.3% and 4.6% respectively.

Performance over the year, at -4.4%, lagged the specific benchmark return of -3.3%. The Fund benefited from a good return to the private equity investment, but this was negated by disappointing performance from the active UK equity allocation.

Fund Governance and Communication Statements and the Statement of Investment Principles

The Fund's investments are managed in accordance with the Statement of Investment Principles (SIP).

The Fund's SIP, Governance Compliance Statement, Communications Policy and Funding Strategy statements are all published on the County Council Website.

These documents and other related publications can be downloaded at www.lincolnshire.gov.uk or by following this link: [Finances | Lincolnshire County Council](#).

Hard copies of any of these statements may be obtained from Jo Ray, Financial Advisor – Pensions & Investments, Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL (Tel: 01522 553656)

(email: jo.ray@lincolnshire.gov.uk).

Chris Farrar

CHAIRMAN

PENSIONS COMMITTEE

MANAGEMENT REPORT OF THE ADMINISTERING AUTHORITY

The Local Government Pension Scheme (LGPS) is a national scheme administered on a local basis by Lincolnshire County Council, providing current and future benefits for over 46,000 scheme members.

Local Government Pension Scheme membership

Year ended 31 March	2004	2005	2006	2007	2008
Contributors	18,596	19,803	20,442	20,096	20,221
Pensioners	9,780	10,102	10,426	10,890	11,565
Deferred Beneficiaries	9,800	10,528	12,472	15,213	17,831
Total	38,176	40,433	43,340	46,199	49,617

(Note: The numbers disclosed in the table above reflect individual pension records within the County Council's database. Current and past members of the LGPS may have more than one pension record as a result, for example, of having more than one part time contract of employment with a Scheme employer.)

Investment policy

The Fund is managed with regard to a strategic asset allocation benchmark. The actual allocation at any point in time reflects the decisions and views of the Fund's investment managers.

Strategic Asset Allocation Benchmark

Asset class	Strategic Benchmark 31 March 2008 %	Actual Asset Allocation 31 March 2008 %
UK Equities	32.5	30.3
Global Equities	30.9	29.8
Emerging markets	1.6	1.7
Private Equity	5.0	5.1
Total Equities	70.0	66.9
Index Linked Gilts	5.0	4.9
Overseas Fixed Interest	1.5	1.9
UK Conventional Gilts	2.0	4.4
UK Corporate Bonds	10.0	5.6
Total Fixed Interest	18.5	16.8
Property	11.5	13.7
Cash	0	2.6
Total	100	100

Investment performance

The twelve months period ended 31 March 2008 saw the value of the Fund fall by £37.3 million to £1,108.2 million. The investment return of -4.4% was behind the Fund's specific benchmark return of -3.3%. Over the last ten years, the Fund's annualised investment performance of 4.6% has marginally exceeded the benchmark return of 4.5%.

Annual investment performance over the previous ten years is set out in the table below. The Fund's annual return of -4.4% compares to increases in both retail prices of +3.8% and public sector earnings of +3.7%.

Investment Performance of the Fund 1 April 1999 to 31 March 2008

	Lincolnshire Fund Return	Comparative Benchmark Return	Retail Price Inflation	Public Sector Increase in earnings
	%	%	%	%
1998/99	7.8	9.9	2.1	4.3
1999/00	16.1	15.0	2.6	3.7
2000/01	-8.0	-9.3	2.3	4.4
2001/02	-0.8	-1.2	1.3	4.4
2002/03	-19.3	-22.3	3.1	5.0
2003/04	21.0	23.9	2.6	4.6
2004/05	11.0	11.9	3.2	4.3
2005/06	24.4	24.1	2.4	4.4
2006/07	6.9	6.5	4.8	3.1
2007/08	-4.4	-3.3	3.8	3.7
10 years annualised	4.6	4.5	2.8	4.2

Investment Management Arrangements

The arrangements for segregated management of the Fund's assets, in place at 31 March 2008, are set out below. Portfolio values include cash and cash equivalents at the balance sheet date.

Segregated Investment Management Mandates

Asset Class	Manager	Portfolio Market value £m's	Portfolio as a % of the Fund %
Fixed Interest	Morley	149.5	13.5
Fixed Interest	Lincolnshire County Council	37.2	3.4
	Fixed Interest	186.7	16.8
UK Equities	Lincolnshire County Council	178.7	16.1
UK Equities	Martin Currie	105.7	9.5
UK Equities	New Star	54.9	5.0
Global Equities - Developed	Alliance Bernstein	105.8	9.5
Global Equities - (Ex UK)	Invesco	172.5	15.6
Global Equities - All Countries	Threadneedle	57.3	5.2
	Equities	674.8	60.9

The Fund invests in Emerging Equity Markets, Property and Private Equity by means of collective investment funds.

Property, Private Equity and Emerging Markets Collective Investment Vehicles

Asset Class	Manager	Market value of holding £m's	Holding as a % of the Fund %
Property	Franklin Templeton	6.6	0.6
	Igloo	7.4	0.7
	Innisfree	6.5	0.6
	Morley	23.2	2.1
	Royal London	14.6	1.3
	RReef UK	36.4	3.3
	Standard Life	56.7	5.1
		Total UK Property	151.4
Emerging Markets	Pictet	19.4	1.7
	Total Emerging Markets	19.4	1.7
Private Equity	Capital Dynamics	16.2	1.5
	Pantheon	23.0	2.1
	Standard Life	12.5	1.1
	TCW	4.9	0.4
	Total Private Equity	56.6	5.1

Actuarial Position

The employers' contribution rates applying in the year ended 31 March 2008, for employers with more than 100 employees participating in the LGPS, are set out below.

Employers' Contribution Rates 2007/2008

Employer	Rate as a % of pay
Lincolnshire County Council	18.9
Boston Borough Council	23.2
East Lindsey District Council	20.2
Lincoln City Council	23.3
North Kesteven District Council	21.0
South Holland District Council	20.9
South Kesteven District Council	21.1
West Lindsey District Council	14.1
Lincolnshire Police Authority	15.7
Lincolnshire Probation and After Care Committee	18.3
Boston College	23.2
Lincoln College	16.1
Stamford College	16.1
New Linx Housing Trust	20.3
Bishop Grosseteste College	19.1

(West Lindsey District Council pay additional lump sum contributions, which are not expressed as a percentage of payroll)

Administration of Benefits

Lincolnshire County Council has contracted with Mouchel to administer LGPS benefits and other services.

The principal points of contact in respect of questions about the LGPS are:

Investments Jo Ray, Financial Advisor – Pensions & Investments
Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL.
Tel: 01522 553656
Email : jo.ray@lincolnshire.gov.uk

Pensions David Vickers, Pensions Manager
Mouchel, Mill House, Brayford Wharf North, Lincoln, LN1 1YT
Tel: 01522 836462
Email: dave.vickers@mouchel-lincoln.com

P Moore BA CPFA
Director of Resources

**LINCOLNSHIRE COUNTY COUNCIL PENSION FUND ACCOUNT & NET ASSETS
STATEMENT FOR THE YEAR ENDED 31 MARCH 2008**

	2007/2008 £000	2006/2007 £000
<i>FUND ACCOUNT</i>		
CONTRIBUTIONS & BENEFITS		
Contributions receivable	68,840	65,726
Transfers in	10,115	6,670
	<u>78,955</u>	<u>72,396</u>
Benefits payable	49,542	46,811
Leavers	10,339	4,783
Administrative expenses	1,044	944
	<u>60,925</u>	<u>52,538</u>
NET ADDITIONS (WITHDRAWALS) FROM DEALINGS WITH MEMBERS	18,030	19,858
RETURNS ON INVESTMENTS		
Investment management expenses	(3,171)	(3,519)
Investment income	31,193	29,059
Change in market value of investments	(83,316)	37,656
NET RETURNS ON INVESTMENTS	<u>(55,294)</u>	<u>63,196</u>
NET CHANGE IN THE FUND VALUE	(37,264)	83,054
<i>NET ASSETS OF THE SCHEME</i>		
OPENING NET ASSETS AS AT 1st APRIL	1,145,453	1,062,399
CLOSING NET ASSETS AS AT 31st MARCH	1,108,189	1,145,453
<i>NET ASSET STATEMENT</i>		
INVESTMENTS		
FIXED INTEREST SECURITIES	131,433	115,932
EQUITIES	665,002	750,311
INDEX LINKED SECURITIES	54,477	49,435
MANAGED FUNDS AND UNITISED TRUSTS	227,543	209,618
CASH DEPOSITS	14,477	9,454
TOTAL INVESTMENTS	<u>1,092,932</u>	<u>1,134,750</u>
CURRENT ASSETS & LIABILITIES	15,257	10,703
CLOSING NET ASSETS AS AT 31st MARCH	<u>1,108,189</u>	<u>1,145,453</u>

NOTES TO THE PENSION FUND ACCOUNT

Basis of Preparation

The Financial Statements, that these summary statements have been based on, have been prepared in accordance with the main recommendations of the Statement of Recommended Practice (Financial Reports of Pension Schemes) and follow the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy.

The Financial Statements do not take into account liabilities to pay pensions and other benefits after the period end. These liabilities are dealt with through the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined by these valuations.

Actuarial Valuation

An actuarial valuation of the Fund undertaken as at 31 March 2007 indicated that the Fund's assets were £1,145.5m and covered 86% of the Funds liabilities. This compared with assets of £746.7m at the valuation as at 31 March 2004, which covered 79% of the Fund's liabilities. Since the previous valuation, equity markets have risen and bond markets have risen (so yields have fallen). Overall, changes in economic factors have been favourable in terms of their effect on the funding level. The main actuarial assumptions for the 2007 valuation were as follows:

	Nominal % Per Annum	Real % Per Annum
Investment Return		
- Equities	6.1%	2.9%
- Bonds	4.5%	1.3%
Rate of Pensionable pay inflation	4.7%	1.5%
Rate of Price inflation	3.2%	

The Fund is valued using the projected unit method, which is consistent with the aim of achieving a 100% funding level. The changes in contribution rates resulting from the actuarial valuation as at 31 March 2007 will be effective from April 2008. The contribution rates have been set by the Actuary to target a funding level, for most employers, on an ongoing basis of 100% over a period of 20 years.

Pension Fund Investments 2007/08

Surplus funds are invested in a wide variety of UK and overseas companies and Government Securities in line with a Statement of Investment Principles. The assets are managed in a number of active and passive investment portfolios. Investment performance is monitored by the Pensions Committee of the County Council.

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, JP Morgan. The total amount of stock on loan at the year-end was £41,186,077 and this value is included in the net assets statement to reflect the Funds continuing economic interest in the securities on loan. As security for the stocks on loan, the Fund was in receipt of collateral at the year end valued at £43,424,975.

Income before costs received from stock lending activities was £232,416 for the year ending 31 March 2008 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

Contributions receivable

	2006/07 £000	2007/08 £000
Employers		
Normal	46,381	50,138
Additional	4,178	2,463
Members		
Normal	14,776	15,886
Additional years	391	353
	65,726	68,840

These contributions are analysed by type of Member Body as follows:

	2006/07 £000	2007/08 £000
Lincolnshire County Council	36,142	38,777
Scheduled Bodies	26,554	27,358
Admitted Bodies	3,030	2,705
	65,726	68,840

Transfers In

During the year individual transfers in from other schemes amounted to £10,115m (£6,670m in 2006/07).

Benefits payable

	2006/07 £000	2007/08 £000
Pensions	37,417	40,189
Commutations and Lump Sum Retirement Benefits	8,495	8,587
Lump Sum Death Benefits	899	766
	46,811	49,542

These benefits are analysed by type of Member Body as follows:

	2006/07 £000	2007/08 £000
Lincolnshire County Council	25,200	27,145
Scheduled Bodies	20,187	21,222
Admitted Bodies	1,424	1,175
	46,811	49,542

Payments to and on account of leavers

	2006/07 £000	2007/08 £000
Individual transfers to other schemes	4,797	10,335
Refunds to members leaving service	-14	4
	4,783	10,339

Individual transfers to other schemes (£10.335m) include an accrual of £5.698m relating to a transfer to the NHS Pension Scheme that will be finalised in June 2008.

Administrative and Investment Management Expenses

The Local Government Pension Scheme Regulations permit costs incurred in connection with the management of the investments and benefit administration to be charged against the Fund. Breakdowns of these costs are set out below:

	2006/07 £000	2007/08 £000
Benefit Administration Expenses	815	896
Actuarial & other Professional Charges	129	148
Administrative expenses	944	1,044
Investment, Management & Custody	3,502	3,155
Performance Measurement and Other Advisory Charges	17	16
Investment Management expenses	3,519	3,171

Investment Income

	2006/07	2007/08
	£000	£000
Fixed Interest Securities	5,658	6,610
Equities	19,668	22,406
Index Linked Securities	993	1,085
Pooled Investments	776	340
Cash deposits	550	1,125
Stock Lending	127	232
Underwriting / Commission Recapture	15	3
Profit (Loss) on Forward Deals & Currency Exchange	1,272	-608
	29,059	31,193

Investments

	Value at	Purchases	Sale	Change in	Value at
	31.03.07	at Cost	Proceeds	Market	31.03.08
	£000	£000	£000	Value	£000
				£000	
Fixed Interest Securities	115,932	310,395	290,951	-3,943	131,433
Equities	750,311	277,461	277,081	-85,689	665,002
Index Linked Securities	49,435	59,628	60,916	6330	54,477
Pooled Investments	209,618	42,911	24,972	-14	227,543
	1,125,296	690,395	653,920	-83,316	1,078,455
Cash Deposits	9,454	0	0	0	14,477
Outstanding dividend entitlements and recoverable withholding tax	5,630	0	0	0	6,973
Current Assets & Liabilities	5,073	0	0	0	8,284
	1,145,453	690,395	653,920	-83,316	1,108,189

A further analysis of the market value of investments is given below:

	31.03.07		31.03.08	
	£000	%	£000	%
Fixed Interest Securities:				
UK Public Sector Quoted	43,214	4	48,435	4
UK Quoted	61,557	5	61,535	6
Overseas Public Sector Quoted	11,161	1	21,463	2
Overseas Quoted	0	0	0	
	115,932	10	131,433	12
Equities:				
UK Quoted	419,891	37	350,771	32
Overseas Quoted	330,420	29	314,231	29
	750,311	66	665,002	61
Index Linked:				
UK Public Sector	49,291	4	53,375	5
Other	144	0	1,102	0
	49,435	4	54,477	5
Pooled Investments:				
UK Pooled	168,849	15	154,723	14
Overseas Pooled	40,769	4	72,820	7
	209,618	19	227,543	21
Cash:				
Short Term Loans/External Deposits	9,454	1	14,477	1
	9,454	1	14,477	1
Total	1,134,750	100	1,092,932	100

Current Assets and Liabilities and Other Investment Balances

	2006/07	2007/08
	£000	£000
Cash Balances	2,706	9,419
Debtors	18,490	16,065
Creditors	-10,769	-10,227
Open Foreign Exchange Contracts	276	0
	10,703	15,257

Debtors are recorded in the accounts where income due to the Pension Fund, for example from sales of investments or dividend payments, has not actually been received. Similarly, creditors are recorded where services supplied to the Pension Fund, or purchases of investments have been made by 31 March, but payment is not made until the following financial year.

Contractual Commitments

Investment commitments have been made to a number of pooled investment vehicles that make private equity or property investments. At the year end the value of outstanding commitments to 24 investment vehicles amounted to £115,107,240.

Additional Voluntary Contributions

Scheme members may make additional contributions to enhance their pension benefits. All Additional Voluntary Contributions are invested in a range of investment funds managed by the Prudential plc. At the year end the value of AVC investments amounted to £7,451,257 and member contributions of £741,699 were received by the Prudential in the year to March. The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

Dividend Tax Claims

During the financial year 2006/07, the County Council lodged a number of claims with HM Revenue and Customs for the recovery of dividend tax credits relating to earlier years. The total value of the claims is £793,498 and relates to both Foreign Income Dividends paid by UK companies and certain dividends paid by overseas companies. The claims are based on interpretations of European Union law and a number of recent relevant judgements. The County Council is participating with other pension funds in progressing a legal test case to support the claims. It is expected that resolution of the claims will take a number of years and, if unsuccessful, the Fund could incur a share of the costs of the Commissioners of the Inland Revenue.

INDEPENDENT AUDITOR'S STATEMENT

Independent auditor's report to the Members of Lincolnshire County Council on the Pension Fund Annual Report

I have examined the financial statements included in the Pension Fund Annual Report which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to Lincolnshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of Chief Finance Officer and auditors

The Chief Finance Officer is responsible for preparing the Annual Report in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes 2002'. My responsibility is to report to you my opinion on the consistency of the financial statements within the Annual Report with the statutory financial statements. I also read the other information contained in the Annual Report and consider the implications for my report if I become aware of any misstatements or material inconsistencies with the statutory financial statements.

Basis of opinion

I conducted my work in accordance with paragraphs 15-18 of Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board.

Opinion

In my opinion the financial statements included in the Annual Report are consistent with the statutory financial statements of the Authority for the year ended 31 March 2008.

26th September 2008

Chris Wilson
District Auditor
2nd Floor
Witham House
Canwick Road
Lincoln
LN5 8HE
Date:

ACTUARIAL STATEMENT

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, an actuarial valuation of the assets and liabilities of the Lincolnshire County Council Pension Fund (“the Fund”) was carried out as at 31 March 2007.

Security of Prospective Rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be, and have been, paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997 until 31 March 2008, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007; and
- Contributions by employers in accordance with the Rates and Adjustments Certificate dated 23 March 2005 for the year ending 31 March 2008. Thereafter for the three years commencing 1 April 2008 as specified in our Rates and Adjustments certificate included in our actuarial valuation report as at 31 March 2007, dated 17 March 2008.

Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in our valuation report dated 17 March 2008 and the Rates and Adjustments certificate contained therein.

Copies of these documents are available on request from Lincolnshire County Council, administering authority to the Fund.

My opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who are closed to new entrants; where appropriate.

These methods allow for future salary increases and assess the cost of benefits accruing to existing members during:

- the year following the valuation; or
- the remaining working lifetime, respectively.

The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the assessed value of assets.

Valuation of Assets

A “market related” valuation method has been used. This is consistent with the methodology adopted at the 2004 valuation. The Fund’s assets are taken at their market value on the date of the valuation (in this case 31 March 2007).

Valuation assumptions

The key financial assumptions adopted at the 2007 valuation are set out in the table below:

Financial Assumptions	March 2007	
	% p.a. Nominal	% p.a. Real
Discount Rate	6.1%	2.8%
Pay Increases	4.7%	1.5%
Price Inflation / Pension Increases	3.2%	-

The 2007 valuation revealed that the Fund's assets, which at 31 March 2007 were valued at £1,142 million, were sufficient to meet approximately 86% of the liabilities accrued up to that date.

Individual employers' contributions have been set in accordance with the Fund's Funding Strategy Statement. The deficits for each individual employer are being spread over a period up to a maximum of 20 years.

Experience since April 2007

The financial experience of the Fund since 31 March 2007 has been unfavourable. Assets have significantly underperformed relative to the assumptions set at the valuation causing the funding level to deteriorate. In addition, increases in the future expectations of inflation and a fall in the real bond yields has increased the value of the liabilities. Further, this rise in inflation expectations has a significant impact on the expected cost of future benefits accruing since the valuation.

Accordingly, the level of employer contributions would be expected to increase above their current levels if a valuation were carried out at a current date on the current funding strategy. Our opinion on the security of prospective rights above is dependent upon any increased contribution requirements being met by the employers. However, this statement should also be read in the context of the statutory nature of the scheme.

The next valuation of the Fund will be carried out as at 31 March 2010.

Prepared by:-

Peter Summers FFA

12 August 2008

For and on behalf of Hymans Robertson LLP

INVESTMENT BACKGROUND

Returns for major markets

Equity markets generally produced negative returns for sterling investors over the twelve months ended March 2008. The only positive performance came from the Far Eastern markets, with a good absolute return of 12%.

As Central Banks around the world reduced interest rates in response to the financial crisis, bond markets produced mixed returns. In the UK, returns ranged from -3.8% for Corporate Bonds to +13.1% for Government Bonds.

UK Commercial Property saw falls of nearly 11%, as it suffered a significant reversal of the previous five years positive double digit returns.

Investment Returns to sterling based investors 1 April 2007 to 31 March 2008

Asset Class	Index	Index return to sterling investors %
Equities		
United Kingdom	FTSE All Share	(7.4)
Global Equities	FTSE World (ex UK)	(3.0)
United States	FTSE North America	(6.6)
Europe	FTSE Europe (ex UK)	0.0
Japan	FTSE Japan	(16.7)
Far East	FTSE Pacific (ex Japan)	12.0
Fixed Interest		
UK Index Linked Gilts	FTSE Index-Linked All Stocks	13.1
UK Gilts over 15 yrs	UK Gilts and All Stocks	0.5
Overseas Bonds	JP Morgan World ex UK	19.1
UK Corporate Bonds	IBOxx Sterling Non-Gilts All Stocks	(3.8)
Property	IPD Index	(10.7)
Cash	LIBID Seven Day Rate	5.4

MARKETS OVER THE REPORTING PERIOD

World Equity Markets

- World equity markets were dominated by the global financial crisis for most of the year. Starting in the US with the sub-prime mortgage problems, this soon spread across all markets as the extent to which banks and financial organisations were affected by the credit crunch was realised.
- As the year progressed, the economic backdrop deteriorated as the crisis began to impact the wider economy. In response, the US slashed interest rates, implemented a fiscal stimulus package and pumped liquidity into financial markets.
- UK bank Northern Rock was the first casualty of the credit crunch and was taken under the control of the UK government after a run on the bank left its finances looking unstable. Bear Stearns was the first major casualty in the US, and was bought out in an emergency takeover by JPMorgan Chase Bank, at a knock down price.
- Global inflation mounted under pressure from rising food, energy and commodity prices. Oil reached record highs of \$110 per barrel in March 2008.
- The inflation in commodity prices benefited the share prices of resource companies and many emerging economies. For the seventh consecutive year, emerging markets out performed developed ones, benefiting from higher levels of economic growth.
- The US dollar stayed flat over the year, whilst the Euro and the Yen were particularly strong, rising by some 15% relative to sterling.

- Housing markets made headlines in the US, where the sector of the mortgage market focused on lowest quality borrowers collapsed and threatened to undermine the wider economy. In the UK, the housing market followed the US down, as banks struggled to fund new mortgages.

Fixed Interest Markets

- Corporate bonds suffered in the wake of the credit crisis, with the financials sector being the worst hit as banks' profitability was severely impaired by sub-prime related write-downs.
- Government bond yields fell to historic lows, as they benefited from safe-haven buying from risk-averse investors. Index-linked gilts gained from the inflation concerns and pension fund demand.

Commercial Property

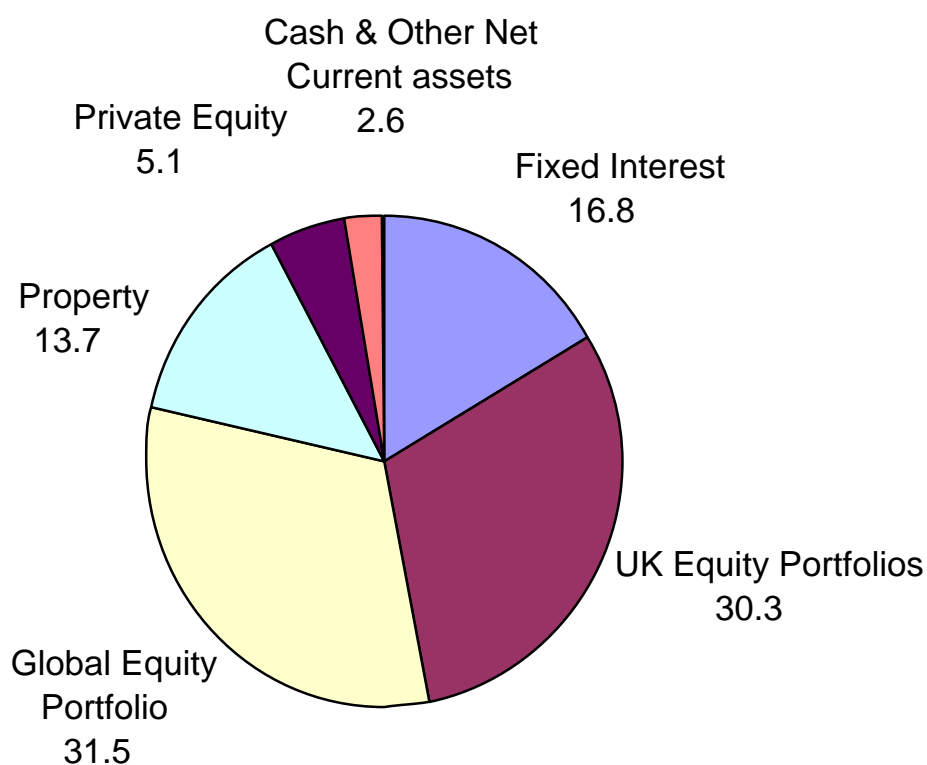
- This was one of the most difficult years for property in recent years, with the value of commercial property falling significantly. Capital values were down 15%, a significant reversal from the previous five years of positive double digit returns.
- Across the sectors, offices, industrial and retail returned -9.2%, -10% and -12.3% respectively.

ASSET DISTRIBUTION AT 31 MARCH 2008

Asset class	Market Value £000	31/3/08 %	31/3/07 %
Fixed Interest	185,910	16.8	14.4
UK Equity Portfolios	335,764	30.3	35.3
Global Equity Portfolios	348,674	31.5	32.4
Property	151,481	13.7	12.9
Private Equity	56,626	5.1	3.2
Cash & Other Net Current assets	29,734	2.6	1.8
Total	1,108,189	100	100

INVESTMENT DISTRIBUTION

ASSET ALLOCATION AS AT 31 MARCH 2008



TWENTY LARGEST HOLDINGS IN THE FUND AS AT 31 MARCH 2008

	Market Value £000	Proportion of Fund %
Standard Life Property Fund	41,878	3.8
RREEF UK Managed Property Fund	28,043	2.5
BP	23,430	2.1
Morley Pooled Property Fund	23,227	2.1
Royal Dutch Shell (A & B shares)	22,262	2.0
Pictet Emerging Markets Fund	19,435	1.8
Standard Life Investments European Property	14,806	1.3
HSBC	14,638	1.3
Royal London Exempt Property Unit Trust	14,622	1.3
Rio Tinto	14,389	1.3
Glaxo Smithkline	11,920	1.0
Treasury 2.5% index linked 2024	10,951	1.0
Vodafone	10,588	1.0
Barclays	10,535	0.9
BG Group	10,518	0.9
BHP Billiton	10,174	0.9
Astrazeneca	10,127	0.9
Treasury 8% 2021	9,999	0.9
Prudential	9,789	0.9
Xstrata	9,466	0.9
Total	320,797	28.9

SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS TO 31st MARCH 2008

Membership of the LGPS is available to all contracted employees of participating employers whether whole time, part time or casual. While membership of the Scheme is not compulsory, employees of Scheme employers are deemed to have joined unless they specifically opt out, whilst employees of Admission Bodies are eligible only if they are employed in connection with the service transferred.

National legislation and regulation cover the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits are not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits available are outlined below:

Contributions

Employees contribute 6% of their pensionable pay towards their pension, the exception being manual workers who were Fund members before 1 April 1998 who pay 5%.

Benefits

The normal retirement age for Scheme members is 65 but employees in the Scheme prior to 1 April 1998 can retire at 60 provided they have 25 years service. Retirement before these ages, other than on ill-health grounds, is not possible without the permission of the employer.

Annual Pensions

Pensions are calculated at a rate of 1/80th of the employee's average 'final' pay in their last twelve months of employment for each year of pensionable service. Pensions for persons aged 55 and over are linked to the movement in the Retail Price Index.

Lump Sum Payments

A member receives a tax free lump sum payment in retirement of three times their pension, with an option to take a bigger lump sum by exchanging part of their pension. Up to 25% of the capital value of a members pension can be taken as tax free cash.

III Health Retirement

Benefits are as for normal retirement but with additional years added dependent on the length of pensionable membership.

Death-benefits

Death in service attracts a lump sum grant equivalent to up to twice final pensionable pay. An annual pension is payable to the surviving spouse and any eligible children. For death after retirement a single payment is made of five times the member's annual pension (less any pension paid since retirement). The surviving spouse is entitled to an annual pension of up to 50% of the member's pension for the rest of their life.

Supplementary Pensions

Scheme members may purchase additional membership within the Scheme up to a maximum of 6 2/3rd years. As an alternative, Scheme members may increase their benefits by paying Additional Voluntary Contributions, up to limits prescribed in scheme rules, to an AVC provider appointed by the County Council as the administering authority.

IMPORTANT SCHEME CHANGES FROM APRIL 2008

The Department for Communities and Local Government (CLG) has issued amended regulations that will change the LGPS and replace it with a 'New Look' scheme from 1st April 2008. All contributing members will transfer to the new arrangements with deferred beneficiaries and pensioners retaining their existing benefits already awarded under the current LGPS.

SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS FROM 1ST APRIL 2008

Membership of the LGPS is available to all contracted employees of participating employers whether whole time or part time. Casual employees may also be members providing their contract of employment is for a minimum of three months. Whilst membership of the Scheme is not compulsory, employees of Scheme employers who are eligible are deemed to have joined unless they specifically opt out, whilst employees of transferred Admission Bodies are eligible only if they are employed in connection with the service transferred.

National legislation and regulation cover the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits are not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits available are outlined below:

Contributions

Employees contribution rate's from 1 April 2008 are based on fulltime equivalent pay using the pay band table shown below. The exception being manual workers who were Fund members before 1 April 1998 who paid 5% .They are to be assimilated on to the relevant rate from the pay band table by 1 April 2011.

FT Equivalent Pay	Contribution Rate
Up to £12,000	5.5%
More than £12,000 and up to £14,000	5.8%
More than £14,000 and up to £18,000	5.9%
More than £18,000 and up to £30,000	6.5%
More than £30,000 and up to £40,000	6.8%
More than £40,000 and up to £75,000	7.2%
More than £75,000	7.5%
Protected Manual Workers	
1 st April 2008	5.25%
1 st April 2009	5.5%
1 st April 2010	6.5% (or the relevant rate from above if lower)
1 st April 2011	The relevant rate from the table above

Benefits

The retirement age for scheme members is 65. However, employees may retire between 60 and 65 but would suffer a reduction to their benefits (unless protected under the 85 year rule). Retirement before age 60, other than on ill-health grounds, is not possible without the permission of the employer.

Annual Pensions

Pensions are calculated at a rate of $1/60^{\text{th}}$ ($1/80^{\text{th}}$ for service accrued prior to 1 April 2008) of the employee's average 'final' pay in their last twelve months of employment for each year of pensionable service. Pensions for persons aged 55 and over (no age restriction for ill-health) are increased each April in line with Retail Price Index.

Lump Sum Payments

A member receives a tax free lump of three times their pension on service accrued prior to 1 April 2008. On service from 1 April 2008 there is no automatic lump sum, but members have the option to commute pension at the rate of £12 cash lump sum for every £1 pension given up, subject to maximum tax free lump sum of 25% of capital value of accrued benefits at retirement.

Ill Health Retirement

There are three tiers of benefits. The benefits are calculated as for normal retirement with additional service under tiers one and two depending on age.

Death-benefits

Death in service attracts a tax free lump sum of three times your final pensionable pay. An annual pension is payable to a spouse/civil partner/ 'nominated dependent partner and eligible children, however civil partners and 'nominated' dependent partners pensions are based on post 5th April 1988 membership only. If a member dies within ten years of their retirement a single lump sum payment is made of ten times the member's annual pension, less any pension paid since retirement. For a member who retired prior to 1st April 2008 and dies within five years of their retirement, a single lump sum payment is made of five times the member's annual pension less any pension paid since retirement. The surviving spouse is entitled to an annual pension based on $1/160^{\text{ths}}$ accrual of the member's membership.

Supplementary Pensions

Scheme members may purchase additional pension of up to a maximum of £5,000 per annum, in blocks of £250. As an alternative, Scheme members may increase their benefits by paying Additional Voluntary Contributions (AVCs). The AVC provider, appointed by the County Council as the administering authority, is Prudential.

LIST OF PARTICIPATING EMPLOYERS

Employing authorities who are participating members of the Fund at 31 March 2008

Scheduled Authorities

Aubourn & Haddington Town Council
Black Sluice Internal Drainage Board
Boston Borough Council
Boston College
Bourne Town Council
Cherry Willingham Parish Council
City of Lincoln Council
Crowland Parish Council
Deeping St James Parish Council
East Lindsey District Council
Grantham College
Heighington Parish Council
Horncastle Town Council
Ingoldmells Parish Council
Langworth Parish Council
Lincoln College
Lincoln Police Authority
Lincolnshire County Council
Lincolnshire Probation Service
Lincolnshire River Authority
Lincolnshire Valuation Tribunal
Lindsey Marsh Drainage Board
Long Bennington Parish Council
Louth Town Council
Mablethorpe and Sutton Town Council
Market Deeping Town Council
Metheringham Parish Council
Nettleham Parish Council
North East Lindsey Internal Drainage Board
North Hykeham Town Council
North Kesteven District Council
Skegness Town Council
Sleaford Town Council
South Holland District Council
South Holland Internal Drainage Board
South Kesteven District Council
Stamford College
Stamford Town Council
Sudbrooke Parish Council
Upper Witham Internal Drainage Board
Washingborough Parish Council
Welland and Deeping Internal Drainage Board

West Lindsey District Council
Witham First Internal Drainage Board
Witham Fourth Internal Drainage Board
Witham Third Internal Drainage Board

Admitted Authorities

Aaron Services
Acis Group
Adults Supporting Adults
Bishop Grosseteste College
Boston Mayflower
Centre for British Teachers
City of Lincoln Archaeological Unit
Community Leisure Services
East Midlands Tourist Board
Heritage Trust for Lincolnshire
Lincoln City Transport Ltd
Lincolnshire & Humberside Arts
Lincolnshire Enterprise
Lincolnshire Home Improvements Agency
Lincolnshire Partnership Trust
Lincolnshire Sports Partnership
Lincolnshire Tourism
Lincolnshire Trust for Nature
National Child Minding Association
New Linx Housing Trust
Trust for Lincolnshire Archaeology

ADDITIONAL INFORMATION AVAILABLE

Additional information regarding the Pension Fund is available on the Lincolnshire County Council website by selecting **Interested in Local Democracy**, from the home page at www.lincolnshire.gov.uk. Once on that page, select **How the Council Works**, then **Finances**, then **Lincolnshire County Council Pension Fund**.

Alternatively, if you have an electronic version of this document, the links below can be used.

FUNDING STRATEGY STATEMENT

This document is prepared in collaboration with the Fund's actuary, Hymans Robertson, and sets out the Fund's approach to funding its liabilities. It is reviewed in detail every three years.

STATEMENT OF INVESTMENT PRINCIPLES

This document describes the key issues that govern the investment of the Pension Fund, and states the extent to which the Council's investment principles comply with ten principles set out in a publication by the Chartered Institute of Public Finance and Accountancy, entitled 'Principles for Investment Decision Making in the Local Government Pension Scheme in the UK'.

COMMUNICATIONS POLICY

This document details the methods of communication that the Pension Fund uses to comply with relevant legislation and to ensure that relevant individuals and employers receive accurate and timely information about their pension arrangements.

GOVERNANCE COMPLIANCE STATEMENT

This document details how the Pension Fund is governed, and sets out where it complies with best practice guidance as published by the Department for Communities and Local Government.

If you would like hard copies of any of the documents above, please contact:

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