Lancashire County Council

Pension Fund Committee

Friday, 27th July, 2012 at 11.00 am in Cabinet Room 'C' - County Hall, Preston

Agenda

Part 1 (Open to Press and Public)

No.	Item	
1.	**Apologies**	
2.	**Disclosure of Pecuniary Interests** Members are asked to consider any Prejudicial Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
3.	**Minutes of the Meeting held on 25 May 2012** To be confirmed, and signed by the chair.	(Pages 1 - 6)
4.	**Exclusion of Press and Public** The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.	

Part II (Not open to Press and Public)

5.	**Fund Performance Report** (Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).	(Pages 7 - 14)

Lancashire County Council

6. **Investment Panel Report** (Pages 15 - 32)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

Part I (Open to Press and Public)

7. **Pension Fund Administration Sub-Committee** (Pages 33 - 44)

8. **Annual Report and Accounts of the Fund - 2011/12** (Pages 45 - 116)

9. **Fund Shareholder Voting Report Q2 2012** (Pages 117 - 164)

10. **Transaction of Urgent Business** (Pages 165 - 166)

11. **Urgent Business**

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

12. **Date of Next Meeting**

The next meeting of the Committee will be held on Friday 30 November 2012 at 10.00 a.m. at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 25th May, 2012 at 10.00 am in Cabinet Room 'C' - County Hall, Preston

Present:

County Councillor David Westley (Chair)

County Councillors

T Aldridge	M Parkinson
M Brindle	T Pimblett
M Devaney	S Riches
M France	G Roper
F De Molfetta	M Welsh

Co-opted members

Bob Harvey, (Trade Union representative)
Councillor Mark Smith, (Blackpool Council representative)
Ron Whittle, (Trade Union representative)

Noel Mills and Eric Lambert, Independent Advisers to the Pension Fund were also present.

Announcements

(i) HE/FE sector representative

Members were informed that Jane McCann, Director of Finance at Blackburn College had replaced Peter Hyett as the HE/FE sector representative on the Committee.

(ii) Confirmation of Chair, Deputy Chair, Constitution and Terms of Reference.

It was reported that the Full Council at its meeting on 24 May 2012 had re-appointed County Councillors D Westley and M Welsh as chair and deputy chair respectively of the Committee for 2012/13. The Constitution and Terms of Reference of the Committee remained unchanged.

It was also reported that the Full Council had re-appointed County Councillors M Welsh and G Roper as chair and deputy chair respectively of the Pension Fund Administration Sub-Committee for 2012/13.

1. Apologies

Apologies for absence were received from County Councillors P Evans, J Lawrenson and K Young, Councillor D Walsh and J McCann.

2. Disclosure of Personal and Prejudicial Interests

County Councillors M Parkinson, M Brindle, T Pimblett, M France and D Westley, and Mr R Harvey and Mr R Whittle disclosed personal non-prejudicial interests in the agenda as they were members of the Local Government Scheme.

3. Minutes of the Meeting held on 3 February 2012

The Minutes of the meeting held on 3 February 2012 were presented.

Resolved: That the Minutes of the meeting held on 3 February 2012 be confirmed and signed by the Chair.

4. Exclusion of Press and Public

Resolved: That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the paragraph of Part 1 of schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

5. Fund Performance Report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information)

The Committee considered a report on the performance of the Fund as at 31 March 2012, focussing on the funding position, the investment performance and allocation, and risk management of the Fund.

There was a general discussion on the report presented and officers responded to questions on the Fund's liabilities and cash flow position, the transition portfolio, possible changes to the Local Government Pension Scheme and the need to attract new members into the Fund. A report on the take up of membership of the Fund would be presented to Administration Sub-Committee on 13 June 2012.

With regards to the Fund's liabilities, it was noted that the increase in liabilities had affected all defined benefit pension schemes and results from the change in the valuation of government gilts, which had significantly increased the level of assets needed to meet the actuarial valuation of the current value of the pensions of scheme members. It was noted that the scheme had a positive cash flow, and was expected to remain so for a minimum of 17 years. Members welcomed the proposed development of a pro active liability management strategy that would help to manage the impact of the Fund's liabilities.

Members were informed that the funding level was intended to give trustees assurance about the Fund's ability to meet its on-going liabilities. Whilst this information was important, it was considered that the Committee needed to consider different ways of assessing its funding position. It was agreed that the Fund's cash flow position looking ahead to the medium term was a key consideration that should be reflected in the Fund performance report.

Resolved:

1. That the report be noted.

2. That the Fund's cash flow position should be included as part of future Fund performance reports.

6. Report of the Investment Panel - Appointment of Managers to the Unconstrained Global Equities Framework and Award of the Mandate

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information)

The Committee considered a report on the results of the Fund's procurement to appoint managers to a framework to deliver the unconstrained global equity mandate. The appointments process had taken seven months to complete and the Treasurer to the Fund thanked the Panel's advisers and bfinance for the considerable amount of support and work during the procurement process.

Members were informed that the detailed procurement process compliant with OJEU, had resulted in 12 managers being appointed to the bench. The Treasurer had, on the unanimous recommendation of the Investment Panel, approved an initial allocation in respect of active equity mandates to 5 of the managers. It was envisaged that the allocations would be effective from the end of June 2012.

The allocations had been made specifically to achieve maximum complimentarity between manager styles, and also to achieve the objectives set out at the commencement of the procurement process. The Committee noted that the average fee across the managers was very competitive.

Resolved:

1. That the appointment of managers to the unconstrained global equity framework be noted.

2. That the allocations made by the Treasurer to the Fund on the unanimous recommendation of the Investment Panel be noted.

7. Appointment of Independent Advisers to the Fund

(Exempt information as defined in Paragraph 1 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information)

The Fund's Independent Advisers left the room for the duration of this item.

The Committee received a report on the appointment of Independent Advisers to the Fund.

The initial term of appointment of the Fund's two independent advisers was due to expire on 30 June 2012 and the Committee considered proposals to appoint advisers beyond that date. It was noted that one of the Fund's advisers, Mr Noel Mills, had indicated that for personal reasons he wished to step down once a replacement could be found.

Resolved:

1. That the Fund's contract with Mr Eric Lambert be extended for a period of three years up to 30 June 2015 on terms to be agreed by the County Treasurer in consultation with the Chair of the Pension Fund Committee.

2. That the Fund's contract with Mr Noel Mills be extended until a further adviser can be appointed by no later than 31 December 2012 on the same terms as Mr Lambert.

3. That the Committee place on record its thanks and appreciation of the work undertaken by Mr Mills as adviser to the Lancashire County Pension Fund.

4. That the process for the appointment of a second adviser, as set out in the report now presented, for an initial period of four years and with the option to extend for a further three years, be agreed and that an ad-hoc Appointments Sub-Committee comprising County Councillors D Westley, M Welsh and M Parkinson and Councillor M Smith be established to undertake the process on behalf of the Committee.

The Committee then returned to the remaining Part I agenda items.

8. Fund Shareholder Voting Report

The Committee considered a comprehensive report on the Fund's shareholder voting arrangements.

From 1 October 2011, Pensions & Investment Research Consultants Ltd (PIRC) had acted as the Fund's proxy and replaced the investment managers in casting the Fund's votes at shareholder meetings. Previously investment managers were instructed to cast votes in accordance with PIRC guidelines, but there was no efficient mechanism to review how closely investment managers followed the PIRC guidelines nor bring together a report to show how the votes on the Fund's shares had been cast in shareholder meetings.

This change enabled a summary of the Fund's voting activity to be compiled and presented to the Committee for the first time.

Details of the Fund's voting activity for the six months from 1 October 2011 to 31 March 2012 were presented. It was noted that the Fund had voted on 295 occasions during this period and had abstained in 25% of votes.

The Committee agreed that future reports should include information on voting around environmental and ethical issues.

Resolved:

1. That the report be noted.

2. That information on voting around environmental and ethical issues be included in future Fund shareholder voting reports.

9. Internal audit annual report 2011/2012, including the audit plan 2012/13

The Committee considered the internal audit annual report for the Fund 2011/12.

Based on the internal audit work undertaken during the year, the internal audit service was able to provide substantial assurance over the internal control environment for the Fund and pension administration.

The Committee also received details of the internal audit plan of work for 2012/13 which amounted to 75 days.

Resolved:

1. That the internal audit annual report 2011/12 be noted.

2. That the internal audit plan for 2012/13 be approved.

10. Urgent Business

None.

11. Date of Next Meeting

The Committee noted the following revised timetable of meetings for the remainder of 2012/13:

- **Friday 27 July 2012** (meeting moved from 13 July 2012)
- **Friday 30 November 2012** (meeting moved from 16 November 2012)
- **Friday 22 March 2013** (meeting moved from 1 February 2013)

The Committee also noted that the meeting scheduled to take place on 12 April 2013 had been cancelled.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

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Document is Restricted

Pension Fund Committee
Meeting to be held on 27 July 2012

Electoral Division affected: All

Pension Fund Administration Sub-Committee
(Appendix 'A' refers)

Contact for further information:
Chris Mather, 01772 533559, Office of the Chief Executive,
chris.mather@lancashire.gov.uk

Executive Summary

The Pension Fund Administration Sub-Committee met on 13 June 2012. A copy of the minutes of the meeting is attached at Appendix 'A'.

Recommendation

The Committee is asked:

1. to note the minutes of the Pension Fund Administration Sub-Committee meeting held on 13 June 2012.

2. to agree that all employer representatives who currently serve on the Committee be appointed to serve on the Administration Sub-Committee for the purpose of overseeing the development and roll out of the Communications Strategy.

Background and Advice

The Pension Fund Administration Sub-Committee met on 13 June 2012 to consider reports on the following:

- The Annual Administration Report for 2011/12. A copy of the report is available for inspection on the council's website at http://council.lancashire.gov.uk/documents/s10794/Administration%20report%20Appendix%20A.doc.pdf;
- New Local Government Pension Scheme Proposals;
- The membership of the Local Government Pension Scheme and Auto-enrolment; and
- National Fraud Initiative Matches – Local Government Pension Scheme

Further information including the decisions taken can be found in the minutes of the meeting which are attached at Appendix 'A'. The Committee's attention is however drawn to the following matters:

Lancashire County Council

(i) New Local Government Pension Scheme Proposals - Update

On 27 June 2012 a consultation, specifically aimed at participating LGPS employers, was issued with responses required by 27 July 2012. The consultation asks employers to indicate their general support (or not) for the proposals. Should the outcome of the consultation be positive (together with those being undertaken by local government trade unions) the government will move forward with a statutory consultation in the autumn.

All participating employers of Lancashire County Pension Fund have been urged to respond to this important consultation. Lancashire County Council has indicated its general support for the proposals.

(ii) Membership of the Local Government Pension Scheme and Auto-enrolment

The Sub-Committee approved a Communications Strategy to encourage a greater take up of the LGPS by County Council employees. It was agreed that the Communications Strategy would be key to preparing staff for auto enrolment, to improving the perception of the LGPS and to promoting the on-going (ill health cover, life assurance) and long term benefits of the LGPS to employees of the County Council and other employers within the Scheme. It was also agreed that a further detailed report on the development and proposed roll out of the Communications Strategy should be presented to the Sub-Committee in autumn.

The Sub-Committee felt that consideration should be given to widening its membership to enable other (non-County Council) employer representatives on the main Committee to be involved in taking forward the development and roll out of the Communications Strategy. A further meeting of the Sub-Committee will be held on 13 November 2012 and the Committee is asked to consider an expansion of the Administration Sub-Committee's membership for the purposes of overseeing the development and roll out of the Communications Strategy.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

There are no risk management implications arising from this item.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel
Agenda and Minutes of the Pension Fund Administration Sub-Committee	13 June 2012	Chris Mather/OCE/01772 533559

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council

Pension Fund Administration Sub-Committee

Minutes of the Meeting held on Wednesday, 13th June, 2012 at 10.00 am in Cabinet Room 'B' - County Hall, Preston

Present:

County Councillor Michael Welsh (Chair)

County Councillors

M Brindle
K Young
F De Molfetta

Co-opted members

Bob Harvey, (Trade Union representative)
Councillor Mark Smith, (Blackpool Council representative)

1. Pension Fund Administration Sub-Committee Constitution: Chair and Deputy Chair; Membership; Terms of Reference

It was reported that the County Council at its annual meeting on 24 May 2012 had approved the constitution of the Sub-Committee on the basis of 3 Conservative members, 1 Labour member, 1 Liberal Democrat member, 1 trade union co-opted member and 1 co-opted member representing the Lancashire District Councils and Unitary Authorities. The membership of the Sub-Committee and its terms of reference were reported. It was also reported that the County Council had appointed County Councillors M Welsh and G Roper as Chair and Deputy Chair of the Sub-Committee for the remainder of the municipal year 2012/13.

Resolved:

(i) That the appointment of County Councillors M Welsh and G Roper as chair and deputy chair of the Sub-Committee for the remainder of the 2012/13 municipal year be noted.

(ii) That the membership and terms of reference of the Sub-Committee, as now reported, be noted.

2. Apologies

Apologies for absence were received from County Councillor G Roper.

3. Disclosure of Personal and Prejudicial Interests

County Councillor M Brindle and Mr R Harvey declared personal non-prejudicial interests in the agenda as they were members of the Local Government Pension Scheme.

4. Minutes of the Meeting held on 5 July 2011

Resolved: That the Minutes of the Meeting held on 5 July 2011 be confirmed and signed by the Chair.

5. Your Pension Service - Annual Administration Report

The Sub-Committee considered the 2011/12 Annual Administration Report. The report described the performance of Your Pensions Service (YPS) against the standards and targets set out in the Service Level Agreement between YPS and the Pension Fund Committee. The report also explained the activities and events undertaken by YPS during the year.

In considering the report, the following points were made:

- Membership of the Scheme had increased by over 2.5%. This was reflected in the increase in deferred and pensioner members as local authorities and other public sector bodies continued to reduce their workforce and employees left or retired.
- There had been a considerable reduction in the number of New Member set ups and Transfer in Quotes and Payments. Again this reflected the position in Local Government across the country.
- The greatest negative impact on performance was the move to the integrated pensions administration and payroll system. Whilst this development had caused some disruption in the short term, it would streamline the retirement process by reducing duplication. The new integrated system would also enable payments to be made at source without the need to use the County Council's Accounts payable facility which would result in further efficiency savings.
- Other factors which had affected performance and targets being missed included a government instruction to not process transfers for 3 months, whilst various actuarial calculation factors were reviewed and the need to move resources to deal with the considerable increase in the number of retirements.
- The number of requests for benefit estimates had been considerably higher than expected.
- There were no plans to change any of the set targets.
- The need for an interim management resource to specifically target improved performance, allowing other staff to concentrate on development areas had been recognised and agreed.
- Staffing levels would need to be balanced against the introduction of new systems and the effects of future legislative changes to the Local Government Pension Scheme.

- YPS had agreed a project plan of future developments with its system provider, Heywood. The plan included the introduction of Member Self Service that would enable Scheme members to access their pension records on-line, including payslips for pensioner members and benefit statements for active and deferred members. This would be a significant development and involve considerable work to ensure data integrity.
- YPS was also considering a new development to enable the transfer of key information to the Fund from Employers HR/Payroll systems as a result of the introduction of Auto enrolment.
- YPS had been reaccredited for the Customer Service Excellent award.
- The One Connect customer service centre was responsible for providing a pensions helpdesk facility and was the first point of contact for Scheme members and employers. A dip in performance had been addressed by providing additional resources i.e. 5 additional FTE staff and 3 temporary staff, and by bringing some administrative tasks i.e. post, scanning back in house. This action had resulted in the number of calls successfully answered rising from 85% to 93%.
- It was agreed that future reports should set out the number and category of calls made to the customer service centre each week. The report should also identify the number of calls that had been successfully answered or referred on by the customer service centre. More detailed information around customer satisfaction should also be provided.
- The continued efficiencies and in particular the savings realised by the integration of the pensions administration and payroll systems had resulted in the YPS charge to the Fund being reduced to £21.50. However, it was noted that YPS was about to enter into a period of intense change brought about by the planned LGPS reform and the introduction of auto-enrolment. It was likely that additional resources would be needed if the quality of service was to be maintained. The aim would be to keep charges within the lower quartile cost of Local Government Pension Funds. Further reports would be presented to the Pension Fund Committee once the position became clearer.
- The annual employer 'practitioner' conference would be held in September 2012. The opportunity would be taken to raise awareness of the issues and proposed developments as set out in the Annual Report. It was agreed that all members of the Pension Fund Committee would be invited to attend the conference.

Resolved: That the 2011/12 Annual Administration Report, as now presented, be approved.

6. New Local Government Pension Scheme Proposals

The Sub-Committee considered a report on the proposals for the new Local Government Pension Scheme (LGPS) as announced by the Local Government Association and trades unions on 31 May 2012.

The main provisions of the proposed LGPS were:

- All pensions in payment or built up before April 2014 would be protected. Current contributing scheme members pre-April 2014 benefits would still be based on their final salary at retirement and the current 'normal pension age' of 65.
- The new scheme would be a Career Average Revalued Earnings (CARE) scheme. It would use the Consumer Price Index (CPI) as the revaluation factor (the current scheme was a final-salary scheme).
- The accrual rate would be 1/49th (the current scheme was 1/60th).
- There would be no normal scheme pension age. Instead each member's normal pension age would be their individual state pension age, with a minimum of 65 (the current scheme had a normal pension age of 65).
- Average member contributions to the scheme would be 6.5% (the same as the current scheme) with the rate determined on actual pay (the current scheme determined part-time contribution rates on full-time equivalent pay).
- While there would be no change to average member contributions, the lowest paid would pay the same or less and the highest paid would pay higher contributions on a more progressive scale after tax relief.
- Scheme members who had already or were considering opting out of the scheme could instead elect to pay half contributions for half the pension, while still retaining the full value of other benefits. This would be known as the 50/50 option (the current scheme had no such flexible option).

The proposals would form the basis of consultation with scheme members, funds and other scheme interests later in the autumn with a view to the new scheme coming into effect on 1 April 2014.

The Sub-Committee was informed that the likely impact of the proposed LGPS 2014 was being discussed with the Fund's Actuary. A further report would be presented to the Sub-Committee to enable a response to the consultation to be submitted on behalf of the Lancashire County Pension Fund.

Resolved: That the report be noted.

7. Membership of the Local Government Pension Scheme and Auto-enrolment

At its meeting on 5 July 2011, the Sub-Committee considered a report on the relatively low take up of the Local Government Pension Scheme (LGPS) by County Council employees. It was agreed that officers should explore the reasons why 25% of eligible employees were not in the Scheme and consider measures to improve communications with employees about the future operation of and changes to the LGPS.

The Sub-Committee received a progress report which set out the results of a survey sent to 8,000 County Council employees who were not in the LGPS. Members were informed that the survey had resulted in a 10% response rate and revealed the following headline results: -

- 33% of respondents said "can't afford it/don't earn enough" was the main reason for opting out of the Scheme;
- 17% of respondents said "not working enough hours/being part time" was the main reason for opting out of the Scheme;
- 28% of respondents said that "more money" would encourage them to opt in to the Scheme;
- 11% of respondents said that "working more hours/being full time" would encourage them to opt in to the Scheme;

A proposed Communications Strategy to encourage a greater take up of the LGPS by County Council employees was presented. It was noted that the government required the County Council to automatically enrol its workforce in the LGPS with effect from January 2013 and it would be appropriate to launch the internal communications campaign to coincide with the auto-enrolment date.

Members acknowledged that the level of take up of the LGPS had a significant impact on the long term viability of the Fund. It was recognised that the greater the number of contributing members the longer the Fund was likely to remain cash flow positive.

The Sub-Committee welcomed the proposed Communications Strategy and agreed that it would be key to preparing staff for auto enrolment, to improving the perception of the LGPS and to promoting the on-going (ill health cover, life assurance) and long term benefits of the LGPS to employees of the County Council and other employers within the Scheme.

Members agreed that the communications activity needed to be clear, concise and provide employees with as many tangible examples of the benefits of the LGPS as possible. With this in mind, it was agreed that a further detailed report on the development and proposed roll out of the Communications Strategy should be presented to the Sub-Committee in Autumn.

It was also felt that consideration should be given to widening the membership of the Sub-Committee to enable other (non-County Council) employer representatives on the main Committee to be involved in taking forward the development and roll out of the Communications Strategy.

Resolved:

1. That the Communications Strategy, as now presented, be approved to coincide with the County Council's auto enrolment date of January 2013.

2. That a further detailed report on the development and proposed roll out of the Communications Strategy be presented to the Sub-Committee in Autumn and before the end of November.

3. That the Pension Fund Committee be asked to consider expanding the membership of the Sub-Committee to include all other employer representatives who currently serve on the Committee.

8. National Fraud Initiative Matches - Local Government Pension Scheme

The Sub-Committee considered a report on the Audit Commission's National Fraud Initiative, the most recent findings in respect of Lancashire County Pension Fund and progress on Your Pension Service investigations to date.

Your Pension Service worked closely with Internal Audit in order to investigate matches identified as part of the data matching exercise undertaken by the Audit Commissions National Fraud Initiative (NFI). The 2010/11 NFI exercise had identified 2,215 matches for the Fund. Of these 66% had been processed and overpayments to the value of £98,436 had been identified for 31 claimants. It was noted that in most cases there was a straightforward explanation for non disclosure and that the majority of cases were found to be genuine oversights rather than fraudulent cases. Only one of the 2,215 matches had been identified as potentially fraudulent with an overpayment of £19,718. Legal advice was being sought in respect of that case.

Members were informed that the Audit Commission had, in September 2011, launched Phase 1 of its real time data matching service to prevent fraud against financial institutions by identifying where an applicant had falsely declared they had a right to work in the UK. The Phase 2 extension of the real time data matching was currently being considered.

The launch of real time data matching was welcomed by Your Pension Service as it would bring clear and significant benefits to fraud prevention. Data would be matched at the point of application across all tiers of central and local government and this would enable fraud to be detected much earlier.

It was suggested that there should be a policy to recover overpayments where no actual fraud had occurred.

Resolved: That the report be noted.

9. Urgent Business

None.

10. Date of Next Meeting

The next meeting of the Sub-Committee would be confirmed by the County Secretary and Solicitor in due course.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Pension Fund Committee
Meeting to be held on 27 July 2012

Electoral Division affected:
None

Annual Report and Accounts of the Fund – 2011/12
(Appendix 'A' refers)

Contact for further information:
George Graham, 01772 538012, County Treasurer's Department,
George.graham@lancashire.gov.uk

Executive Summary

This reports sets out the Lancashire County Pension Fund Annual Report 2011/12

Recommendation

The Committee is asked to agree the Lancashire County Pension Fund Annual Report 2011/12, as set out at Appendix 'A', for submission to the Full Council.

Background and Advice

The Local Government Pension Scheme (Administration) Regulations 2008 (No. 239) requires each administering authority to prepare an annual report for the pension fund and publish it before 1 December following the year end. The regulations prescribe that the following should be included in the annual report:

- a report on the management and financial performance of the fund during the year;
- an explanation of the investment policy;
- a report on the administrative arrangements for the fund;
- a statement from the actuary on the latest funding level;
- the current version of the governance compliance statement;
- the fund account and net asset statement with supporting notes and disclosures;
- the extent to which the fund has achieved its required performance levels; and
- the current version of the funding strategy statement, the statement of investment principles and communications policy and any other information the authority considers appropriate.

The terms of reference of the Pension Fund Committee is to approve the annual report for submission to Full Council

Lancashire County Council

A copy of the Lancashire County Pension Fund Annual Report 2011/12 is attached at Appendix 'A'. The Annual Report includes the following sections:

An overview of the management and financial performance of the fund

This highlights the major issues considered by the Investment Panel and Committee during the year, a summary of market conditions and a summary of the performance of the fund.

The Governance Compliance Statement

This highlights compliance or otherwise with the guidance given by the Secretary of State.

Administration of the Fund

An update on issues arising from the administration of the fund during the year, including any changes to the administration regulations.

Investments of the Fund

A summary of the investment activity during the year and an analysis of performance of the investments.

The accounts and financial statements

The accounts and financial statements of the pension fund approved by the County Treasurer on 28 June 2012 are shown in the County Council's Statement of Accounts and also in the Pension Fund Annual Report. The accounts are currently being audited by the audit commission and the auditor's opinion will be included in the published Annual Report, when this is complete.

An up to date list of all the scheduled and admitted bodies within the fund is included within the notes to the financial statements.

Actuarial Valuation

A summary of the latest actuarial valuation carried out at March 2010 and applicable for the three years commencing 1 April 2011.

The following standing policy statements are referred to in the Annual Report as available from the Pension Fund and from its web-site at www.yourpensionservice.org.uk:

The Governance Policy Statement

The Governance Policy Statement approved by the Committee in April 2008 has been updated to include changes agreed by the Committee in July 2011.

The Communication Policy Statement

There are no changes to this document, which was revised in April 2007.

The Funding Strategy Statement

The Funding Strategy Statement which was approved by committee in February 2011.

The Statement of Investment Principles

The Statement of Investment Principles was approved by committee July 2011.

Consultations

The Investment Panel are consulted on all investment policy issues.

Implications:

This item has the following implications, as indicated:

Risk management

The policy on risk is outlined in the Funding Strategy Statement and the Statement of Investment Principles.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel
Investment Manager reports, Investment Panel Agendas and Minutes	Quarterly throughout the year	Mike Jensen – Resources – 01772 534742

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Lancashire County Pension Fund

Annual Report 2011/12

Contents

A. Management Structure

Management Structure as at 31 March 2012

Administering Authority
Lancashire County Council

Pension Fund Committee
2011/2012 (as at 31 March 2012)

Lancashire County Council
D A Westley (Chair)
M J Welsh (Deputy Chair)
T Aldridge
M Brindle
M Devaney
P Evans
M France
J Lawrenson
F De Molfetta
M Parkinson
T Pimblett
S Riches
G Roper
K Young

Blackburn with Darwen Borough Council
D Walsh

Blackpool Borough Council
M Smith

Lancashire Leaders' Group
P Goldsworthy
P Doyle

Co-opted Members representing Trade Unions
R P Harvey
R Whittle

Co-opted Member representing HE/FE Establishments
1 vacancy

Fund Managers
Legal & General Investment Management
Newton Investment Management
J P Morgan Asset Management
UBS Global Asset Management
Knight Frank (Rutley Capital Partners)
Capital Dynamics
Mellon Transition Management

Custodian
Northern Trust

Independent Investment Advisers
E Lambert
N Mills

Treasurer to the Lancashire County Pension Fund
G Kilpatrick CPFA

Actuary
Mercer

Auditor
Audit Commission

Property Solicitors
Pinsent Curtis Biddle
Cobbetts

Independent Property Valuer
Cushman & Wakefield

Corporate Governance Adviser
PIRC

Performance Measurement
WM Company

AVC Providers
Prudential
Equitable Life

Legal Advisors (other than property)
In House

Bankers
National Westminster

B. Overview of Management and Financial Performance

The investment activities of the Lancashire County Pension Fund during 2011/12 have continued to be heavily influenced by geopolitical events.

The ongoing turmoil in the Eurozone in particular has produced a highly volatile backdrop to global investment activity; for much of the financial year the central concern of investors was the *return of capital* rather than the traditional *return on capital*. Central Banks, in particular the US Federal Reserve (Fed) and the Bank of England (BoE) , have provided further rounds of liquidity to financial markets via quantitative easing. The European Central Bank (ECB) has been forced by markets to produce a number of emergency measures to relieve the extreme pressure in the European banking system and government bond markets. By November 2011 there was a real danger of systemic collapse as interbank liquidity vanished. At this point the ECB unveiled the "Long Term Repo Operation (LTRO)" an unprecedented injection of billions of Euros into the banks for 3 years at 1.00%.

The systemic issue caused all "risk" markets to underperform during 2011 (FTSE100 fell 6%). The liquidity injection did provide substantial relief in the first quarter of 2012 (FTSE100 rose 2%) but it is clear that the fundamental issues in the Eurozone have not been solved merely pushed out into the future. Whilst the rest of the world provided some growth early in the year it was clear by early 2012 that the US, India and China were seeing growth but at slower rates than expected at this point in the economic cycle.

The impact on long term investors has been two fold

- Liquidity in most markets has diminished sharply widening the discounts available on illiquid asset classes such as infrastructure and secured loans – an advantage the Fund will look to capitalize on by making further allocations to less volatility and less liquid asset classes
- Price volatility has increased on Equities and similar investments raising risk profiles – confirming the need for the Fund to continue its diversification and risk management strategies

The FTSE All World index fell 3.81% and the FTSE All share fell 3.659% during the financial year, having been lower at the end of 2011. Credit markets continued to perform positively, the IBOX non Gilt Sterling index (a published index based on a broad range of high quality corporate bonds of varying maturity) rose 8.96%.

Government bond markets in the US, UK and core Europe performed very well over the 12 month period, the IBOX 5yr+ Gilt index rose 19.25%. Markets had expected that some monetary stimulus would be withdrawn during the year, leading to higher interest rates and reduced bond market performance but the continued concerns over fiscal deficits and default in peripheral Europe has kept safe haven bond markets very strong.

2011/12 was a period of complex re-allocation for the Fund. First steps into lower volatility investments were implemented late in the year as well as a major structural change to the Fund's equity investments, moving from predominantly domestic to global investing with an active risk management approach. Whilst these changes were made too late in the year to affect performance they represent a major shift in the Fund's investment management ethos.

The overall return achieved by the Fund during 2011/12 was 2.3% compared to the benchmark return of 3.3% and the average local authority return of 2.6%. This ranked in the 72th percentile of the WM Local Authority Universe, the majority of underperformance coming from the active equity mandates which have subsequently been terminated in line with the investment strategy agreed in January 2011.

During the year the Fund was cash flow positive, with income from contributions and investments exceeding expenditure on benefits and expenses by £86.4m.

The on going implementation of the Fund's investment strategy, the development of the Investment Panel together with improvements in governance, place the Fund in a better position to deal with developments in global risk, the international regulatory framework and the future of structure pensions in general.

Capital for long term investment is a scarce commodity post credit crunch, and the effects of forthcoming regulation for the banking (Basle 3) and insurance (Solvency 2) sectors will amplify the shortage, placing Local Government Pension Funds in a strong position to positively address the goals of full funding and sustainable cost, provided that investment, liability and, most importantly, risk management are addressed effectively in what will undoubtedly remain a period of extreme volatility..

Administration of the Fund has again been very strong over the year, the Treasury and Pension investment section winning Lancashire County Council's "Team of the Year" award at the 2011 Lancashire Pride awards, following from the Your Pension Services' success in 2010.

D Westley
Chairman of the Pension Fund Committee

G Kilpatrick CPFA
County Treasurer and Treasurer to the
Lancashire County Pension Fund

C. Governance of the Fund

The Pension Fund Committee has considered the governance arrangements relating to the administration and investments of the Fund in the light of the guidance issued by the Department for Communities and Local Government (DCLG) regarding the requirement to complete a Governance Compliance Statement, established for all areas of governance of pension fund activities.

Comprehensive terms of reference have been established for all areas of governance of pension fund activities including the Pension Fund Committee, the Investment Panel, the Administration Panel and issues delegated to the Treasurer to the Fund. These can be found in the Fund's Governance Policy Statement. Governance Policy Statement

The Fund's Governance Compliance Statement is shown below reporting compliance with guidance given by the Secretary of State.

LANCASHIRE COUNTY PENSION FUND GOVERNANCE COMPLIANCE STATEMENT:

Principle		**Full Compliance**
A Structure	*(a) the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council*	√
	(b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee(1)	× (see note 1 below)
	(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	√
	(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	√

B Representation	*(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1)* *These include:* *(i) employing authorities (including non-scheme employers, e.g. admitted bodies)* *(ii) scheme members (including deferred and pensioner scheme members)* *(iii) independent professional observers (2)* *(iv) expert advisers (on an ad hoc basis)*	× (see notes 1 and 2 below)

Reasons for Partial Compliance

Note 1: Although District Councils, Scheduled Bodies and employees are represented, Admitted bodies are not. Admitted bodies only represent 7% of contributors to the fund and are therefore not represented. However, all employers receive a full annual report and are alerted to important events. Although employee representatives, i.e. Trade Unions, do not formally represent deferred and pensioner scheme members, it is accepted that representation is available to deferred and pensioners members via this route where necessary and/or appropriate.

Note 2: Guidance envisaged that an independent professional observer could be invited to participate in governance arrangements to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels which would improve the public perception that high standards of governance are a reality and not just an aspiration. This role is currently performed by officers and it is not apparent what added value such an appointment would bring.

C Selection and Role of Lay Members	*(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.* *(It is the role of the administering authority to make places available for lay members and for the groups to nominate the representatives. The lay members are not there to represent their own local, political or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all time.)*	√

D Voting	*(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.*	√
E Training/ Facility Time/ Expenses	*(a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.* *(b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.*	√ √
F Meetings – Frequency	*(a) that an administering authority's main committee or committees meet at least quarterly.* *(b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.* *(c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.*	√ √ √
G Access	*(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.*	√
H Scope	*(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.*	√

I Publicity	*(a) that administering authorities 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.*	√

Lancashire County Council's Annual Governance Statement

The County Council has produced its Annual Governance Statement for 2011/12. This statement sets out assurances on the County Council's governance arrangements, internal control and the way the County Council manages its affairs.

As the County Council is responsible for the administration of the Pension Fund, including the provision of systems, controls and governance and this statement embraces the activities of the Pension Fund.

D. Administration of the Pension Fund

Overview

The Local Government Pension Scheme is a statutory public sector pension scheme, and operates on a "defined benefit basis". Lancashire County Council as 'Administering Authority' is required by law to administer the Scheme within the geographical area of Lancashire.

The County Council administers the Scheme for over 150 employers (a complete list of employers is set out in Note 1 of the Notes to the Financial Statements). These employers include organisations such as local authorities, further and higher education colleges and voluntary and charitable organisations. This includes a number of "Admitted Bodies". These are organisations that have entered into an agreement with the County Council to participate in the Fund.

A Service Level Agreement (SLA) is in place between Your Pension Service and the Pension Fund Committee for the provision of pension administration services and support. An Annual Administration Report is produced in accordance with the SLA and describes the performance of Your Pension Service (YPS) against the standards set out in the Agreement during the year. The Report also details events and activities undertaken by YPS over the year and sets out any Scheme specific regulatory change.

The Pension Fund Administration Sub-Committee is required to ensure that the Pension Fund Committee's functions as Administering Authority are discharged and to approve the Annual Administration Report. Annual Administration Report
A brief review of the year is set out below.

Review of the Year

2011/12 has been a year of change within Your Pension Service. By far the biggest development within the Service was the transfer of the Fund's pensioner payroll to an integrated pensions administration and payroll system. Savings were made as a result of this change and YPS has been able to pass these savings on to the Fund. This ensures that the Service continues to be cost effective with the cost of administration remaining below the Government's key indicator.

Overall, administration performance was broadly in line with SLA targets and the Service met its key performance indicator; 'to calculate and pay all retirement benefits within 10 working days'. Your Pension Service was delighted to be re accredited with the Government's Customer Service Excellence award in June 2011 as this Award reflects that customer service continues to be a priority for the Service.

Public Sector Pension Reform

In December 2011, the Chief Secretary to the Treasury, Danny Alexander MP, made a statement to the House of Commons on progress made in the negotiations with the Trades Unions in respect of the reform of public sector pension schemes. The statement sets out that heads of agreement had been established with most unions in the local government, civil service and teacher's pension schemes.

The statement was accompanied by a written ministerial statement from the Secretary of State for Communities and Local Government, Eric Pickles MP, specifically in respect of the Local Government Pension Scheme (LGPS), which stated that a 'heads of agreement' had been agreed between the main local government unions, the Local Government Association (LGA) and the Government regarding a way forward for the Local Government Pension Scheme. This agreement set out the principles to govern scheme design, ongoing costs management and governance of the new scheme.

Representatives from the Local Government Association and trade unions committed to agree and to cost a new scheme early in 2012 and have since announced their proposals for the new Local Government Pension Scheme to take effect from 1 April 2014. These proposals will now form the basis of consultation with scheme members, employers, funds and other scheme interests and a statutory consultation will follow during Autumn 2012 to implement these proposals.

The main provision of the proposals is that the new LGPS 2014 will be a Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (the current scheme is a final salary scheme). More details can be found at (www.lgps.org.uk) and within the full Annual Administration Report. Annual Administration Report

Other information

Further statements relating to the administration of the Scheme including the Communication Policy Statement and the Pensions Administration Strategy Statement are available from the Fund and can be accessed via the Fund Website at:

http://www.yourpensionservice.org.uk

Your Pension Service can be contacted at:

PO Box 100
County Hall
Preston
PR1 0LD

Telephone: 01772 530530

E-mail: pensions.helpdesk@lancashire.gov.uk
http://www.yourpensionservice.org.uk

Participation in the Fund

		Number at 31 March 2012	Number at 31 March 2011
(1)	Active scheme members:		
	Scheduled Bodies	46,422	47,912
	Admitted Bodies	3,716	3,781
	Total	**50,138**	**51,693**
(2)	Pensioners:		
	Pensions in Payment	39,933	37,632
	Preserved Pensions	47,526	44,928
	Total	**87,459**	**82,560**

Additional Voluntary Contributions (AVCs)

The AVC providers to the Fund are Prudential and Equitable Life. The AVCs are invested separately from the Fund's main assets and are used to acquire additional money purchase benefits. Members participating in these AVC arrangements each receive an annual statement from the provider confirming the amounts held in their account and the movements during the year.

Note 20 of the Notes to the Financial Statements of this report contain a detailed breakdown of the current value of the Fund’s AVCs.

Risk Management

The Fund's governance arrangements, described in this report, ensure that the management of the fund's administrative, management and investment risk is undertaken at the highest levels. The Fund recognises that risk is inherent in its activities and makes extensive use of external advisers and industry best practice in assessing and establishing policies to identify and mitigate those risks.

The Funding Strategy Statement identifies the risks, counter measures and monitoring and reviewing risks associated with the funding strategy of the Pension Fund. The key risks are shown in Annex 3 of the Funding Strategy Statement. Funding Strategy Statement

The policy in respect of investment risk, including monitoring and review of performance is found in the Statement of Investment Principles. Statement of Investment Principles

The County Council's Annual Governance Statement identifies how the system of internal control throughout the County Council is designed to manage risk. Annual Governance Statement

E. Investment Policy and Performance

Structure

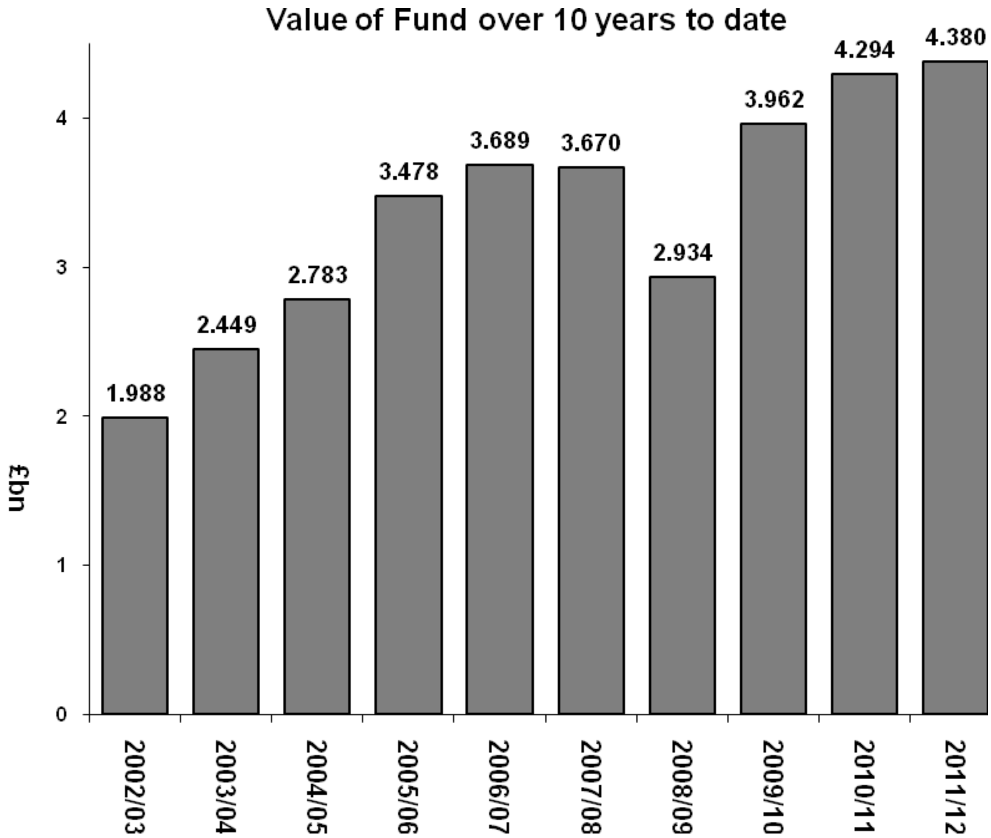
There are three levels of responsibility for the investment management of the Lancashire County Pension Fund (the "Fund"). First, the county council's Pension Fund Committee (the "Committee") takes major policy decisions and monitors overall performance, details of which can be found in the Statement of Investment Principles Statement of Investment Principles. Second, the Investment Panel (the "Panel") recommends specific investment allocations in line with the Committee's policy decisions and monitors the activity of the Fund's managers. Third, the investment managers fix precise weightings and select stock within the allocations set by the Panel and Committee. A more detailed description of the responsibilities of the Committee, its Sub-Committees and the Panel is found in the Governance Policy Statement. Governance Policy Statement

The Panel consists of two independent external investment advisers, the Chief Investment Officer, the Deputy County Treasurer and the Treasurer to the Pension Fund, who acts as Chair. The investments of the Fund are currently managed by six specialist external managers, one external index-tracking manager (multi-asset) and in-house. In-house, the Fund carries out its own treasury management and holds investments in infrastructure funds and non-investment grade credit funds directly. The various mandates, including their value at 31 March 2012 are shown below.

Manager	Mandate	Value £m
Legal & General Investment Management	Index tracking - multi asset	1,057.4
Newton Investment Management	Global Equities	615.6
JP Morgan Asset Management	UK Equities	501.4
UBS Global Asset Management	Bonds	672.7
Knight Frank	Property	383.9
Capital Dynamics	Private Equity	222.4
Mellon Transition Management	Global Equities	617.1
In-House	Cash, Bonds and Infrastructure	289.4
Total		4,359.9

Performance

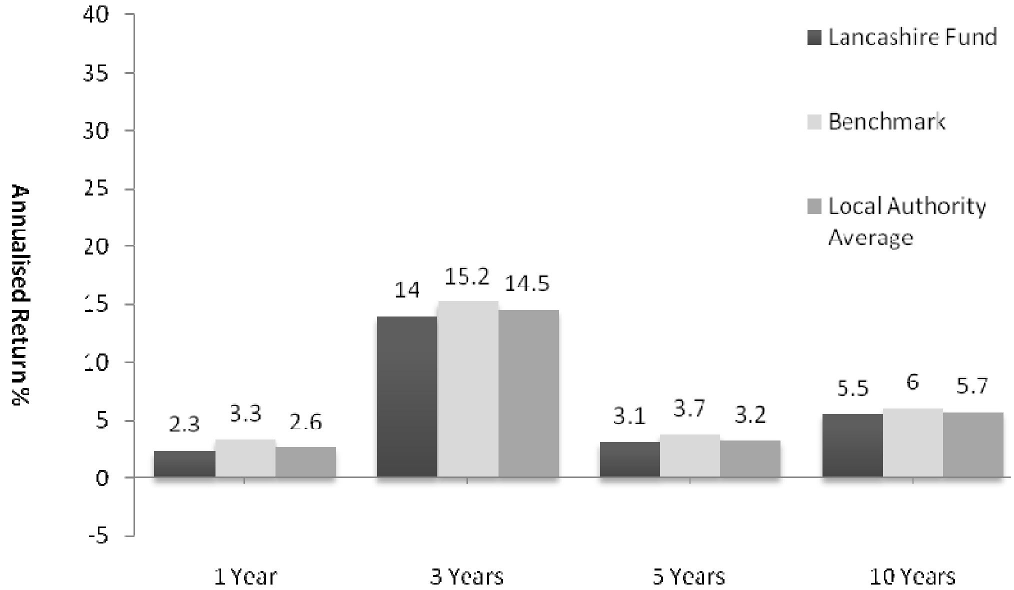
The value of the Fund over the last ten years is shown in the chart below:



The Fund is invested to meet liabilities over the medium-to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile, as seen in 2008/09 and do not necessarily indicate the underlying health of the Fund.

The performance of the Fund is measured against a Fund specific benchmark with individual managers being given performance benchmarks and targets which are linked to index returns for the assets they manage. Details of these can be found in the Statement of Investment Principles. Statement of Investment Principles. The Fund also subscribes to the annual WM Survey of UK Local Authority Pension Funds, which shows comparisons with other local authority pension funds. The performance of the investment managers is reviewed on a regular basis by the Panel and any recommendations arising from those reviews are considered by the Committee.

Looking first at total Fund returns, the chart below shows the total return of the Fund compared to the fund specific benchmark and the average local authority pension fund return measured over 1,3,5 and 10 years to 31 March 2012:



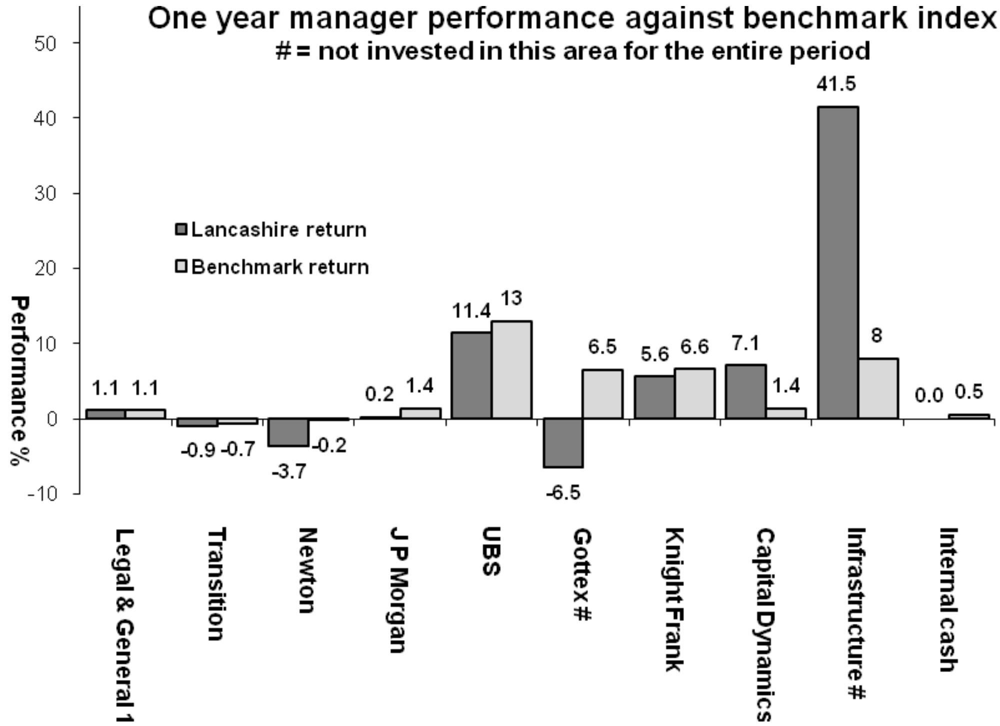
The modest Fund return of 2.3% masks a year of considerable volatility. For example, the Fund reported a fall in value of 8.7% in the quarter July to September 2011, which it has subsequently recovered. Markets have been particularly volatile reacting to the continuing concerns over the future of the euro and the health of the economies of the Eurozone.

The Fund's return of 2.3% is close to that of the average local authority pension fund of 2.6%. It ranks as the 72nd percentile in the WM analysis of local authority funds.

The chart above shows that the Fund was 1% behind its benchmark. The chart below analyses this relative return by asset class. It shows that the shortfall as compared to benchmark was largely a result of the under-performance reported by its active equity managers and its fixed interest manager. This public market under-performance (-1.5%) was mitigated by good returns from the Fund's private equity and infrastructure investments (+0.8%). The Fund's investment in a hedge fund continued to under-perform and was redeemed during the year.

The Fund's investment managers are set performance targets as shown in the Statement of Investment Principles. Statement of Investment Principles. The overall performance target of each manager is measured over rolling three and five year periods, as inevitably there will be short-term fluctuations in performance. These targets are set for the active managers i.e. those with a mandate to outperform a benchmark through active stock picking and sector allocations. The transition portfolio and that managed by Legal and General are passive portfolios where the manager seeks to track the benchmark.

Active managers have the discretion to invest a smaller or greater amount than the benchmark allocation, within agreed constraints and tolerances. These decisions will reflect their views on market conditions within various countries or between different types of instruments. The one year performance of the managers to 31 March 2012 is shown in the chart below:



The Legal & General and the transition portfolio (managed by BNY Mellon) have tracked their respective benchmarks.

The portfolios core equity mandates managed by Newton (Global Equities) and JP Morgan (UK Equities) continued to under-perform their benchmarks. Following a tender process for global equity managers, these managers will be replaced in the year ending 31st March 2013.

The UBS bonds portfolio has not performed to benchmark in the year because it was overweight in corporate bonds at the expense of UK government bonds which benefited from the exceptionally low interest rates and high prices.

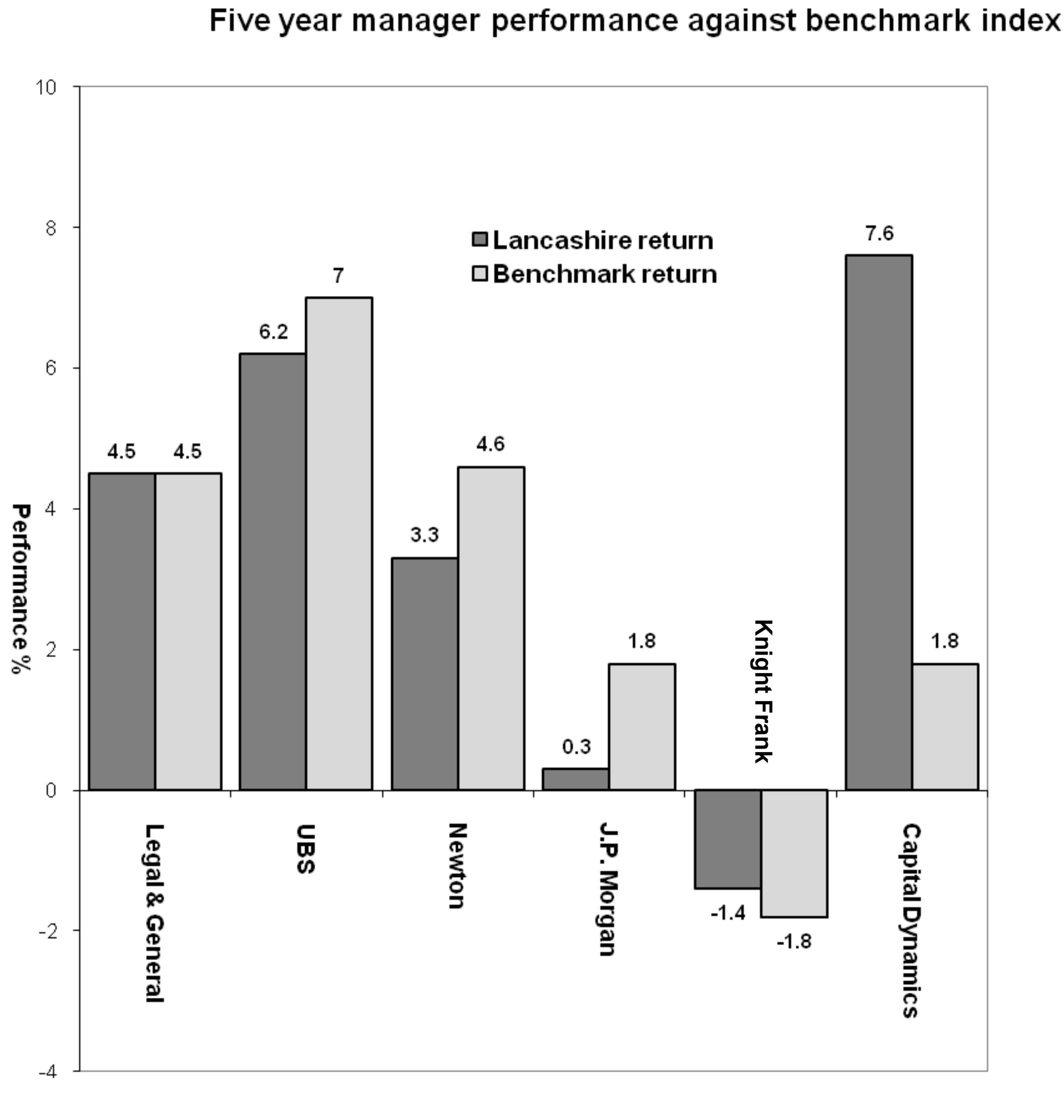
The performance of the hedge fund managed by Gottex continued to be disappointing and this mandate was terminated during the year.

The Fund's property portfolio managed by Knight Frank continues to beat its benchmark long term, but its portfolio of high street retail properties suffered particularly in the current year.

The private equity portfolio managed by Capital Dynamics is focussed on buy-out funds and produced a return ahead of benchmark.

During the year the Fund has invested in a number of infrastructure asset funds, including the acquisition of assets out of administration, which produced an exceptional one-off return.

An analysis of the specialist managers' performance over five years is shown in the chart below:

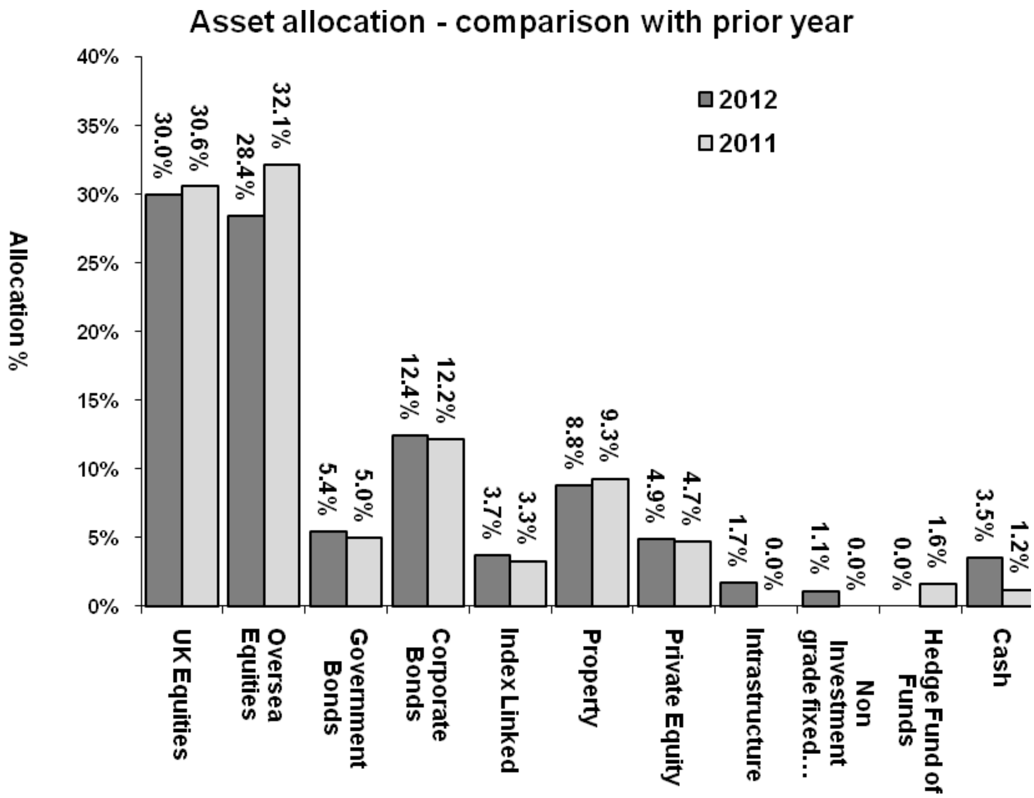


Measured over five years, the continuing under-performance of the Fund's active equity managers, Newton and JP Morgan is clear. As reported above these mandates will be terminated in the year ended 31st March 2013, to be replaced by unconstrained global equity mandates.

The passive tracking portfolios managed by L&G have performed to their benchmarks.

While the property portfolio has produced a negative return over five years, Knight Frank has out-performed the benchmark. The five year period returns are also distorted by the sharp fall in property values in 2008.

The private equity mandate managed by Capital Dynamics has significantly out-performed its public market benchmark by 5.8% per year.



The Fund is continuing with to implement its new investment strategy, and is actively bringing asset allocations up to the agreed benchmark. In the year it has commited funds to infrastructure funds and a non-investment grade fixed interest fund and redeemed its hedge fund investment.

While paid up investments in infrastructure funds represent 1.7% of the value of the Fund, the Fund also has unpaid commitments to infrastructure funds equivalent to 2% of the value of the Fund at 31st March 2012.

The largest individual direct investments of the Fund are disclosed in the following paragraphs.

The Largest ten equity holdings of the Fund at 31 March 2012 were:

Equity	**Market value 31 March 2012 £m**	**Percentage of net assets of the Fund %**
Royal Dutch Shell 'B' Shares	53.4	1.22%
GlaxoSmithKline Ord GBP0.25	49.6	1.14%
BP PLC Ord USD.25	46.5	1.07%
Vodafone Group Ord USD0.11428571	46.0	1.05%
HSBC Holdings Ord USD0.50	46.0	1.05%
British American Tobacco Ord GBP0.25	43.0	0.99%
RIO Tinto Ord GBP0.10	29.5	0.68%
AstraZeneca OrdUSD0.25	24.8	0.57%
BHP Billiton PLCUSD0.50	23.4	0.54%
BG Group PLC Ord GBP0.10	23.3	0.53%
Total	385.5	8.84%

The largest ten direct property holdings of the Fund at 31 March 2012 were:

Property	Sector	Market value 31 March 2012 £m
10 Brook St, London	Offices	32.8
Sainsburys Store, Elgiva Lane, Chesham	Shops	28.0
Princes Mead Shopping Centre, Farnborough	Shopping Centre	25.9
Benson House, Leeds	Offices	19.1
Stukeley Road Retail Park, Huntingdon	Retail Warehouse	15.5
Somerfield Store, Wymondham	Shops	15.3
Tuscany Park, Wakefield	Industrial / Warehouse	15.1
1 & 2 Woodbridge Meadows, Guildford	Multi-let Commercial Building	13.7
Effra Road Retail Park, Brixton	Retail Warehouse	12.0
Endeavour Way, Wimbledon	Retail Warehouse	11.5
Total		188.9

Policies in respect of Socially Responsible Investment and Voting

Social, Environmental and Ethical Considerations

The Fund is active on governance issues through its membership of the Local Authority Pension Fund Forum ("LAPFF"), which exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest.

The Fund also uses the services of Pensions Investment Research Consultants ("PIRC"), which is a leading independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility,

Policy on Voting

For many years, the Fund has followed the voting recommendations of PIRC with the Fund's managers being instructed to vote at shareholder meetings in accordance with

PIRC's recommendations. From 1st October 2011, PIRC has been acting as the Fund's proxy and casting the Fund's votes directly at shareholder meetings.

The Fund's investment managers receive advance notice of PIRC's voting intentions and may raise concerns with the Fund if they do not believe the recommended stance on a vote is in the best financial interests of the Fund.

The Committee delegates its agreement of any significant departure from the guidelines proposed by the managers, to the Treasurer as Chair of the Investment Panel. In all voting decisions the long-term financial interests of the Fund are paramount. There were no occurrences of this during 2011/12.

Policy on Risk

The overriding objective of the Fund in respect of its investments is to strike a balance between minimising risk and maximising return. The structure of the investment management arrangements has been implemented in order to produce a balanced spread of risk for the portfolio. Within this the managers are regularly challenged by the Panel about the risk profile of the portfolios that they manage for the Fund.

Compliance with Myners Principles

The Fund is compliant with the Myners Principles, details of which can be found in the Statement of Investment Principles. Statement of Investment Principles

Accounts of the Fund

Responsibilities for the Statement of Accounts

The Responsibilities of the Administering Authority

The Administering Authority is required:

- To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the County Treasurer, who is also the Treasurer to the Pension Fund;
- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

The Responsibilities of the Treasurer to the Pension Fund

The Treasurer to the Pension Fund is responsible for the preparation of the Pension Fund's statement of accounts. In accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code), the statement is required to present fairly the financial position of the Pension Fund at the accounting date, and its income and expenditure for the year then ended.

In preparing this statement of accounts, the Treasurer to the Pension Fund has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.

In addition, the Treasurer to the Pension Fund has:

- Kept proper accounting records which were up to date;
- Taken responsible steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts relate to the financial year ended 31 March 2012 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Gill Kilpatrick CPFA
Treasurer to the Lancashire County Pension Fund
28 June 2012

Fund Account

	Note	2011/12 £m	2010/11 £m
Dealing with members, employers and others directly involved in the fund			
Contributions	6	209.3	227.2
Transfers in	7	11.1	15.6
		220.4	242.8
Benefits	8	219.1	214.5
Payments to and on account of leavers	9	13.7	12.8
Administrative expenses	10	3.8	3.6
		236.6	230.9
Net additions from dealings with members		**(16.2)**	**11.9**
Return on investments			
Investment income	11	118.8	89.3
Profit and loss on disposal of investments and change in market value of investments	14	(7.9)	238.8
Investment management expenses	21	(8.3)	(8.0)
Net return on investments		**102.6**	**320.1**
Net increase (decrease) in the fund during the year		**86.4**	**332.0**

Net Asset statement for the year ended 31 March 2012

	Note	2012 £m	2011 £m
Investment assets	14	4,360.7	4,282.1
Investment liabilities	14	(0.8)	(0.9)
Current assets	22	23.3	21.6
Current liabilities	24	(3.2)	(9.2)
Net assets of the fund available to fund benefits at the period end		4,380	4,293.6

The Pension Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund at 31 March 2012 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA

Treasurer to the Lancashire County Pension Fund

County Councillor Sam Chapman

Chairman of the Audit Committee

Notes to the Financial Statements

1. Pension Fund Operations and Membership

The Lancashire County Pension Fund is part of the Local Government Pension Scheme and is administered by Lancashire County Council. The county council is the reporting entity for this pension fund. With the exception of Teachers, to whom separate arrangements apply, membership of the Pension Fund is available to County and District Council employees within Lancashire, and to employees of organisations that have entered into Pension Fund Admission Agreements with the County Council.

The published accounts show that in 2011/12 cash inflows during the year consisted of £339.2 million and cash outflows were £244.9 million, representing a net cash inflow of £94.3 million (compared with an inflow of £93.2 million in the previous year). Benefits payable amounted to £219.1 million and were partially offset by net investment income of £118.8 million (including £19.4 million accrued dividends); contributions of £209.3 million and transfers in of £11.1 million produced the positive cash inflow.

The investments of the Pension Fund are managed by seven external investment managers. The asset allocation and policy in respect of the investments of the Fund is determined by the Pension Fund Committee, which meets four times a year with the Investment Panel in attendance. The Investment Panel meet at least quarterly, or otherwise as necessary. The panel are responsible for making recommendations to the Pension Fund Committee in relation to the investment strategy of the fund as well as monitoring the activities and performance of the investment managers. Full details of the Panel and Committees responsibilities are published in the Funds Statement of Investment Principles and are available from the Funds website at http://www.yourpensionservice.org.uk

The participation in the Pension Fund is shown in the table below, followed by the member organisations of the Pension Fund.

Participation in the Pension Fund

		Number at 31 March 2012	Number at 31 March 2011
(1)	Active Scheme Members		
	Scheduled Bodies	46,422	47,912
	Admitted Bodies	3,716	3,781
	Total	**50,138**	**51,693**
(2)	Pensioners		
	Pensions in Payment		

Preserved Pensions	39,933	37,632
	47,526	44,928
Total	**87,459**	**82,560**

Member Organisations

Scheduled Bodies

Accrington Academy
Accrington & Rossendale College
All Saints CE Primary School Academy
Barnoldswick Town Council
Belthorn Primary (Academy)
Bishop Rawstorne High Academy
Blackburn College
Blackburn with Darwen Borough Council
Blackpool & Fylde College
Blackpool Borough Council
Blackpool Coastal Housing
Blackpool Sixth Form College
Bowland High Academy Trust
Burnley Borough Council
Burnley College
Cardinal Newman College
Catterall Parish Council
Chorley Borough Council
Clitheroe Royal Grammar School (Academy)
Darwen Aldridge Community Academy
Edge Hill University
Fulwood Academy
Fylde Borough Council
Garstang Community Academy
Garstang Town Council
Hambleton Primary Academy
Hodgson Academy
Hyndburn Borough Council
Kirkland Parish Council
Lancashire County Council
Lancashire Fire & Rescue Service
Lancashire Police Authority
Lancashire Probation Trust
Lancashire Sports Partnership
Lancashire Valuation Tribunal
Lancashire Workforce Development Partnership
Lancaster & Morecambe College
Lancaster City Council
Lancaster Girls Grammar School (Academy)
Lancaster RGS (Academy)
Lostock Hall Academy Trust
Myerscough College
Nelson & Colne College
Ribble Valley Borough Council
Ripley St Thomas CE (Academy)
Rossendale Borough Council
Runshaw College
South Ribble Borough Council
St Annes on Sea Town Council
St Christopher's CE (Academy)
St Mary's College, Blackburn
St Michael's CE High (Academy)
St Wilfrid's CE Academy
Tarleton Academy
University of Central Lancs
West Lancs District Council
Westcliff Primary Academy
Whitworth Town Council
Wyre Borough Council

Admitted Bodies

ABM Catering Ltd
Alternative Futures
Alzheimers Society
Andron Contract Services Ltd (City of Preston)
Andron Contract Services Ltd (former solar contracts)
Andron Contract Services Ltd (Glenburn)
Andron Contract Services Ltd (Kennington)
Andron Contract Services Ltd (Ribblesdale)
Andron Contract Services Ltd (Southlands)
Arnold Schools Ltd
Beaufort Avenue Day Care Centre
Blackburn Diocesan Adoption Agency
Blackburn NHS (PCT)
Blackpool & Fylde MIND Association
Blackpool & Fylde Society for the Blind
Blackpool Airport Ltd (post 05/07/2004)
Blackpool Town Centre Business Improvement District Ltd
Blackpool Zoo (Grant Leisure)
Bootstrap Enterprises Ltd
Bulloughs Contract Services Ltd (St Stephens)
Bulloughs Contract Services Ltd (St James)
Bulloughs Contract Services Ltd (Whalley)
Bulloughs Contract Services Ltd (Our Lady)
Bulloughs Contract Services Ltd (St Marys)
Bulloughs Contract Services Ltd (St Augustine)

Parbold Douglas CE Academy
Pendle Borough Council
Penwortham Town Council
Pilling Parish Council
Preston City Council
Preston College
Preston Vision Ltd

Admitted Bodies

Commission for Education & Formation
Community and Business Partners CIC
Community Council of Lancashire
Community Gateway Association
CX Ltd
Contour Housing Group
Consultant Caterers Ltd
Creative Support Ltd
Creative Support Ltd (Midway)
CSB Contract Services Ltd
Danfo UK Ltd
Enterprise Managed Services Ltd
E ON UK Plc
Eric Wright Commercial Ltd
Fylde Coast YMCA (Fylde)
Fylde Community Link
Galloway Society For The Blind
Housing Pendle Ltd
Hyndburn Homes Ltd
I Care
Jewson Ltd
Kirkham Grammar School (Independent)
Lancashire and Blackpool Tourist Board
Lancashire Branch of Unison
Lancaster University
Leisure in Hyndburn
Liberata UK Ltd (Chorley
Liberata UK Ltd (Pendle)
Lytham School Foundation
Mack Trading Ltd
Mellors Catering Services Ltd (Bishop Rawsthorne)
Mellors Catering Services Ltd (Hambleton Primary)
Mellors Catering Services Ltd(Worden Sports College)
Mellors Catering Services Ltd (Wyre)
NIC Services Group Ltd NSL Ltd (Lancaster)
NSL Ltd
New Directions
New Fylde Housing
New Progress Housing Association
Northgate Managed Services Ltd
North West & North Wales Sea Fisheries Committee
Ormerod Home Trust Ltd

Bulloughs Contract Services Ltd (Highfield)
Calico Housing Ltd
Capita Business Services (Blackburn)
Capita Business Services (Rossendale)
Caritas Care Ltd
Chorley Community Housing Ltd
Church Road Day Care Unit

Admitted Bodies

Rossendale Leisure Trust
Signpost MARC Ltd
South Ribble Community Leisure Ltd
Sunguard Vivista Ltd
Surestart Hyndburn
Twin Valley Homes Ltd
University of Cumbria
Vita Lend Lease
West Lancs Community Leisure Ltd
Wyre Housing Association

Former Employees

Andron Contract Services Ltd (Worden Sports College)
Blackpool Airport Ltd (pre 05/07/2004)
Blackpool and Fylde Society for the Deaf
Blackburn Borough Transport Ltd
Blackpool Challenge Partnership
Blackpool Council for Voluntary Services
Bulloughs Contract Services Ltd (St Albans)
Bulloughs Contract Services Ltd (Glenburn)
Burnley & Pendle Development Association
Burnley and Pendle Joint Transport Committee
Burnley and Pendle Transport Company Ltd
Burnley District Citizens Advice Service
Burton Manor Residential College
Carden Croft and Co Ltd
Central Lancashire Development Corporation
Clitheroe Town Council
Connaught Environmental Ltd (Blackpool BC)
Connaught Enviromental Ltd (Blackpool Coastal)
Department of Transport
Dignity Funerals Ltd
Elm House Management Committee
Enterprise
Ex National Water Council
Ex NHS
Fylde Borough Transport Ltd
Fylde Coast Development Associations
Fylde Coast YMCA (Wyre)
Greater Deepdale Community Association
Hyndburn Homewise
Hyndburn Transport

Pendle Leisure Trust Ltd
Places for People Ind Supp Ltd
Preston Care and Repair
Preston Council for Voluntary Services
Progress Housing Association
Progress Housing Group
Progress Recruitment (SE) Ltd
Queen Elizabeth Grammar School
Ribble Valley Homes
Lancaster Royal Grammar School (boarding)
Lancs South East Probation Committee
Lancs South West Probation Committee
Mellors Catering Services Ltd (Cardinal Newman)
Merseyside Valuation & CCT
NSL Ltd (Wyre)
Pilling & Winmarleigh Internal Drainage Board
Preston Borough Transport Ltd
Preston Education Action Zone
Redstone Managed Services Ltd
Samlesbury & Cuerdale Parish Council
Skelmersdale College
Skelmersdale Day Centre
Skelmersdale Development Corporation
Solar Facilities Management Ltd (Bishop Rawsthorne)
Solar Facilities Management Ltd (Tarleton)
Solar Facilities Management Ltd (Ripley)
Solar Facilities Management Ltd (Seven Stars)
Solar Facilities Management Ltd (St Peters)
Spastics Society
The Community Alliance (Burnley and Padiham) Ltd
Wigan & District M&T College

Other
Rossendale Transport Ltd
Blackpool Transport Services Ltd
Membership restricted to employees "deemed" at deregulation in 1986)

Kirkham Grammar School (Boarding)
Lancashire County Enterprise
Lancashire Economic Partnership
Lancashire Federation of Young Farmers Clubs
Lancashire Magistrates Courts Committee
Lancashire Waste Services Ltd
Lancashire West Partnership
Lancaster City Transport Ltd
Lancashire On-Line Learning

2. **Basis of Preparation**

The Statement of Accounts summarises the fund's transactions for the 2011/12 financial year and its position at year-end as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2011/12 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, value on an International Accounting Standard (IAS) 19 basis, is disclosed in note 31 of these accounts.

3. **Accounting Policies**

Fund Account revenue recognition

- **Contribution income**

Normal contributions both from members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

- **Transfers**

Transfer values represent amounts received and paid during the period for individual members who have either joined or left the fund during the financial year and are calculated in accordance with Local Governance Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

- **Investment Income**

i. Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii. Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii. Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iv. Rental income

Rental income from operating leases on properties owned by the fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents are only recognised when contractually due.

Fund Account –expense items

- **Benefits payable**

Pensions and lump sum benefits payable included all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed on the net asset statement as current liabilities.

- **Taxation**

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

- **Administrative expenses**

  All administrative expenses are accounted for on an accruals basis. All other costs of administration are borne by the employer. The administration and processing expenses are a proportion of relevant officers' salaries in respect of the time allocated to pension administration and investment issues.

- **Investment Manager expenses**

  Investment management expenses are accounted for on an accruals basis. They include the fees paid and due to the fund managers, custodian, actuarial fees and performance measurement and investment consultant fees.

  Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of investments under their management and therefore increase or reduce as the value of these investments change.

  The fund does not currently pay performance related fees to its investment managers.
  When an investment manager's fee note has not been received by the net asset statement date, an estimate based on market value of their mandate as at year end is used for the inclusion in the fund account. In 2011/12 £1,262,317.80 of fees is based on such estimates (2010/11 £1,294,239.45).

Net asset statement

- **Financial Instruments**

  Financial assets are included in the net asset statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the fund.

  On initial recognition the Fund is required to classify financial assets and liabilities into held to maturity investments, available for sale financial assets, held for trading, designated at fair value through profit and loss or loans and receivables.

  The assets and liabilities held by Lancashire County Pension Fund are classified as designated at fair value through profit and loss, loans and receivables and liabilities at amortised cost.

  Financial instruments at fair value through profit or loss

Financial assets may be designated as at fair value through profit or loss only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both that the fund manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The fund's loans and receivables comprise of trade and other receivables and cash deposits.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are the default category for financial instruments that do not meet the definition of financial liabilities at fair value through profit and loss.

- **Valuation of Investments**

Investments are shown at their fair value as at 31 March 2012. The fair value is the current bid price for quoted securities and unitised securities.

Transaction costs are included in carrying value of investments. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties.

Investments in Private Equity are valued at fair value in accordance with the guidelines issued by the British Venture Capital Association, or equivalent.

Investments in the Hedge Fund of Funds portfolio are valued at fair value on the basis of the closing market valuation provided by the administrator of each underlying fund.

The methodologies adopted in valuing financial instruments are explained in greater detail in note 18.

- **Currency Translation**

Assets and liabilities denominated in foreign currency are stated in the accounts by the application of the appropriate closing rate of exchange ruling at 31 March 2012. Any gains or losses are treated as part of a change in market value of investments.

- **Acquisition costs of Investments**

  The Acquisition costs of investments are included within the purchase price.

- **Property**

  The fund's freehold and leasehold properties were valued on 31 March 2012 by Cushman & Wakefield, acting as External Valuer. The valuations were in accordance with the requirements of the RICS Valuation standards and the International Valuation Standards. The valuation of each property was on the basis of Market Value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of Market Value and Existing Use Value was primarily derived using comparable recent market transactions on arm's length terms.

- **Derivatives**

  The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.
  Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.
  Future contracts are exchange traded and fair value is determined using exchange prices at their reporting date. Amounts due or owed to the broker are amounts outstanding in respect of initial margin and variation margin.

  Forward foreign exchange contracts, are over the counter contracts and are valued by determining the gain or loss that arise from closing out the contract at the reporting date, by entering into an equal and opposite contract at that date.

- **Cash and cash equivalents**

  Cash comprises of cash in hand and demand deposits.

  Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

- **Financial liabilities**

  The fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

- **Actuarial present value of promised retirement benefits**

  The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

  As permitted under IAS 26 the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (Note 31).

- **Additional voluntary contributions**

  The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC's are invested separately from the Pension Fund's main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with regulation 5(2) (C) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831). Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown in note 20.

4. **Critical Judgements in applying accounting policies**

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2012 was £287.5 million (£201.8 million at 31 March 2011).

Pension Fund Liability

The pension fund liability is calculated every three years by an appointed actuary, with annual updates in intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with actuary and are summarised in note 31. This estimate is subject to significant variances based on change to the underlying assumptions.

5. **Assumptions made about the future and other major sources of estimated uncertainty**

The Statement of Accounts contain estimated figures that are based on assumptions made by the Pension Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Pension Fund's net asset statement at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Impact if actual results differ from assumptions
Private Equity	Private Equity investments are valued at fair value in accordance with BVCA guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Equity investments in the financial statements are £287.5m. There is a risk that this investment may be under or overstated in the accounts.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £580 million. A 0.25% increase in assumed earnings inflation would increase the value of the liabilities by approximately £90m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £130m.

6. Contributions receivable

	2011/12 £m	2010/11 £m
Employers' contributions		
County Council	68.5	70.9
Scheduled Bodies	75.7	85.6
Admitted	12.9	14.3
	157.1	170.8
Employees' contributions		
County Council	20.5	22.5
Scheduled Bodies	26.8	28.8
Admitted	4.9	5.1
	52.2	56.4
Total contributions	209.3	227.2

Within the employee contributions figure for 2011/12, £242,830.87 is voluntary and additional regular contributions. All employer contributions are normal contributions.

7. Transfers in

	2011/12 £m	2010/11 £m
Individual transfers in from other schemes	11.1	15.6
Bulk transfers in from other schemes	-	-
	11.1	15.6

8. Benefits

	2011/12 £m	2010/11 £m
Pensions	163.6	149.2
Lump sum retirement benefits	51.0	60.9
Lump Sum death benefits	4.5	4.4
	219.1	214.5

9. Payments to and on account of leavers

	2011/12 £m	2010/11 £m
Refunds to members leaving service	0.1	0.2
Contributions equivalent premium	(0.1)	(0.1)
Individual transfers to other schemes	13.7	12.7
	13.7	12.8

10. Administrative expenses

	2011/12 £m	2010/11 £m
Administration and processing	3.4	3.3
Audit fee	0.1	0.1
Legal and other professional fees	0.3	0.2
	3.8	3.6

11. Investment income

	2011/12 £m	2010/11 £m
Fixed interest securities	27.7	23.9
Equity dividends	46.5	29.6
Index linked securities	2.8	4.6
Pooled investment vehicles	5.5	0.9
Rents from properties	26.0	23.3
Interest on cash deposits	0.7	1.5
Other	9.6	5.5
	118.8	89.3

12. Net rents from Properties

	2011/12 £m	2010/11 £m
Rental Income	26.0	23.3
Direct operating expenses	(1.2)	(1.6)
Net gain/loss	24.8	21.7

13. Stock Lending

Northern Trust is authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2011/12 was £467,745 (2010/11 £178,513)

Securities on loan at the 31st March 2012 were £193m and are included in the net asset statement to reflect the scheme's continuing economic interest in the securities. This consisted of £59m of equities and £134m of bonds.

Collateral is marked to market, and adjusted daily. As the Fund has no obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation. The collateral is non cash and totalled £276m comprising all of government bonds.

14. Reconciliation of movements in investments and derivatives

	Market Value at 1 April 2011 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value at 31 March 2012 £m
Fixed interest securities	559.1	696.0	-657.8	26.1	623.4
Equities	1,735.1	401.0	-441.9	-80.5	1,613.7
Index linked securities	141.0	120.9	-159.1	21.8	124.6
Pooled investments	1,395.5	399.2	-359.6	31.2	1,466.3
Property	397.5	24.2	-34.1	-3.7	383.9
	4,228.2	1,641.3	-1,652.5	-5.1	4,211.9
Derivative contracts:					
Futures	0.9	41.4	-39.3	-2.8	0.2
Forward currency contracts	0.9				1.6
Purchased/written options					
Cash deposits	36.6				126.8
Other investment balances	14.6				19.4
Amounts receivable from sales of investments					
Amounts payable for purchases of investments					
	4,281.2				4,359.9

	Market Value at 1 April 2010 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value at 31 March 2011 £m
Fixed interest securities	448.1	406.4	-295.5	0.1	559.1
Equities	1,011.7	1,090.4	-442.2	75.2	1,735.1
Index linked securities	103.2	50.9	-15.9	2.8	141.0
Pooled investments	1,962.2	154.9	-872.6	151.0	1,395.5
Property	306.1	89.9	-9.1	10.6	397.5
	3,831.3	1,792.5	-1,635.3	239.7	4,228.2
Derivative contracts:					
Futures	-	4.1	-2.3	-0.9	0.9
Forward currency contracts	0.1				0.9
Purchased/written options					
Cash deposits	106.2				36.6
Other investment balances	12.7				14.6
Amounts receivable from sales of investments					
Amounts payable for purchases of investments					
	3,950.3				4,281.2

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs incurred during the year 2011/12 amounted to £2,054,422 (2010/11: £2,316,511).

The investment assets at 31 March 2012 are managed by seven external investment managers, with the remaining cash deposits managed in-house. The split of the investment assets by investment manager is shown below.

	2011/12 £m	**%**
Manager		
Legal & General Investment Management	1,057.4	24
Newton Investment Management	615.6	14
J P Morgan Asset Management	501.4	12
UBS Global Asset Management	672.7	15
Knight Frank	383.9	9
Capital Dynamics	222.4	5
Mellon Transition Management	617.1	14
In-House	289.4	7
	4,359.9	100

	2011/12 £m	**2010/11 £m**
Fixed Interest Securities		
UK public sector quoted	234.3	179.9
UK corporate bonds quoted	289.0	352.3
Overseas public sector	-	-
Overseas corporate bonds	100.1	26.9
	623.4	559.1

	2011/12 £m	**2010/11 £m**
Equities		
UK quoted	772.8	833.1
Overseas quoted	840.9	902.0
	1,613.7	1,735.1

	2011/12 £m	**2010/11 £m**

	2011/12 £m	2010/11 £m
Index Linked Securities		
UK quoted	124.6	141.0
	124.6	141.0

	2011/12 £m	2010/11 £m
Pooled Investment Vehicles		
Managed/Unitised funds – UK Equities	537.0	448.9
Overseas Equities	400.3	423.2
Public Sector Bonds	-	-
Corporate Bonds	-	141.9
Index Linked	-	32.2
Unit trusts – UK Equities	-	22.3
Overseas Equities	-	4.8
UK Fixed Income Funds	192.2	-
Overseas Fixed Income Funds	49.3	-
Other pooled investment vehicles		
-UK	-	5.9
Overseas	-	44.9
Private Equity investments	287.5	201.8
Hedge Fund of Funds	-	69.6
	1,466.3	1,395.5

	2011/12 £m	2010/11 £m
Properties		
UK – Freehold	292.9	318.9
UK – Long Leasehold	91.0	78.6
	383.9	397.5

	2011/12 £m	2010/11 £m
Balance at start of the year	397.5	306.1
Additions	24.2	89.9
Disposals	(34.1)	(9.1)
Net gain/loss on fair value	(3.7)	10.6
Transfers in/out	-	-
Other changes in fair value	-	-
Balance at the end of the year	383.9	397.5

	2011/12 £m	2010/11 £m
Derivatives Contracts		
Futures Contracts	0.2	0.9
	0.2	0.9

Type of Future	Expiration	Economic Exposure £m	Asset £m	Liability £m
UK gilt exchange traded	3 months	9.6		-
Hang Seng (HKG)	1 month	4.7		0.1
MSCI Singapore Index	1 month	4.4		-
SPI 200 Index	3 months	12.5	0.3	
Total			**0.3**	**0.1**

The economic exposure represents the notional value of stock purchased under the futures contract and therefore the value is subject to market movements. Derivative receipts and payments represent the realised gains and losses on futures contracts. Derivatives are held to manage economic exposure to markets, enhance investment returns and manage risk. Futures are used by the Pension Fund's bond manager to reallocate risk and exposures within the bonds portfolio.

Derivative contracts (forward currency positions)

Settlement date	Bought £m EQV	Sold £m EQV	£m
Investment assets			
6 months and under	108.6	105.5	3.1
Investment liabilities			
6 months and under	58.2	59.7	(1.5)

Forward Foreign currency contracts are used to hedge against foreign currency movements.

	2011/12 £m	2010/11 £m
Cash Deposits		
Sterling	110.9	33.5
Foreign currency	15.9	3.1
	126.8	36.6

15. **Financial Instruments classification**

Accounting policy describes how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

2012	Designated at fair value through profit or loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
Financial assets			
Fixed interest securities	623.4	-	-
Equities	1,613.7	-	-
Index linked securities	124.6	-	-
Pooled investment vehicles	1,466.3	-	-
Derivative contracts	3.4	-	-
Cash deposits	-	126.8	-
Other investment balances	19.4	-	-
Debtors	-	23.3	-
Total Financial Assets	**3,850.8**	**150.1**	**-**

Financial liabilities			
Derivative contracts	1.6	-	-
Creditors	-	-	3.2
Total Financial Liabilities	**1.6**	**-**	**3.2**

2011	**Designated at fair value through profit or loss £m**	**Loans and receivables £m**	**Financial liabilities at amortised cost £m**
Financial assets		-	-
Fixed interest securities	559.1	-	-
Equities	1,735.1	-	-
Index linked securities	141.0	-	-
Pooled investment vehicles	1,395.5	-	-
Derivative contracts	2.7	-	-
Cash deposits	-	36.6	-
Other investment balances	14.6	-	-
Debtors	-	21.6	-
Total Financial Assets	**3,848.0**	**58.2**	**-**
Financial liabilities			
Derivative contracts	0.9	-	-
Creditors	-	-	9.2
Total Financial Liabilities	**0.9**	**-**	**9.2**

16. **Net gains and losses on financial instruments**

	2012 £m	**2011 £m**
Financial assets		
Fair value through profit and loss	7.9	238.8
Loans and Receivables	-	-
Financial Liabilities		
Fair value through profit and loss	-	-
Loans and Receivables		
Financial liabilities at amortised cost	-	-
Total	**7.9**	**238.8**

17. Financial Instruments – Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and liabilities presented in the Fund's net asset statement. The fair values presented in the table are at a specific date and may be significantly different from the amounts which were actually paid or received on the maturity or settlement date.

	Carrying Value 2012 £m	Carrying value 2011 £m	Fair Value 2012 £m	Fair Value 2011 £m
Financial assets				
Trading and other financial assets at fair value through profit and loss	3,347.5	3,284.0	3,850.8	3,848.0
Loans and Receivables	150.1	58.2	150.1	58.2
Total Financial Assets	**3,497.6**	**3,342.2**	**4,000.9**	**3,906.2**
Financial Liabilities				
Trading and other financial assets at fair value through profit and loss	1.6	0.9	1.6	0.9
Financial liabilities at amortised cost	3.2	9.2	3.2	9.2
Total Financial Liabilities	**4.8**	**10.1**	**4.8**	**10.1**

18. Financial Instruments – Valuation

Valuation of financial instruments carried at fair value

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

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

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

Level 2

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

Level 3

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

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Lancashire County Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are performed annually mainly, and at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The table below provides an analysis of the financial assets and liabilities of the Pension Fund grouped into level 1 to 3 based on the level of which the fair value is observable.

2012	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3563.3	-	287.5	3850.8
Loans and Receivables	150.1	-	-	150.1
Total Financial assets	**3713.4**	**0**	**287.5**	**4000.9**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	1.6	-	-	1.6
Financial liabilities at amortised cost	3.2	-	-	3.2
Total Financial assets	**4.8**	**0**	**0**	**4.8**

2011	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,576.6	-	271.4	3,848.0
Loans and Receivables	58.2	-	-	58.2
Total Financial assets	**3,634.8**	**0**	**271.4**	**3,906.2**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.9	-	-	0.9
Financial liabilities at amortised cost	9.2	-	-	9.2
Total Financial assets	**10.1**	**0**	**0**	**10.1**

19. **Nature and extent of risks arising from Financial Instruments**

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to balance the minimisation of the risk of an overall reduction in the value of the Fund with maximising the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and keep credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flow.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's operations. Policies are reviewed regularly to reflect change in activity and in market conditions.

a) Market risk

Market risk is risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings.

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

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

Other price risk

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

The Fund is exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2012-13 reporting period.

Asset Type	Potential market movements (+/-)
UK Bonds	5.7%
Overseas bonds	11.8%
UK equities	15.3%
Overseas equities	14.8%
Index linked Gilts	7.6%
Cash	0%
Alternatives	7.7%
Property	9.4%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in value of the asset. The sensitivities are consistent with the assumption contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

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

Asset Type	Value as at 31 March 2012	Percentage Change	Value on Increase	Value on Decrease
	£m	%	£m	£m
Cash and Cash equivalents				
Investment portfolio assets:				
UK bonds	695.7	5.7%	735.3	656.1
Overseas bonds	100.0	11.8%	111.8	88.2
UK equities	1341.4	15.3%	1547.3	1135.6
Overseas equities	1236.9	14.8%	1420.3	1053.5
Index linked gilts	166.9	7.6%	179.6	154.2
Cash	147.9	0.0%	147.9	147.8
Alternatives	287.4	7.7%	309.6	265.2
Property	383.8	9.4%	419.7	347.9
Total asset available to pay benefits	4360.3		4871.8	3848.8

Asset Type	Value as at 31 March 2011	Percentage Change	Value on Increase	Value on Decrease
	£m	%	£m	£m
Cash and Cash equivalents				
Investment portfolio assets:				
UK bonds	694.1	5.7%	733.6	654.6
Overseas bonds	26.9	11.8%	30.1	23.7
UK equities	1385.4	14.8%	1590.8	1180.0
Overseas equities	1344.6	15.3%	1551.0	1138.3
Index linked gilts	177.6	7.6%	191.2	164.1
Cash	53.8	0.0%	53.8	53.8
Alternatives	201.8	7.7%	217.4	186.2
Property	397.5	9.4%	434.6	360.3
Total asset available to pay benefits	4282.1		4802.9	3761.3

Interest Rate Risk

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

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2012	As at 31 March 2011
	£m	£m
Cash and cash equivalents	126.8	36.6
Fixed interest securities	815.6	700.9
Total	**942.4**	**737.5**

Interest rate risk sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 110 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that long–term average rates are expected to move less than 110 basis point for one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset Type	Carrying amounts as at 31 March 2012	Change in year in net assets available to pay benefits	
		+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	126.8	1.3	(1.3)
Fixed interest securities	815.6	8.1	(8.1)
Total change in asset available	**942.4**	**9.4**	**(9.4)**

Asset Type	Carrying amounts as at 31 March 2011	Change in year in net assets available to pay benefits

		+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	36.6	0.4	(0.4)
Fixed interest securities	700.9	7.0	(7.0)
Total change in asset available	**737.5**	**7.4**	**(7.4)**

Currency risk

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

The Fund's currency rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy.

The following table summarises the Fund's currency exposure as at 31 March 2012 and as at the previous year end:

Currency exposure – asset type	**Asset value as at 31 March 2012**	**Asset value as at 31 March 2011**
	£m	**£m**
Overseas Equities	1236.9	1385.4
Overseas Bonds	100.0	26.9
Overseas Alternatives	187.9	169.8
Overseas Pooled	449.6	
Total overseas assets	1974.6	1582.2

Currency risk – sensitivities analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 9.7% (as measured by one standard deviation).

A 9.7% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 9.7% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – asset type	**Asset value as at 31 March 2012**	**Change to net assets available to pay benefits**	
		+9.7%	**-9.7%**
	£m	**£m**	**£m**
Overseas Equities	1,236.9	1357.0	1,116.8
Overseas Bonds	100.0	109.7	90.3
Overseas Alternatives	187.9	206.2	169.7
Overseas Pooled	449.6	493.3	406.0
Total change in assets available	1,974.6	2,166.0	1,783.0

Currency exposure – asset type	**Asset value as at 31 March 2011**	**Change to net assets available to pay benefits**	
		+9.7%	**-9.7%**
	£m	**£m**	**£m**
Overseas Equities	1,385.4	1,520.3	1,250.5
Overseas Bonds	26.9	29.5	24.3
Overseas Alternatives	0.0	0.0	0.0
Overseas Pooled	169.8	186.3	153.3
Total change in assets available	1,582.2	1,736.3	1,428.1

b) Credit risk

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

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

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

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

Deposits are not made with banks and financial instructions unless they are rated independent and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

The Fund's cash holding under its treasury management arrangements at 31st March 2012 was £126.9 million (31 March 2011: £36.6 million. This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2012	Balances as at 31 March 2011
		£m	£m
Money market funds			
Bank of New York Mellon	Aa3	-	24.2
Bank deposit accounts			
Ulster Bank	Baa2	5.0	5.0
Northern Trust	A1	51.7	
Bank of New York Mellon	Aa3	0	5.1
Bank Current Accounts			
Natwest Account	A3	70.2	2.2
Total		**126.9**	**36.6**

c) Liquidity risks

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flow. The appropriate strategic level of cash balances to be held forms part of the Funds investment strategy.

All financial liabilities at 31 March 2012 are due within the one year.

d) Refinancing risk

The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

20. **Additional Voluntary Contributions (AVC's)**

The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC's are invested separately from the Pension Fund's main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with regulation 5(2) (C) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831). Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2011 to 31 March 2012 for Prudential and 1 September 2010 to 31 August 2011 for Equitable Life.

Additional Voluntary Contributions

	Equitable life £m	**Prudential £m**	**Total £m**
Value at the start of the year	1.4	15	16.4
Income (incl. Contributions, bonuses, interest, transfers in)	0.1	3.7	3.8
Expenditure (incl. Benefits, transfers out, change in market value)	(0.3)	(4.5)	(4.8)
Value at the end of the year	1.2	14.2	15.4

21. **Investment management expenses**

	2011/12 £m	**2010/11 £m**
Administration, management and custody	6.7	6.2
Performance measurement service	0.1	0.1
Other advisory fees	1.5	1.7
	8.3	8.0

22. **Current assets**

	2011/12 £m	2010/11 £m
Contributions due from: Employers	10.4	13.3
Members	2.4	2.6
Transfer values receivable	-	-
Sundry Debtors	-	-
Cash balances	-	-
Debtors: bodies external to general government	10.5	5.7
	23.3	21.6

23. **Analysis of debtors**

	2011/12 £m	2010/11 £m
Central government bodies	-	-
Other local authorities	5.5	7.3
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	17.8	14.3
	23.3	21.6

Included within the contributions due from employers figure is £2.4 million, in relation to a deferred debt due from the Ministry of Justice in transferring Lancashire Magistrates Courts to central government.

These payments will be received in 10 annual instalments, the total figure having been discounted over the life of the deferral.

24. **Current liabilities**

	2011/12 £m	2010/11 £m
Unpaid benefits	2.8	7.7
Accrued expenses	0.4	1.5
	3.2	9.2

25. **Analysis of creditors**

	2011/12 £m	2010/11 £m
Central government bodies	-	-
Other local authorities	(1.2)	(2.8)
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	4.4	12.0
	3.2	9.2

26. **Contingent Asset and Liability**

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £10m. The estimated fees payable in respect of the litigations, regardless of the outcome, are approximately £300,000. This issue is still progressing through the courts.

27. **Contractual Commitments**

The Pension Fund holds investments in various Private Equity partnerships, the value of these investments at 31 March 2012 being £287.5m. Commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated. The outstanding commitments at 31 March 2012 are £231.7m.

28. **Related Party Transactions**

In accordance with IFRS, the financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Pension Fund may have been affected by the existence of related parties and associated material transactions. They include:

- At 31 March 2012, Gill Kilpatrick, CPFA, was Treasurer to the Pension Fund and County Treasurer for Lancashire County Council.

- The Pension Fund includes 66 scheduled and 154 admitted bodies. A list of the individual bodies within the scheme is found at note 1 to these accounts.

- The Pension Fund Committee comprises 14 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from the Lancashire Leaders Group, 2 Trade Union representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

The Pension Fund Committee members and senior officers of the Pension Fund were asked to complete a related party declaration for 2011/12. This revealed no material transactions between the Council and the members / officers and their families affecting involvement with the Pension Fund. Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

The Pension Fund invests cash with Lancashire County Council, the administering authority for the Pension Fund. At 31 March 2012 the balance invested with the County Council is £75.2m. Cash invested with Lancashire County Council has generated interest of £488,253 during 2011/12.

29. **Impairment of Icelandic Investment**

Lancashire County Pension Fund had £2.4m on deposit with the Icelandic Bank Landsbanki when it collapsed in October 2008. The Pension Fund was one of many UK and Dutch organisations with such deposits, all of whom were granted priority creditor status by the Icelandic Supreme Court at a hearing in Reykjavik on 14th and 15th of September 2011. The Winding Up Board announced on 9 March 2012 that it anticipated recoveries in the Landsbanki Administration would exceed the book value of recognised priority claims by around ISK 121bn. Estimated recoveries are some 9% higher than the value of priority claims, and it is therefore now considered likely that the Pension Fund will recover 100% of their deposits, subject to potential future exchange rate fluctuations.
The winding up board made its first distribution on 7th December 2011and a second distribution on 25th May 2012. Approximately 42% of the total claim has now been repaid.

The table below shows the combined amount of the distributions and the amount outstanding.

	£
CLAIM	
Principal	2,486,996.66
Interest	36,086.66
TOTAL CLAIM	2,523,083.32
DISTRIBUTIONS RECEIVED TO DATE:	
Principal	1,035,035.92
Interest	15,018.51
TOTAL DISTRIBUTIONS	1,050,054.43

CLAIM OUTSTANDING 1,473,028.89

The exact timing and amounts of future distributions is not known at this stage.

The deposit is treated as an impaired asset on the balance sheet and the carrying value is written down as distributions are received.

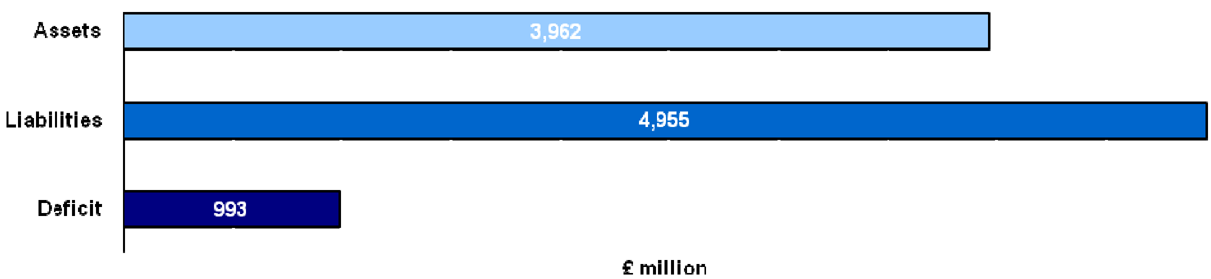
30. Funding arrangements

Accounts for the year ended 31 March 2012 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £3,962 million represented 80% of the Fund's past service liabilities of £4,955 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 12.5% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.6% of pensionable pay for 19 years. This would imply an average employer contribution rate of 19.1% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers (although certain employers have some allowance for non-ill health early retirement costs included in their certified contribution rate).

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	**For future service liabilities (Common Contribution Rate)**
Rate of return on investments (discount rate)		
- pre retirement	7.0% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases	5.0% per annum	5.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.
The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

31. Actuarial Present Value of Promised Retirement Benefits for the purpose of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £5,422 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2012

32. **Statement of Investment Principles**

The Pension Fund operates within its approved Statement of Investment Principles, which is published by the Fund and available from the Fund's website at http://www.yourpensionservice.org.uk.

F. Actuarial Valuation

An actuarial valuation of the Fund is carried out every three years by the Fund's actuary Mercer. The most recent valuation carried out was at 31 March 2010 which determines contribution rates effective from 1 April 2011 to 31 March 2014.

The Funding objective is to achieve and then maintain assets equal to the funding target. The Funding target is the present value of 100% of projective accrued liabilities, including allowance for projected final pay. This is to comply with the requirements of the LGPS regulations to secure the solvency of the Fund and is accordance with the Funding Strategy Statement. The methodology and assumptions by which the Funding targets and contribution rates are calculated have also been determined in accordance with the Funding Strategy Statement. Funding Strategy Statement

The Funding Strategy Statement specifies a maximum period for achieving full funding of 19 years, this compares to a maximum period of 22 years adopted at the 2007 valuation in accordance with the then published FSS. The maximum deficit recovery period is now three years shorter so that the same target date for achieving full funding is being maintained as at the 2007 valuation. The FSS also specifies any transitional arrangements ("phasing") for the implementation of revised employer contribution requirements.

The valuation (effective from 1 April 2011) revealed a funding level of 80% and an average employer's contribution rate of 19.1%. There have been a number of material developments which have impacted on the fund since the previous valuation in 2007. The introduction of an Inflation Risk Premium (IRP) into the determination of the pension increase assumption used for the valuation has offset the adverse impact of the fall in real yields since the 2007 valuation. The effect of the IRP in conjunction with the change from RPI to CPI indexation more than offsets the negative impact of the yields change. Revisions of the assumptions adopted for the 2010 valuation has overall acted to place a lower value on liabilities and has therefore improved the funding position.

An extract from the certified Actuarial Valuation produced by Mercer as at 31 March 2010, detailing the breakdown of the 80% funding level is as follows:

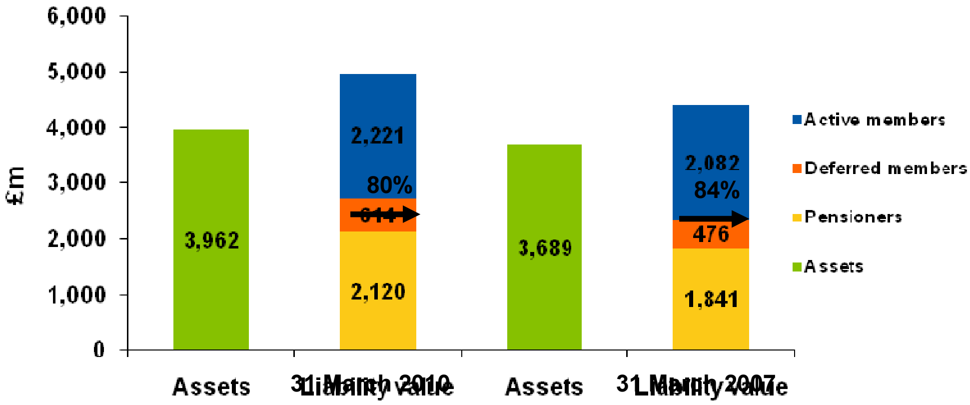
Funding results – funding target

The market value of the Fund's assets at the valuation date is compared with the value of the Fund's past service liabilities (the funding target) below. The funding position at the

Total
£4,955m

Total
£4,399m

previous valuation is shown for comparison.



The employer contributions for 2011/2012 are based on the 2010 valuation and the recommended employer contributions for the period 1 April 2011 to 31 March 2014 are set out in the Schedule to the Rates and Adjustments at page 59 of this report.

The projected unit method of valuation was used for the valuation and is in common use for funding Pension Funds in the United Kingdom. The Valuation results depend on financial and demographic assumptions and these are detailed in full in the Actuarial Valuation and at Annex 1 of the Funding Strategy Statement. Actuarial Valuation & Funding Strategy Statement

The Rates and adjustments certified and accompanying schedule extracted from the actuarial valuation are as follows:

Rates and Adjustments Certificate issued in accordance with Regulation 36 of the Administration Regulations

Name of Fund	**Lancashire County Pension Fund**

I hereby certify that, in my opinion, the common rate of employers' contributions payable in each year of the period of three years beginning 1 April 2011 should be at the rate of 12.5 per cent of Pensionable Pay.
I hereby certify that, in my opinion, the amount of the employers' contributions payable in each year of the period of three years beginning with 1 April 2011, as set out above, should be individually adjusted as set out in the attached schedule.
Contributions will be payable monthly in arrears with each payment normally being due by the 19th of the following month. Pensionable Pay is pay as determined under the LGPS regulations for the calculation of employee contributions.
For employers where no allowance for non ill-health early retirement costs is included in the valuation a further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's actuary and the Administering Authority.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer. Additional contributions may be paid if requested by the employer concerned.
The contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured against a third party.

Regulation 36(8)

Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.
For four employers I have shown on the attached Schedule the allowance made for non-ill health early retirements over the period of three years beginning 1 April 2011 taken into account when setting this employer's contribution rate.
No allowance for non-ill health early retirements has been made in determining the results of the valuation for other employers, on the basis that the costs arising will be met by additional contributions.

Signature

Name John Livesey

Qualification Fellow of the Institute of Actuaries

Date of signing 31 March 2011

Schedule to the Rates and Adjustments Certificate dated 31 March 2011

	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
Employers	Individual Adjust-ment) %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Amount £
ABM Catering Ltd	3.5	16.0	3.5	16.0	3.5	16.0	
Accrington & Rossendale College	7.1	19.6	7.1	19.6	7.1	19.6	
Accrington Academy	-1.8	10.7	-1.8	10.7	-1.8	10.7	
Alternative Futures	1.7	14.2	1.7	14.2	1.7	14.2	
Andron (City of Preston High)	-1.2	11.3	-1.2	11.3	-1.2	11.3	
Andron (Glenburn Sports College)	0.5	13.0	0.5	13.0	0.5	13.0	
Andron (Kennington)	0.0	12.5	0.0	12.5	0.0	12.5	
Andron (Ribblesdale High)	-0.3	12.2	-0.3	12.2	-0.3	12.2	
Arnold Schools	5.0	17.5	6.2	18.7	7.4	19.9	
Beaufort Avenue Day Care Centre	14.0	26.5	17.7	30.2	21.3	33.8	
Blackburn College	2.9	15.4	2.9	15.4	2.9	15.4	

Blackburn St Mary's College	1.7	14.2	1.7	14.2	1.7	14.2	
Blackburn with Darwen Borough Council	3.1	15.6	3.6	16.1	4.1	16.6	
Blackpool & The Fylde College	5.0	17.5	5.0	17.5	5.0	17.5	£246,000
Blackpool Airport Ltd (from July 2004)	20.5	33.0	24.5	37.0	27.8	40.3	
Blackpool Borough Council	3.9	16.4	4.4	16.9	4.9	17.4	£697,600
Blackpool Coastal Housing	-0.5	12.0	-0.5	12.0	-0.5	12.0	
Blackpool Sixth Form College	-0.5	12.0	-0.5	12.0	-0.5	12.0	
Blackpool Transport Services Ltd	-12.5	0.0	-12.5	0.0	-12.5	0.0	
Blackpool Zoo (Grant Leisure)	5.5	18.0	7.1	19.6	8.8	21.3	
Blackpool, Fylde & Wyre Society for the Blind	29.5	42.0	32.5	45.0	35.5	48.0	
Bootstrap Enterprise Ltd	0.2	12.7	0.2	12.7	0.2	12.7	
Bulloughs (Highfield)	-2.0	10.5	-2.0	10.5	-2.0	10.5	
Bulloughs (St Augustines)	1.9	14.4	1.9	14.4	1.9	14.4	
Bulloughs (St Marys)	4.0	16.5	4.0	16.5	4.0	16.5	
	2011/12		**2012/13**		**2013/14**		**Non-ill health early retirement allowance included for the 3 years 2011/14**
Employers	**Individual Adjust-ment) %**	**Total Contrib u-tion Rate %**	**Individual Adjust-ment %**	**Total Contribu-tion Rate %**	**Individua l Adjust-ment %**	**Total Contribu-tion Rate %**	**Amount £**
Burnley Borough Council	12.5	25.0	12.5	25.0	12.5	25.0	
Burnley College	2.3	14.8	2.3	14.8	2.3	14.8	
Calico Housing Ltd	6.8	19.3	6.8	19.3	6.8	19.3	
CAPITA	12.2	24.7	14.1	26.6	16.0	28.5	
Capita (Rossendale BC)	3.1	15.6	4.6	17.1	6.0	18.5	
Cardinal Newman College	3.3	15.8	3.3	15.8	3.3	15.8	
Caritas Care Ltd (was Catholic Caring Services)	6.2	18.7	6.2	18.7	6.2	18.7	
Catterall Parish Council	2.3	14.8	2.3	14.8	2.3	14.8	
Chorley Borough Council	6.8	19.3	7.3	19.8	7.8	20.3	
Chorley Community Housing	1.6	14.1	1.6	14.1	1.6	14.1	
Church Road Methodist Day Centre	6.7	19.2	7.0	19.5	7.3	19.8	
Commission for Education & Formation	8.0	20.5	8.0	20.5	8.0	20.5	
Community Council of Lancashire	8.3	20.8	8.3	20.8	8.3	20.8	

Community Gateway Association Ltd	1.7	14.2	2.4	14.9	3.0	15.5	
Connaught Environmental (Blackpool BC)	-3.9	8.6	-3.9	8.6	-3.9	8.6	
Connaught Environmental (Blackpool Coastal Housing)	0.5	13.0	0.5	13.0	0.5	13.0	
Consultant Caterers Ltd	2.5	15.0	2.5	15.0	2.5	15.0	
Contour Housing Association	4.1	16.6	4.1	16.6	4.1	16.6	
Creative Support Ltd	1.6	14.1	1.6	14.1	1.6	14.1	
CXL Ltd	-0.6	11.9	-0.6	11.9	-0.6	11.9	
Danfo (UK) Ltd	172.2	184.7	172.2	184.7	172.2	184.7	
Darwen Aldridge Community Academy	-1.2	11.3	-1.2	11.3	-1.2	11.3	
E ON UK Plc	6.2	18.7	6.2	18.7	6.2	18.7	
Edge Hill University College	1.5	14.0	2.0	14.5	2.5	15.0	
Enterprise Managed Services Ltd	1.1	13.6	2.4	14.9	3.6	16.1	
Eric Wright Commercial Ltd	5.4	17.9	5.4	17.9	5.4	17.9	
Fulwood Academy	-1.3	11.2	-1.3	11.2	-1.3	11.2	
Fylde Borough Council	7.0	19.5	8.3	20.8	9.5	22.0	
Fylde Coast YMCA (Fylde)	-2.0	10.5	-2.0	10.5	-2.0	10.5	

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
	Individual Adjust-ment) %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Amount £
Fylde Community Link	4.3	16.8	4.3	16.8	4.3	16.8	
Galloways Society for the Blind	32.2	44.7	32.2	44.7	32.2	44.7	
Garstang Town Council	-1.3	11.2	-1.3	11.2	-1.3	11.2	
Housing Pendle Ltd	1.8	14.3	1.8	14.3	1.8	14.3	
Hyndburn Borough Council	12.3	24.8	12.3	24.8	12.3	24.8	
Hyndburn Homes Ltd	1.4	13.9	1.4	13.9	1.4	13.9	
I Care	-1.6	10.9	-1.6	10.9	-1.6	10.9	
Kirkham Grammar School	4.1	16.6	4.6	17.1	5.1	17.6	
Kirkland Parish Council	2.5	15.0	2.5	15.0	2.5	15.0	
Lancashire & Blackpool Tourist Board	1.1	13.6	1.1	13.6	1.1	13.6	
Lancashire County Branch Unison	8.0	20.5	8.0	20.5	8.0	20.5	
Lancashire County Council	5.8	18.3	6.2	18.7	6.6	19.1	
Lancashire Fire & Rescue Service	5.0	17.5	5.0	17.5	5.0	17.5	£199,000
Lancashire Police Authority	2.3	14.8	2.8	15.3	3.3	15.8	£450,500
Lancashire Probation Committee	6.6	19.1	6.6	19.1	6.6	19.1	
Lancaster & Morecambe College	4.1	16.6	4.1	16.6	4.1	16.6	
Lancaster City Council	8.1	20.6	8.1	20.6	8.1	20.6	
Lancaster University	1.9	14.4	2.2	14.7	2.6	15.1	
Leisure in Hyndburn	3.3	15.8	4.5	17.0	5.7	18.2	
Liberata	6.0	18.5	6.0	18.5	6.0	18.5	
Liberata UK Ltd (Chorley)	8.9	21.4	8.9	21.4	8.9	21.4	
Lytham Schools Foundation	2.2	14.7	2.2	14.7	2.2	14.7	
Mellor's (formerly Wyre)	1.7	14.2	1.7	14.2	1.7	14.2	
Mellor's Catering (Cardinal Newman)	5.0	17.5	5.0	17.5	5.0	17.5	
Myerscough College	0.8	13.3	1.0	13.5	1.1	13.6	
Nelson and Colne College	3.3	15.8	3.3	15.8	3.3	15.8	
New Fylde Housing	42.3	54.8	42.3	54.8	42.3	54.8	
New Progress Housing	3.9	16.4	3.9	16.4	3.9	16.4	

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
	Individual Adjust-ment) %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Amount £
NHS PCT Blackburn	1.6	14.1	1.6	14.1	1.6	14.1	
NIC Services Group Ltd	2.5	15.0	2.5	15.0	2.5	15.0	
North Western & North Wales Sea Fisheries Committee	13.4	25.9	13.4	25.9	13.4	25.9	
Northgate Managed Services	0.1	12.6	0.1	12.6	0.1	12.6	
NSL Ltd (Lancaster)	4.5	17.0	4.5	17.0	4.5	17.0	
NSL Ltd (Wyre BC)	0.6	13.1	0.6	13.1	0.6	13.1	
Ormerod Home Trust Ltd	11.7	24.2	13.7	26.2	15.5	28.0	
Our Lady Queen of Peace (Bullough Contract Services)	3.5	16.0	3.5	16.0	3.5	16.0	
Pendle Borough Council	12.1	24.6	14.1	26.6	16.2	28.7	
Pendle Leisure Trust Ltd	1.2	13.7	1.2	13.7	1.2	13.7	
Penwortham Town Council	1.5	14.0	1.5	14.0	1.5	14.0	
Pilling Parish Council	4.8	17.3	4.8	17.3	4.8	17.3	
Preston Care and Repair	6.0	18.5	6.0	18.5	6.0	18.5	
Preston City Council	5.6	18.1	6.1	18.6	6.6	19.1	
Preston College	2.7	15.2	3.0	15.5	3.3	15.8	
Preston Council for Voluntary Services	9.4	21.9	9.4	21.9	9.4	21.9	
Progress Care Housing	3.9	16.4	3.9	16.4	3.9	16.4	
Progress Housing Group Ltd	3.9	16.4	3.9	16.4	3.9	16.4	
Progress Recruitments	2.9	15.4	2.9	15.4	2.9	15.4	
Queen Elizabeth's Grammar School	8.3	20.8	9.3	21.8	10.3	22.8	
Ribble Valley Borough Council	3.6	16.1	4.1	16.6	4.6	17.1	
Ribble Valley Homes	1.8	14.3	1.8	14.3	1.8	14.3	
Rossendale Borough Council	13.8	26.3	15.3	27.8	16.8	29.3	
Rossendale Leisure Trust	0.2	12.7	1.2	13.7	2.1	14.6	
Rossendale Transport Ltd	10.7	23.2	19.3	31.8	27.8	40.3	
Runshaw College	2.6	15.1	2.9	15.4	3.2	15.7	
Signposts MARC Ltd	-12.5	0.0	-12.5	0.0	-12.5	0.0	

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
	Individual Adjust-ment) %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Amount £
Solar Facilities (Bishop Raws)	-12.5	0.0	-12.5	0.0	-12.5	0.0	
Solar Facilities (Ripley)	8.5	21.0	8.5	21.0	8.5	21.0	
Solar Facilities (Seven Stars)	3.4	15.9	3.4	15.9	3.4	15.9	
Solar Facilities (St Peters)	-3.0	9.5	-3.0	9.5	-3.0	9.5	
Solar Facilities (Tarelton)	1.4	13.9	1.4	13.9	1.4	13.9	
South Ribble Borough Council	6.8	19.3	7.8	20.3	8.8	21.3	
South Ribble Community Leisure Ltd	10.4	22.9	10.4	22.9	10.4	22.9	
St Anne's on Sea Town Council	-1.4	11.1	-1.4	11.1	-1.4	11.1	
Surestart Hyndburn	-2.0	10.5	-1.0	11.5	-0.1	12.4	
Twin Valley Homes Ltd	3.8	16.3	3.8	16.3	3.8	16.3	
University of Central Lancashire	1.6	14.1	1.6	14.1	1.6	14.1	
University of Cumbria (was St Martins College)	1.5	14.0	1.5	14.0	1.5	14.0	
Vita Lend Lease BSF ICT	0.2	12.7	0.2	12.7	0.2	12.7	
Vita Lend Lease Ltd	1.3	13.8	1.3	13.8	1.3	13.8	
West Lancashire Borough Council	7.5	20.0	7.5	20.0	7.5	20.0	
West Lancashire Community Leisure Ltd	-0.5	12.0	-0.5	12.0	-0.5	12.0	
Whitworth Town Council	3.6	16.1	3.6	16.1	3.6	16.1	
Wyre Borough Council	12.6	25.1	12.6	25.1	12.6	25.1	
Wyre Housing Association	57.8	70.3	57.8	70.3	57.8	70.3	

Other interested bodies with no pensionable employees

Former Employers	Proportion of Pension Increases to be Recharged %
Alzheimer's Society	See notes
Barnoldswick Town Council	See notes
Blackpool & Fylde Mind Association	See notes
Blackpool & Fylde Society for the Deaf	100
Blackpool Town Centre Forum Ltd	See notes
Bulloughs (St Albans)	See notes
Burnley & Pendle Development Association	100
Burton Manor Residential College	100
Carden Croft Ltd	See notes
Community Alliance (Burnley & Padiham) Ltd	See notes
CSB Contract Services	See notes
Elm House Management Committee	See notes

Former Employers	Proportion of Pension Increases to be Recharged %
Ex Department of Transport	100
Ex National Health Service	100
Ex National Water Council	100
Fylde Coast Development Association	100
Lancashire South East Probation Committee	100
Lancashire Valuation Tribunal	See notes
New Directions	See notes
Preston Vision Ltd	See notes
Salmesbury & Cuerdale Parish Council	See notes
Skelmersdale College	See notes
Spastics Society	100

Note:
Members of the Fund employed by Skelmersdale College have transferred to membership of the Tyne and Wear Fund, and so a bulk transfer payment will be required. Any residual funding shortfall in the LCPF after the transfer payment should then be recovered from the College.

For the remaining employers listed as "see notes" above further calculations are required in connection with them ceasing to participate in the Fund. Further details for these employers will be notified in due course.

H. Contacts

http://www.yourpensionservice.org.uk

Benefits and other Administrative Issues

Pensions Helpdesk
Your Pension Service
PO Box 100
County Hall
Preston
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Telephone: 01772 530530
E-mail: pensions.helpdesk@lancashire.gov.uk

Pension Benefits and Administration

Diane Lister
Head of Your Pension Service
Telephone: 01772 534827
E-mail: diane.lister@lancashire.gov.uk

General Pension Fund Investment/Accounting Queries

Telephone: 01772 534724
Fax: 01772 533948
E-mail: Pensionsfinance@lancashire.gov.uk

Pension Fund Accounts, Investments and Governance

Mike Jensen
Chief Investment Officer
Telephone: 01772 534742
E-mail: mike.jensen@lancashire.gov.uk

Pension Fund Committee
Meeting to be held on 27 July 2012

Electoral Division affected: 'All'

Fund Shareholder Voting Report
(Appendix 'A' refers)

Contact for further information:
Gill Kilpatrick, (01772) 534715, County Treasurer's Department,
Gill.kilpatrick@lancashire.gov.uk

Executive Summary

The Fund has engaged PIRC, a leading independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility, to act as the Fund's proxy and cast the Fund's votes at shareholder meetings.

The attached report (Appendix 'A') covers the period 1 April to 30 June 2012. The Fund has voted on 1,908 occasions and has opposed or abstained in 27% of votes. PIRC recommends not supporting resolutions where it does not believe best governance practice is being applied and in the case of remuneration policy votes, where it does not consider the executives' remuneration plans are properly aligned with the success of the business or the performance and responsibilities of the executive.

Recommendation

The Committee is asked to note the report.

Background and Advice

PIRC, a leading independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility, acts as the Fund's proxy and casts the Fund's votes on its investments at shareholder meetings. PIRC are instructed to vote in accordance with their guidelines unless the Fund instructs an exception. PIRC analyses investee companies and produces publically available voting recommendations to encourage companies to adhere to high standards of governance and social responsibility. The analysis includes a review of the adequacy of environmental and employment policies and the disclosure of quantifiable environmental reporting. PIRC is also an active supporter of the Stewardship Code, a code of practice published by the Financial Reporting Council with the aim of enhancing the quality of engagement between institutional investors and companies.

Lancashire County Council

There may be occasions when the Fund wishes to cast a vote at a shareholder meeting in a way which does not accord with PIRC's recommendations. For example, an investment manager might request the Fund to vote in a particular way to support or oppose a corporate action. Such requests would be considered by the Fund on a case by case basis and PIRC instructed to cast the Fund's vote accordingly.

PIRC also lobbies actively on behalf of its investing clients as well as providing them with detailed support. It works closely with NAPF (the National Association of Pension Funds) and LAPFF (the forum of Local Authority Pension Funds).

For example, PIRC is organising a campaign of letters from investors to News Corporation seeking to ensure that News Corporation or the two entities it splits into have truly independent directors on the boards.

PIRC's quarterly report to 30 June 2012 is presented as at Appendix 'A'.

PIRC also produces a detailed document which is reviewed by the Fund's officers, which sets out the circumstances and reasoning for every resolution opposed, abstained or withheld. This document is available on request.

The Fund's voting record using PIRC as its proxy for the three months ended 30 June 2012 is summarised below:

Region	Voting action:				
	For	Oppose	Abstain	Withheld	Total
UK	915	115	105	-	1,135
Europe	134	49	11	-	194
USA	138	90	22	20	270
Japan	66	9	3	-	78
Rest of World	136	54	14	27	57
Total	1,389	317	155	47	1,908

The period April to June is very busy with many companies holding their Annual General Meetings in this period. With 1,908 votes cast by PIRC, the Fund has voted for 73% of shareholder resolutions and has opposed or abstained in 27% of resolutions. Voting abstention is regularly used by institutional investors as a way of signalling a negative view on a proposal without active opposition.

In certain foreign jurisdictions, shareholders either vote for a resolution or not at all, opposition to these votes is described as vote withheld.

PIRC opposed 69 out of 114 UK resolutions accepting the Annual Report and 5 out of 10 resolutions approving executive pay schemes. Reasons for rejecting the annual report included opposition to executive remuneration packages not sufficiently or appropriately linked to performance, governance structures lacking independence, opposition to substantial political donations with no obvious benefit to shareholders and the failure to disclose quantitative environmental data.

In addition to its voting activities, the Fund is also active in shareholder class actions against companies especially in the USA. In the USA, when class actions are pursued against companies, then all shareholders stand to benefit from any awards provided that they have registered their participation. The Fund ensures that it participates in all such actions and claims any proceeds due. It has recently received £22,000 as its share of damages awarded to the former shareholders of Enron.

Consultations

N/A

Implications:

It is a key component of good governance that the Fund is an engaged and responsible investor complying with the Stewardship Code.

Well run responsible companies are more likely to be successful and less likely to suffer from unexpected scandals, such as suffered by News Corporation recently.

Risk management

The promotion of good responsible corporate governance in the companies the Fund is invested in reduces the risk of unexpected losses arising as a result of poor over-sight and lack of independence.

Local Government (Access to Information) Act 1985
List of Background Papers

N/a

Lancashire Council

Proxy Voting Review
April 2012 – June 2012

July 2012

Pensions & Investment Research Consultants Ltd
9 Prescot Street
London E1 8AZ
Tel: 020 7247 2323 Fax: 020 7247 2457
www.pirc.co.uk

Table Of Contents

UK Corporate Governance Review

Smith & Nephew plc - AGM 12th April

Remuneration and board independence were issues at Smith & Nephew.

Disclosure on the whole was considered adequate. All the LTIP targets were considered challenging except the EPSA lower limit. The EPSA and TSR were used in a concurrent fashion which was welcomed. Total maximum potential rewards under all incentive schemes were considered excessive. The amounts involved in FY 2011 were considered so as well. It was noted that Mr Bohuon received grants (RSA + PSP) worth 320% of his salary during FY 2011.

Additionally, it was unclear how a Golden Hello of about EUR 1.4 million benefits shareholders. It was also stated in the Annual Report on page 68, that the financial performance of the company collectively fell short of targets, with regards to bonus payments. Taking into account that personal objectives account for only 25% of bonus awards and being the only area where executives reportedly outperformed, it was unclear how the cash bonus levels reached nearly 100% of salary (pro-rata salary for Mr Bohuon) when financial targets were not met.

Further, the stock option scheme utilises the same performance criteria (TSR) as the PSP and it was not clear why the Remuneration Committee put in place a strategy which rewards executives twice over the same performance. All executive directors had contracts with 12 months notice. On termination of the contract, the remuneration committee had the discretion to pay executive directors a sum equivalent to the salary and benefits including a proportion of the bonus that would have been received had they worked their 12 months notice. On change of control, executive directors would have been entitled to 12 months salary and benefits plus 12 months bonus at target. PIRC considered the inclusion of unearned bonuses as a breach of best practice.

We recommended shareholders oppose the remuneration report.

We also recommended that shareholders oppose the election of three directors. Non-executives Dr Pamela Kirby, Brian Larcombe and senior independent director Richard De Schutter were not considered independent as they have all been on the board for more than nine years. There was insufficient independent representation on the board in our view.

Therefore we recommended that shareholders oppose the election of all three.

BP plc - AGM 12th April

Remuneration and dividend policy were issues at BP.

The company's Business Review met ASB RS guidelines in our view. Adequate environmental and employment policies were in place as well as quantified reporting. Since the Deepwater Horizon accident several changes had been implemented including the creation of an enhanced Safety and Operational Risk function, reporting directly to the group chief executive. The annual report went to great lengths to disclose continued progress and changes to procedures especially in relation to health and safety. The annual report provided an adequate discussion of issues pertaining to the ongoing litigation following the oil spill.

The company ceased paying interim dividends in FY 2010 following on from the accident in the Gulf of Mexico. Dividends resumed since end of FY 2010. It was noted that this change in dividend policy was not put forward for shareholder approval last year. Also, the company paid dividends during the year under review and had again not been put forward for shareholder approval. In our view, votes on the proposed dividends were a fundamental right of shareowner oversight, and we therefore recommended shareholders to oppose the report and accounts.

Turning to remuneration, all elements of directors' cash and share based remuneration were clearly disclosed. The company had provided a table summarising their achievement in each of the safety areas leading to bonus payments. However, no quantitative measures were provided. This made it difficult to assess whether the previously set targets were challenging, especially considering that the executives outperformed in a lot of areas.

The EDIP was the main incentive vehicle for executive directors. It contained portions which were linked to non-financial metrics, mainly of safety measures. It was not clear whether the EDIP employed the same safety measures as the Annual Bonus. Further, since safety performance targets were not disclosed, it was not possible to assess whether they were challenging. It was noted, though, that the TSR portion was considered challenging. The Remuneration structure had the potential to pay excessive variable remuneration and we noted that during the year under review, this was the case. As an example, the CEO received 550% of salary as performance shares. Moreover, he received an annual bonus worth 150% of his base salary. This was difficult to justify when the targets used to test performance were not disclosed, and considering that FY 2011 was not a particularly easy year for the company.

All executives were retained on one year rolling contracts with compensation with liquidated damages provisions of up to one year's salary. Mitigation statement was provided. There were no provisions for compensation payable on early termination.

As a result of the lack of verifiable performance metrics we recommended shareholders oppose the remuneration report.

British American Tobacco plc - AGM 26th April

Remuneration policy was an issue at British American Tobacco.

Disclosure overall was good. Cash and share awards had been clearly tabled. However, future or past performance criteria attached to the annual bonus scheme were not disclosed. While it was understood that future targets can be viewed as potential forecasts and thus commercially sensitive, the company could have provided forecasts retrospectively supporting the discussion of achieved bonus targets.

Policy disclosure was clear with some clear links of remuneration strategy to the company objectives. Performance criteria, maximum awards and vesting scales were adequately disclosed for the company's long-term performance plan.

All executives were retained on one year rolling contracts with predetermined compensation in the event of termination. Compensation generally consists of 12 months' salary and cash payment in lieu of benefits.

Maximum and minimum TSR and EPS targets under the LTIP were not considered challenging given the levels of award available as well as brokers' forecasts. The company's LTIP utilised three performance criteria (two of those were related to TSR but with different comparator groups), but not concurrently. Combined remuneration was potentially excessive, evidenced by the high payouts and awards made during the year under review.

We recommended shareholders oppose the remuneration report.

Petrofac plc - AGM 11th May

Disclosure relating to the provision of company aircraft was an issue at Petrofac.

The Company's business review met guidelines. However, the arrangements concerning the company aircraft, which, according to a note in the accounts, was owned by an offshore trust of which the chief executive was a beneficiary, were not at all clear from what is written in the accounts.

We recommended shareholders oppose the report and accounts.

Tesco Plc - AGM 29th June

Remuneration was an issue at Tesco.

Disclosure was good and had been improved significantly within this year's report. Specific annual bonus targets had not been quantified on either a prospective or retrospective basis. Despite this, the Company did disclose information that gave shareholders some idea of outcomes that led to the level of bonuses that were paid during the year. Expected value calculations for share-based incentive awards were not disclosed.

The performance share plan (PSP), the Company's primary incentive vehicle, applied earnings per share (EPS) and return on capital employed (ROCE) in concurrent fashion, which was commendable. However, there was no relative performance condition applied. As in previous years, the inclusion of mature property sales when calculating the Company's financial performance, particularly for the purpose of incentive awards, was questionable. The extent to which underlying EPS grew over recent years could have been considered to go some way towards explaining why EPS continued to feature as the primary performance criterion for incentive awards.

Salaries were at the top end of the sector. The face value of variable awards granted during the year, having been significantly reduced from the previous year, did not raise concerns. However, combined remuneration, including historic awards that vested and were exercised during the year, exceeded 300% of executives' salaries. There was also potential for combined remuneration to be wholly excessive going forward, due to both the size of maximum awards available and the number of incentive schemes in which awards remained outstanding.

Contracts did not meet best practice given that the directors' termination provisions included annual bonus payments. However, this practice has since been discontinued, which was reflected in the new service contract for Philip Clarke upon his recent appointment as CEO. For these reasons, PIRC had recommended shareholders oppose the remuneration report.

UK Corporate Governance Review

Closed shop of pay committees

FTSE100 remuneration committee members are drawn from a narrow pool comprised largely of current and former directors, with a bias towards business and finance backgrounds and few women present, according to research by the High Pay Centre.

The Centre found 33% of FTSE100 companies have a current lead executive on the remuneration committee (9% have a FTSE100 lead executive). Looking at background, 46% of people sitting on remuneration committees are current or former lead executives. Of the 366 NEDs who sit on remuneration committees, only 37 are not from business or financial intermediation. 45% of the FTSE 100 has all male remuneration committees and there are only 59 women sitting on FTSE100 remuneration committees.

Vote disclosure and stewardship

Only 15% of asset managers that have produced a Stewardship Code statement disclose a full voting record, analysis undertaken by PIRC reveals.

In March we reviewed all 175 asset managers listed on the Financial Reporting Council's list of Stewardship Code statements. In total, 50 asset managers (29%) disclosed some level of voting data. This suggests that that the remaining two-thirds of managers do not 'comply' with the Code, which states "Institutional investors should disclose publicly voting records and if they do not, explain why." In addition, only 27 (15%) of all those producing a Code statement make a full voting record available. A further 18 make headline statistics available, though these are largely useless for comparative analysis. A further five report only votes against or abstentions, which distorts reporting.

Looking at non-disclosure, of all 175 asset managers, 58 (33%) had a statement of policy where it was made clear public reporting was not undertaken. A further 39 (22%) made a statement where the policy could be inferred, because reference is only made to reporting to clients and no voting data is available. We would question whether such disclosures meet the spirit of the Code. 11 (9%) managers produce Code statements that make no reference to policy on voting disclosure. Three (3%) state that the policy is less, or not, relevant to them due to their investment style. In 14 (11%) cases we were either unable to find or access a Code statement or we believe the statement cannot be verified.

We also looked at managers' explanations for not disclosing. Almost all statements are very brief. A number of statements produced by different managers explaining their non-disclosure policy are identical, and others are very similarly-worded. The most commonly-cited 'explanation' for non-disclosure is that the information is confidential and/or the property of the client. A small number of signatories explain that they do not disclose voting data as they believe that this would be counterproductive. We do not believe that the general quality of explanations is good.

We believe that the Stewardship Code has had an impact. Looking at when managers started to disclose, at least 25 managers began disclosing data publicly, in one form or another, in 2010 or 2011. The Code came into force at the end of 2010. The other big spike in the number of asset managers disclosing voting data came in 2008, with ten managers starting to disclose. This may have been in response to a policy statement on voting disclosure by the then Institutional Shareholders Committee. Also, the Government was considering making public disclosure mandatory at the time.

However, looking at the growth in disclosure over the last five years, assuming the same rate was maintained, it would take almost ten years before half of signatories disclose a full record. In total this would mark twenty years from when the first asset manager began to publicly disclose a full record (Co-operative Insurance in 2003). It may also be the case that the progress in disclosure slows, since asset managers may believe that their 'explanation' for non-compliance is sufficient. Based on our research, we believe that the Stewardship Code is very unlikely to result in standardised disclosure of full voting records across the industry as a whole any time soon. Exercising the reserve power in the Companies Act to make disclosure mandatory would be Business Secretary Vince Cable's obvious solution.

IFRS and banks: time for change

As we have written regularly in PIRC Alerts, we believe that international financial reporting standards (IFRS) have a dangerously distorting effect on reporting, particularly by financial institutions.

A growing number of investors are beginning to raise this as a problematic issue and, as we have written previously, a number of senior political figures are also asking questions. However, we also believe that a practical response is required. Therefore, this season PIRC will be recommending a vote against bank auditors on the basis that banks' IFRS accounts have failed (and still fail) to give a true and fair view in accordance with the Companies Act.

We are taking this step as we believe that the impact of complying with IFRS, rather than giving a true and fair view is producing material overstatement of profits and net assets. When we have raised the point that the accounting is inadequate with companies themselves we have found no resistance from them. We therefore believe that auditors are effectively forcing boards to comply with IFRS, rather than the full scope of the law.

In law, the True and Fair View (Section 393 of the Companies Act 2006), requires that the accounts are presented properlyto ensure that the directors have discharged their obligations to the company, including solvency (that a bank is capable of being a going concern, i.e. not insolvent) and that distributions (dividends, etc) may be lawfully made, based on the numbers as stated in the accounts. Both tests require prudent accounting for net assets (shareholder funds), and IFRS fail to do that.

The impact is an overvaluing of loans above their recoverable amounts estimated to be £14.5bn in the case of RBS, US$11.4bn for HSBC and £2.0bnat Barclays. As we have noted previously, reporting under IFRS also means that the true value of bonuses is not clearly disclosed. We believe the value of bonuses left out is £2bn in the case of Barclays, $1.1bn for HSBC and £550m at RBS.

These are the problems left in the system. During the years that the crisis was developing, 2005-2007, banks were carrying overvalued assets - latent losses - that the accounting treatment, in law, should have been making provision against. The losses in the case of RBS and HBOS were greater than £30bn, and sufficient to bankrupt these banks. However, the IFRS accounts made insolvent banks appear healthy.

We note that HSBC had purchased Household Finance Corporation, which was using a similar faulty provisioning model. We also note the presence of several prominent bank directors involved in the standard setting process, underlining the conflicts of interest between bank board members and 'standard setters'..

We believe that the distorting effect of IFRS is a significant governance issue. We urge shareholders to take up the challenge.

Pensions 'governance gap' blast

Millions of people who rely on retail pensions, and the millions more who are yet to be auto-enrolled, are being left open to a 'governance gap,' according to a report by responsible investment campaigners FairPensions.

The report exposes the gap between trust-based pension schemes that have trustees to hold fund managers to account for their voting and engagement activity and insurance companies providing contract-based pensions that often fail to perform this role. The research, which surveyed the ten largest contract-based pension providers, suggests that most insurance companies fail to regularly monitor fund managers on their stewardship of investee companies. The report calls on the Department for Work and Pensions to investigate the implications for pension savers of the differing governance regimes. It says the DWP should 'explore ways of ensuring that consumers are equally well protected and well served regardless of the form of their pension provision.'

G30 sceptical of engagement

The influential Group of 30 has sounded a sceptical note about the contribution shareholders can make to the governance of financial institutions.

In a report entitled Toward Effective Governance of Financial Institutions, the G30 flag up the importance of relationships with shareholders. The report says that institutions should listen to their shareholders, and recognise that they are not a heterogeneous group. This means that institutions must be willing to "act contrary to the wishes of short-term shareholders" when seeking to ensure that value is created over the long term. The report also speaks positively of initiatives such as the Stewardship Code.

However, it is striking that the report also suggests that, whilst shareholders have a right to be heard, they also face limitations. It says: "When one considers that even board members, who may spend 30 to 100 days per year in the role, immersed in information and engaged with management, sometimes have difficulty understanding the real issues, one can better understand the limitations on shareholders. Shareholders tend to act after there is a problem, but they rarely are able to contribute in advance. They are therefore not likely to make a real difference to the safety and soundness of the institution directly."

The report goes on to say that the role of shareholders in securing financial stability through engagement over governance issues will be "limited," and that this is principally a job for boards.

In contrast, the report suggests financial institutions should be "attentive to a broad set of stakeholders beyond shareholders, including employees, customers, and supervisors." It suggests that regulators and supervisors are one of the key stakeholder groups. It reads: "In the case of financial institutions, chief among the… stakeholders [other than shareholders] are supervisors and regulators charged with ensuring safety, soundness, and ethical operation of the financial system for the public good. They have a major stake in, and can make an important contribution to, effective governance."

SABMiller tests Code boundaries

Brewing giant SABMiller gave minority shareholders something to ponder after a board reshuffle that breached the UK Corporate Governance Code.

At the company's AGM the existing chair Meyer Kahn stepped down. Chief executive Graham Mackay was set to become executive chairman, with the intention that he would continue in that role for one year, before becoming non-executive Chairman at the annual general meeting in 2013. Alan Clark succeed Mackay as Chief Executive at 2013 AGM. The changes in Mackay's role saw him combine chair and chief executive roles, and then move on to chair the company he previously led. Both moves were breaches of the Code. The company said its nomination committee came to the unanimous conclusion that Mackay was the "outstanding candidate" for the chair's role.

SABMiller had its two largest shareholders onside, so it did not face a serious challenge. But the decision had an echo of that taken by M&S to allow Stuart Rose to make the same move. That decision soured relationships with shareholders for some time.

Churches target executive pay

A coalition of charity investors has called on business leaders at some of the biggest companies to curb top executive bonuses.

In a letter to The Daily Telegraph, the signatories, who include Andreas Whittam Smith, the First Church Estates Commissioner, the Joseph Rowntree Charitable Trust, the Bible Society and the Baptist Union of Great Britain, voiced their concerns over rising executive pay that is "out of proportion to rewards to shareholders who own these companies and whose investments are at risk." In the letter they urge other charity investors to challenge executive pay at the companies in which they invest. Though the group agrees executives should be rewarded for success, they believe that these rewards should be linked to performance. "There is a bit of an entitlement culture built up and we want to challenge that," said a spokesperson for the Church Commissioners. The group has announced that they will vote against any remuneration packages they deem excessive. The Church Commissioners have both written to and met with boards where they hold investments, asking that they consider their concerns when determining senior executives' salaries. Boards should take note in light of recent events at Citigroup.

Hacking report attacks Murdoch

Well, we thought the Department of Culture, Media and Sport (DCMS) select committee's report would be bad news for Rupert Murdoch, but not this bad.

The long-awaited report was expected to be critical of key News International executives, and of James Murdoch, but what was not expected was the charge against Rupert Murdoch. It is stronger than the pre-publication speculation suggested, and seems deliberately worded to make it difficult for his leadership of News Corp to remain unchallenged, and a future bid for BSkyB impossible. The killer paragraph is 229, where the report says that Rupert Murdoch exhibited 'wilful blindness' and is not a fit person to run a major international company.

The language throughout the report is damning for the company, with frequent references to the "cover up" and the implication that pay-offs to various individuals were attempts to buy silence. There is no question that the committee believes that Parliament was misled. Former legal manager Tom Crone, News of the World editor Colin Myler and News International chief executive Les Hinton are most seriously criticised, and may face further action.

But, as expected, the committee has not exonerated James Murdoch. The report states that the committee "cannot adjudicate either way" on whether his claims not to have seen the crucial 'For Neville' email and related counsel's opinion are true. But it does state that if, in agreeing to the record Gordon Taylor pay-off, he did not ask to see documents such as the counsel's opinion, then "this clearly raises questions of competence on the part of News International's then Chairman and Chief Executive."

On the broader issue of corporate accountability it states: "In failing to investigate properly, and by ignoring evidence of widespread wrongdoing, News International and its parent News Corporation exhibited wilful blindness, for which the companies' directors—including Rupert Murdoch and James Murdoch —should ultimately be prepared to take responsibility."

Much has been made of the political split on the committee, but it is worth noting that two of the three parties agreed to the whole report, by a two-thirds majority, and that the Conservatives are unanimous in support of their Liberal Democrat and Labour colleagues on the large part of the report. It is the line about Rupert Murdoch's fitness to run a major company that has caused the division on the committee. Shareholders can only themselves judge whether the report is correct to make that assertion.

Were this not enough, the threats to News Corp are growing in any case. The FT revealed that Ofcom has stepped up its probe into whether BSkyB was a "fit and proper" owner of a broadcasting licence from a "monitoring phase" to an "evidence-gathering phase." The danger of regulatory intervention has been a real one for the company since the scandal blew up last summer.

Barclays' pay damages reputation

In the end, the shareholder rebellion over executive pay at Barclays was actually bigger than we had expected.

Despite almost three weeks of bad headlines for the bank; we're long enough in the tooth to know that sometimes sabre-rattling in public by some institutions isn't matched by their voting in practice. PIRC had therefore been working on the assumption that the level of opposition would be around 20%. In the end the oppose vote was almost 27%, with abstentions, meaning that around one in three shareholders did not vote in favour. By comparison, only around 5% of companies record this level of opposition in a typical season. The vote against the re-election of the remuneration chair was even more surprising. At almost 21% against, this would be amongst the worst 1% of director election results in a typical season.

Some of the most interesting comments at the meeting came from the chair Marcus Agius. For example, he pleaded for an understanding of the "dynamic" nature of pay. Rewards were necessary because of the groundwork being laid for the future. Or cash upfront, if you prefer. In addition, the general impression Agius left at the meeting was that the bank believed it had failed to communicate its pay policy effectively, rather than had got the policy itself wrong.

Barclays has said that in the future it will seek to engage with shareholders more effectively. The remuneration committee chair also suggested that the bank would seek to ensure that a greater share of rewards went to shareholders in the years ahead. Actions will speak louder than words however. The events of the past few weeks will tie Barclays and excessive executive pay together in the minds of the public, shareholders and policymakers. The bank needs to demonstrate that it understands that this is a problem, and will do something concrete to address it.

Mercer opposes binding vote

A binding vote on executive pay will not necessarily have the outcome that the Government intends, according to consultants Mercer.

Mercer is in the unusual position of working both as consultant to companies on remuneration, and as an adviser on issues of shareholder responsibility in respect of their pension funds. The firm believes this gives it a balanced perspective, and argues that a binding vote on pay, as favoured by Prime Minster David Cameron, would add little value. A representative of Mercer's remuneration consulting business said it was hard to see what a binding vote would solve. On shareholder oversight, a representative of the firm's responsible investment practice said that asset managers were limited by the extent to which they were adequately resourced and incentivised to give proper consideration to issues like remuneration.

Scot houses opposed Cairn award

Three Scottish asset managers were among the investors that sunk Cairn Energy's proposed share award to Sir Bill Gammell at the company's January EGM.

With some managers already making their voting record available during the first quarter of the year, it is possible to see which houses challenged the award. Cairn, which has its head office in Edinburgh, failed to convince three major Scottish asset managers, Aberdeen Asset Management, Scottish Widows and Standard Life, to support the award, and all of them voted against. Other asset managers voting against included AXA, Goldman Sachs and Legal & General.

The resolution was withdrawn before the EGM in response to the level of shareholder opposition.

Execs don't value complex pay

Many top management reward packages have become so complex that they no longer motivate the executives for whom they are designed.

That's the key finding from research conducted by PwC in conjunction with the London School of Economics and Political Science. The research found that many of the features of current pay packages are so complex that the value executives themselves place on them is actually less than they cost the company to deliver. In many cases top managers would be happier being paid a smaller salary in a less complex and less volatile form.

The Psychology of Incentives study surveyed over 1,100 executives and concluded that senior managers are risk-averse, don't like complexity and don't value pay schemes that incentivise future performance. Most executives, the study concluded, would prefer lower, less volatile pay over a complicated scheme that promises a potentially higher, but deferred, reward.

PwC state: "We need to consign to the scrap heap the agency model approach to executive pay, based on 'rational economic man,' which has been so unhelpfully influential in current Western pay systems."

Banks had an easier ride in 2011

Asset managers were more supportive of UK-listed banks' remuneration reports in 2011 than in the previous two seasons, voting analysis by PIRC has revealed.

We looked at twelve asset managers' public voting disclosures for the past four years. We were restricted to this sample as only these managers disclosed a full record going back four years. We found a lower number of oppose votes and abstentions on bank remuneration reports in 2011 compared to 2010 or 2009. Only in 2008 is the level of support higher. Five of the sample voted for all the banks' remuneration reports in 2011, compared to two in 2010, one in 2009 and six in 2010. These figures might be surprising but confirm anecdotal feedback that some asset managers were wary of "bank bashing" last season.

We reached the same conclusion when looking at voting decisions on director elections at the banks. Again, the number of oppose votes and abstentions (less than 0.5% of all votes incidentally) was lower in 2011 than 2010 and 2009. Finally, looking at auditor appointments, only one manager opposed or abstained on any throughout the four years.

NED recruitment favours men

Analysis of recruitment practices for FTSE 350-listed non-executive roles has revealed that women are held back by selection processes that favour male candidates.

Analysis published by the UK Equality and Human Rights Commission found that nomination committees and chairmen tend to seek candidates based on "fit" and previous board experience rather than competencies. This creates a self-perpetuating system that works against woman who have had fewer opportunities to gain the same work experiences as their male counterparts. Current recruitment practices place an emphasis on candidates who best meet the values, norms and behaviour of existing members, who are chiefly men. In light of these findings, the report says it is evident that a more "transparent, professional and rigorous approach" is needed to allow for more female candidates to be appointed to non-executive roles.

No IAG directors face election

International Consolidated Airlines Group, the company formed by the merger between BA and Iberian, did not put any directors up for election at its AGM.

The company stated that it has decided not to apply the principle of the UK Corporate Governance Code, which recommends the annual election of FTSE350 directors. It stated that this decision was taken by the two predecessor companies. In addition, as directors were appointed for a four-year term from the effective date of the merger, none face re-election at the forthcoming meeting. Instead, shareholders are given a vote to discharge the board. Given that the board did not put any directors up for re-election, for reasons which were not explained, PIRC recommended a vote against.

In the future there will be staggered elections, with directors serving a three-year term. The first group of directors to face election will do so at the 2013 AGM. By failing to make directors face annual re-election, the company will be one of the few FTSE100 constituents not to comply with the Code on this point.

BIS warns EC off gender quotas

The UK Government has reconfirmed its opposition to mandatory gender quotas in boardrooms.

In its response to the European Commission's consultation on Gender imbalance in corporate boardrooms, the Department for Business Innovation and Skills (BIS) said that placing the onus on businesses has brought about an "unprecedented increase" in female board representation without having to resort to government interference. According to the BIS response, 100 new female appointments have been made in corporate Britain and that all male boards are now the minority among the FTSE250 for the first time in history. Since Lord Davies' report on women in the boardroom was issued in February 2011, FTSE100 and FTSE150 female board positions have increased from 12.5% to 15.8% and 7.8% to 8.7%, respectively, said BIS. On this basis, the UK argues that self-regulation should be considered over introducing quotas at European boardrooms.

Separately, the National Employment Savings Trust (NEST) has also responded to the EC, a sign of the scheme's commitment to corporate governance and responsible investment. In its response, NEST states that it prefers a "flexible system of corporate governance that puts the onus on company boards to explain how they are increasing gender diversity at the most senior levels." It adds that European institutions should aim to improve their reporting and transparency of corporate boards rather than impose mandatory quotas as some European countries have already done. NEST suggests an initial target of 30%, citing organisational and psychological research that suggests this is required for 'minority' groups to be valued.

WPP breaks wrong kind of record

Possibly the most highly anticipated shareholder vote on a remuneration report since GlaxoSmithKline in 2003 ended in defeat for WPP, as widely expected.

With a vote of just under 60% against the remuneration report, it was not the worst defeat this year but it will sting WPP nonetheless. It's only the fifth FTSE100 company to lose the vote on its remuneration report in the 10 years shareholders have had the vote. In addition, as it marks the sixth company defeat this year, WPP has helped create corporate governance history of the wrong sort by making this a record year of defeats.

One fact worth noting is the very low level of abstentions, less than 1%. This was a vote where institutional investors took a clear position for or against the policy. It is perhaps also indicative of a move away from abstentions on pay generally. Digging into individual asset manager voting disclosures (where available) for 2011 suggests that some have decided to reduce the use of abstentions, at least for now.

As a number of commentators have noted, the WPP vote is significant because it did not fit the mould of previous large levels of opposition to executive pay. WPP is a successful business (though some might quibble about just how successful), so this was not a vote about underperformance. Nor are there concerns about the chief executive, as evidenced by the high vote for Sir Martin Sorrell's re-election. Nor was the opposition focused on the structure of pay. This vote was largely about the company trying to award too much to executives.

There is a danger of reading too much into one result. It may be tempting to regard the WPP defeat as evidence that institutional investors are going to start taking a tougher line on the scale of rewards. We would hope so, but in reality large increases in base salary may have been problematic for investors in any year, and were certain to be challenged in the current economic environment. In addition, it's clear that there is a degree of frustration on the part of some investors about the way the company undertook consultation with shareholders. Some do not believe the final policy took account of their concerns. Therefore, we should be wary of concluding that this defeat necessarily marks a change in investor attitudes to high pay in general.

This is important as there is quite a bit of expectation building of the role shareholders can play in tackling top pay. It has been clear for some time (except perhaps to some in the business community) that continuing to increase executive rewards at a time when the public is experiencing a squeeze on living standards would be politically problematic. However, it is also the case that, at least for now, direct political intervention will be limited. Therefore, giving shareholders more powers to address executive pay, and exhorting them to do so, remains the favoured option to manage the problem. It is unlikely to make it go away, however.

Morrisons' auditor challenged

There was a rare case of a significant vote against an auditor appointment, at supermarket chain Morrisons.

According to the company's AGM statement, the vote against the re-appointment of KPMG was 12.57%.It might not sound like a lot, but the typical auditor appointment is ratified with less than 2% in votes against and abstentions. The high vote against in this case seems to have been driven by concerns that KPMG earned more from non-audit work than the audit itself in 2011. PIRC had recommended opposition on these grounds.

Cable pushes pay reform

Business Secretary Vince Cable proposed a number of reforms to reframe the debate on directors' remuneration.

The measures in the package address the shortcomings in corporate governance by empowering more effective dialogue between companies and their owners, announced the Department of Business, Innovation and Skills in a press release. Cable's suggested reforms include: an annual binding vote on remuneration policy and exit payments (a triennial vote should the remuneration policy remain unchanged) as well as how directors' pay compares to the wider workforce. He has modified the previously proposed voting threshold of 75% of votes needed to pass executive remuneration proposals to a standard majority. Should a company fail the advisory vote, it will be required to put its overall remuneration policy back to shareholders in a binding vote. The proposals also aim to increase transparency to better determine the link between pay and performance by requiring companies to report a single figure for total director pay along with details of whether performance measures were met and a comparison between company performance and chief executive remuneration.

Cable said that the decision behind bringing forward the legislation was "encouraged by the 'shareholder spring,'" and a desire to see the momentum sustained. The Financial Reporting Council will also consult on updating the Code to include a measure that would require companies to publish a statement when a significant minority of shareholders vote against a pay resolution. The pay reform legislation is currently before Parliament and is expected to be enacted by October 2013.

LSE becomes green

In a landmark move, the UK government has announced that companies listed on the London Stock Exchange will have to report their levels of greenhouse gas emissions from April next year.

The UK will be the first country to mandate companies to publish details of their emissions in their annual reports. Though the new regulations will only apply to about 1,600 companies, this could be expanded to include other large companies when the policy is reviewed in 2015, reported the Guardian. Plans for new legislature were unveiled by the Deputy Prime Minister Nick Clegg at the start of the Rio+20 sustainability conference in Brazil.

Around 4m tonnes of carbon dioxide will be saved under the plan by 2021, said officials. "Using resources responsibly is in business' own interest too. But while nine out of 10 [chief executives] say sustainability is fundamental to their success, only two out of 10 record the resources they consume," wrote Clegg in the Guardian.

The move has been opposed by some companies and business lobby groups that claim the measure will increase the workload of managers who already must report emissions under other environmental regulation. Despite such criticisms, the plan has been backed by other organisations like the Confederation of British Industry, which has been advocating for the adoption of a standard measure so that businesses can be compared more fairly, said the Guardian.

UK Voting Analysis

Table 1: Top Oppose Votes

	Company	Type	Date	Resolution	Proposal	Funds Vote	Oppose %
1	CAIRN ENERGY PLC	AGM	17 May 12	2	Approve the Remuneration Report	Oppose	60.90
2	WPP PLC	AGM	13 Jun 12	2	Approve the Remuneration Report	Oppose	59.07
3	AVIVA PLC	AGM	03 May 12	2	Approve the Remuneration Report	Oppose	49.44
4	WILLIAM HILL PLC	AGM	08 May 12	2	Approve the Remuneration Report	Abstain	48.26
5	SHIRE PLC	AGM	24 Apr 12	14	Issue shares with pre-emption rights	For	45.26
6	XSTRATA PLC	AGM	01 May 12	3	Approve the Remuneration Report	Oppose	35.22
7	WPP PLC	AGM	13 Jun 12	10	Re-elect Koichiro Naganuma	Abstain	29.29
8	WPP PLC	AGM	13 Jun 12	8	Re-elect Ruigang Li	Abstain	28.15
9	BARCLAYS PLC	AGM	27 Apr 12	2	Approve the Remuneration Report	Oppose	25.22
10	ANGLO AMERICAN PLC	AGM	19 Apr 12	17	Issue shares with pre-emption rights	For	23.10

Note: Levels of opposition percentage represent opposition votes cast as a percentage of all votes cast either in favour or against a resolution.

Table 2: Votes by Resolution

Resolution Type	For	%	Abstain	%	Oppose	%	Withdrawn	%	Total
All Employee Schemes	9	100	0	0	0	0	0	0	9
Annual Reports	45	39	14	12	55	48	0	0	114
Articles of Association	7	87	0	0	1	12	0	0	8
Auditors	73	68	21	19	13	12	0	0	107
Corporate Actions	2	66	1	33	0	0	0	0	3
Corporate Donations	21	84	3	12	1	4	0	0	25
Debt & Loans	0	0	0	0	0	0	0	0	0
Directors	492	85	51	8	34	5	0	0	577
Dividend	45	100	0	0	0	0	0	0	45
Executive Pay Schemes	5	50	1	10	4	40	0	0	10
Miscellaneous	49	100	0	0	0	0	0	0	49
NED Fees	1	50	0	0	1	50	0	0	2
Non Voting	0	0	0	0	0	0	0	0	0
Say On Pay	0	0	0	0	1	100	0	0	1
Share Capital Restructuring	0	0	1	100	0	0	0	0	1
Share Issue/Re-purchase	159	89	13	7	5	2	0	0	177
Shareholder Resolution	0	0	0	0	0	0	0	0	0
Undefined	7	100	0	0	0	0	0	0	7

UK Voting Charts

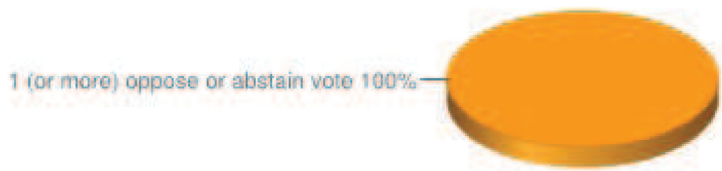
These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	915
Oppose	115
Abstain	105
Withdrawn	0
Total	1135

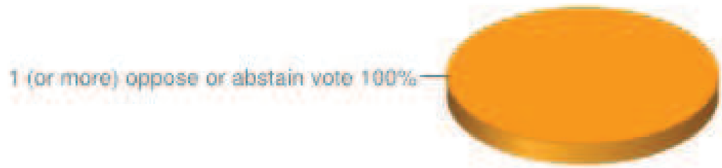
Meetings	AGM	EGM	Total
Total Meetings	57	1	58
1 (or more) oppose or abstain vote	57	1	58

UK Voting Record

UK AGM Record



UK EGM Record



UK Voting Timetable Q2 2012

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 3: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	EURASIAN NATURAL RESOURCES	02 Apr 12	**EGM**	2012-03-26
2	SMITH & NEPHEW PLC	12 Apr 12	AGM	2012-04-02
3	BP PLC	12 Apr 12	AGM	2012-04-02
4	DRAX GROUP	18 Apr 12	AGM	2012-03-30
5	DEVRO PLC	19 Apr 12	AGM	2012-03-30
6	PERSIMMON PLC	19 Apr 12	AGM	2012-04-09
7	ANGLO AMERICAN PLC	19 Apr 12	AGM	2012-04-10
8	RIO TINTO GROUP (GBP)	19 Apr 12	AGM	2012-04-03
9	HAMMERSON PLC	19 Apr 12	AGM	2012-04-03
10	SPECTRIS PLC	20 Apr 12	AGM	2012-04-11
11	CAPITAL & COUNTIES PROPERT	20 Apr 12	AGM	2012-04-11
12	FILTRONA PLC	24 Apr 12	AGM	2012-04-13
13	SHIRE PLC	24 Apr 12	AGM	2012-04-13
14	BODYCOTE PLC	25 Apr 12	AGM	2012-04-13
15	BRITISH AMERICAN TOBACCO PLC	26 Apr 12	AGM	2012-04-17
16	ASTRAZENECA PLC	26 Apr 12	AGM	2012-04-05
17	ELEMENTIS PLC	26 Apr 12	AGM	2012-04-17
18	TAYLOR WIMPEY PLC	26 Apr 12	AGM	2012-04-16
19	BARCLAYS PLC	27 Apr 12	AGM	2012-04-12
20	XSTRATA PLC	01 May 12	AGM	2012-04-23
21	PROVIDENT FINL GROUP	02 May 12	AGM	2012-04-24
22	LANCASHIRE HOLDINGS LTD	03 May 12	AGM	2012-04-25
23	GKN PLC	03 May 12	AGM	2012-04-24
24	AVIVA PLC	03 May 12	AGM	2012-04-24
25	GLAXOSMITHKLINE PLC	03 May 12	AGM	2012-04-24
26	MORGAN SINDALL GROUP PLC	03 May 12	AGM	2012-04-24
27	ROLLS-ROYCE HOLDINGS PLC	04 May 12	AGM	2012-04-24
28	MORGAN CRUCIBLE CO PLC	08 May 12	AGM	2012-04-27
29	WILLIAM HILL PLC	08 May 12	AGM	2012-04-27
30	SAVILLS PLC	09 May 12	AGM	2012-04-26
31	UNILEVER PLC	09 May 12	AGM	2012-05-01
32	WEIR GROUP PLC	09 May 12	AGM	2012-05-01
33	RIGHTMOVE PLC	09 May 12	AGM	2012-05-01
34	STANDARD CHARTERED PLC	09 May 12	AGM	2012-05-01
35	CATLIN GROUP LTD	10 May 12	AGM	2012-05-01
36	PETROFAC LTD	11 May 12	AGM	2012-05-01
37	CENTRICA PLC	11 May 12	AGM	2012-05-01
38	BOVIS HOMES GROUP PLC	16 May 12	AGM	2012-05-09

39	INTERSERVE PLC	16 May 12	AGM	2012-05-09
40	BG GROUP PLC	16 May 12	AGM	2012-05-04
41	LEGAL & GENERAL GROUP PLC	16 May 12	AGM	2012-05-04
42	HOWDEN JOINERY GROUP PLC	16 May 12	AGM	2012-05-09
43	DERWENT LONDON PLC	16 May 12	AGM	2012-05-03
44	TULLOW OIL PLC	16 May 12	AGM	2012-05-04
45	NEXT PLC	17 May 12	AGM	2012-05-08
46	PRUDENTIAL PLC	17 May 12	AGM	2012-05-08
47	YULE CATTO & CO PLC	17 May 12	AGM	2012-05-09
48	LLOYDS BANKING GROUP PLC	17 May 12	AGM	2012-05-08
49	COMPUTACENTER PLC	18 May 12	AGM	2012-05-09
50	ROYAL DUTCH SHELL PLC	22 May 12	AGM	2012-05-08
51	FERREXPO PLC	24 May 12	AGM	2012-05-14
52	HSBC HLDGS PLC	25 May 12	AGM	2012-05-14
53	WPP PLC	13 Jun 12	AGM	2012-06-01
54	MORRISON (WM) SUPERMARKETS	14 Jun 12	AGM	2012-06-06
55	KINGFISHER PLC	14 Jun 12	AGM	2012-06-06
56	OPHIR ENERGY PLC	19 Jun 12	AGM	2012-06-11
57	TESCO PLC	29 Jun 12	AGM	2012-06-19

Not Voted Meetings

Table 4: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	CAIRN ENERGY PLC	17 May 12	AGM	No ballot

UK Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

AIM UK Market Voting Timetable Q2 2012

There were no meetings held by the client during the period.

AIM UK Market Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

Fledgling UK Market Voting Timetable Q2 2012

There were no meetings held by the client during the period.

Fledgling UK Market Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

European Corporate Governance Review

NBIM highlights ESG failures

Over a third of companies are not taking action on social and environmental risks says Norges Bank Investment Management's (NBIM) review of corporate reporting.

In 2011, over a third of the 1,078 companies evaluated by NBIM received a score of zero. Three areas of particular concern to the Norwegian Government Pension Fund are children's rights, climate change and water scarcity. NBIM says few have actually made improvements compared to 2010. Walt Disney, Intel and Anglo American were among 14 companies that received top scores for reporting on the risks of child labour use and children's rights violations. Gap, Adidas and Next were some of the newest additions to the list of high scoring companies. Within this category, 41% received zero points. Air France-KLM, BASF and E.On were among the top 11 for reporting on climate change related risks. A total of 17% of companies within this category scored zero. Some of the 32 companies that earned the highest scores for reporting on water-related risks were Nestlé, Kellogg and PepsiCo. 32% of companies in this area earned zero points.

Dutch pursue auditor rotation

If plans for mandatory rotation of auditors are given the thumbs up by the upper house of the Dutch parliament this could have a significant impact on the European Commission's plans on the issue, the FT reports.

The Commission has consulted on a number of possible changes intended to improve audit quality, including restrictions on the provision of non-audit services by the auditing firm and, more controversially, mandatory rotation of the auditor. But separately two proposals have been put forward in the Dutch parliament addressing the same points. The FT suggests that if the proposals, which have been backed by MPs, are enacted this will strengthen the EC's position on these issues. The paper also says the reforms would have an immediate impact on Anglo-Dutch businesses like Unilever and Reed Elsevier.

The EC's proposals have drawn fire from the Big Four audit firms. Some investor groups in the UK have also challenged them. Opponents of the change argue that it could damage audit quality with the incoming firm less familiar with the workings of the company. However, proponents say that long-duration appointments run the risk that the auditor loses independence. Work in the field of behavioural ethics has suggested that even well-intentioned auditors may find that their independence is compromised as a result of long-term appointments.

It is notable that many UK investors appear relatively relaxed about possible threats to auditor independence. In addition to opposing any significant policy changes in this area, voting results and individual institutions' voting records reveal that auditor appointments are rarely challenged. We estimate that the average vote against an auditor appointment is around 1%. In addition, in an analysis of voting by asset managers at FTSE100 companies in the 2010 season, PIRC identified more that a dozen institutions that did not oppose a single auditor appointment.

NBIM seeks proxy access support

Norges Bank Investment Management (NBIM) has issued a 31-page PowerPoint presentation in an attempt to rally investor support for its shareholder proposals on proxy access at six US companies.

The manager of the $550 billion Norwegian Government Pension Fund Global filed the proposals last year at Wells Fargo, Charles Schwab, Western Union, Staples, Pioneer Natural Resources and CME Group to give shareholders the right to nominate candidates to company boards or "proxy access." In the presentation, NBIM argues that proxy access not only strengthens shareholder rights but is a fundamental principle of corporate governance. “When [board members] fail to meet our expectations, we as shareholders should be able to propose alternatives without incurring prohibitively high costs,” said Anne Kvam, global head of ownership policy at NBIM.

Italian firms move on diversity

During the current proxy season shareholders at Italian companies have been asked to approve amendments to company by-laws pursuant to Italian Law no. 120 of 12 July 2011, which concerns equal access to the management and control bodies of companies listed in regulated markets.

The law provides for positive discrimination in favour of the least represented gender in the board of directors and board of statutory auditors at Italian companies: the least represented gender must represent at least one third of elected directors and statutory auditors for three consecutive terms. The most common proposed changes include mandatory gender representation in the lists of candidates to either body. However, there are other balancing mechanisms in case this is not sufficient, such as replacing the last elected director with the first non-electedcandidate of the least represented gender. Though mandatory gender diversity was conceived by the government as a temporary measure, most companies that have renewed their board of directors or board of statutory auditors during this proxy season have directors representing both genders on board. Gender diversity seems to have broken through in corporate governance in Italy.

EU looks at binding pay votes

The European Union could follow the lead set by the UK and require companies to put their executive remuneration policies to a binding shareholder vote, according to reports.

The binding vote could be part of a package of reforms being considered by European Commissioner Michel Barnier. In addition to a binding pay vote, Barmier is also reportedly considering requiring banks to disclose remuneration for their top 20 or 30 earners. The FT also said that Barnier said he would also like to give shareholders of listed companies a vote on the maximum ratio of bonus to salary, as well as a ratio of the pay between the lowest and the highest earner. Both ideas would go considerably further than current practice.

It’s worth noting as an aside that in the UK the idea of binding votes on company remuneration policies has been largely driven by policymakers. Looking at responses to last year’s discussion paper on executive pay issued by the Department of Business, Innovation and Skills, it is clear that many investors were unconvinced that a binding vote would be helpful. Several responses suggested that there might be negative unintended consequences if a binding vote were introduced.

Of course if you have long enough memories you may recall that when the idea of an advisory vote on remuneration was first floated in the 1990s, some in our investment industry said… there would be negative unintended consequences.

SocGen pushed over governance

Shareholders pushed back at the recent Société Générale AGM despite the French banking giant’s efforts to block a shareholder resolution calling for governance reform.

The proposal, which requested that the bank adopt a two-tier structure and split Frédéric Oudéa’s dual role, was filed by PhiTrust Active Investors and backed by a number of French shareholder groups. 25% of shareholders backed the proposal at the AGM.

In light of the Kerviel scandal of 2008, the company had split the roles of then chief executive and chairman Daniel Bouton. However, Oudéa began serving as both chief executive and chairman after Daniel Bouton stepped down in May 2009. Ahead of the AGM, SocGen had rejected the request to add a proposal on separating the roles to the meeting’s agenda. The bank argued that under provisions of article

L. 225-57 of the French Commercial Code decisions such as separating senior roles falls under its authority, adding that the general meeting "gives all powers to the Board of Directors."

PhiTrust expressed concern over the growing trend among French companies to recombine roles at the top. Almost 40% of CAC-40 companies have an executive chairman but SocGen is the only one of three largest French banks to have one, reported the FT.

Italian firms to join the 30% Club

Italian-listed and state-owned companies have until August to comply with new gender targets aimed at the C-suite or face fines up to €1 million.

Under the new 'pink quotas' Italian companies must ensure that one-third of their board members are women by 2015, reported the Wall Street Journal. Currently, women comprise just 6% of board positions at Italian companies. Those in support of the law hope it will lead to a cultural shift – Italy also has the second-lowest level of women in the workforce in Europe.

Putting quotas in place to increase the gender balance of boardrooms is not an entirely new concept as other European countries such as Spain, France, the Netherlands and Belgium have already instilled laws forcing companies to comply. Other countries such as the UK and Sweden have instead set voluntary quotas on the grounds that affirmative-action policies impede the genuine selection of the best candidates.

Though opposition to mandatory gender quotas has also gained support from organisations like the lobby group BusinessEurope and the Organisation for Economic Cooperation and Development, the law has already started to encourage change. For the first time in its 113 year history, Fiat, along with several other formerly male-only Italian blue chip boardrooms, has become co-ed.

Europe mulls bank bonuses cap

Bankers' bonuses could be capped at a maximum of 100% of salary under strict new rules being considered by some European Union parliamentarians.

According to a report in the FT, members of the European Parliament have tabled numerous amendments relating to remuneration to planned legislation on bank capital rules. According to the report, the idea of a 'one-to-one' maximum ratio for bonuses could be popular. Such a proposal would face significant resistance from the City, and other key financial centres, where maximum bonuses are several multiples of salary.

Already pay consultants are spinning that such a cap would be disastrous, and could lead to increases in fixed pay, although, presumably, banks could simply *not* increase fixed pay greatly. It has also been claimed that restrictions on bonuses would make remuneration costs less flexible. Presumably though banks could do what other businesses do and freeze or cut pay (or jobs) if costs are too high.

Carrefour's French rebellion

In an uncommon move, French shareholders rebelled against mega French retailer Carrefour's AGM by blocking the company's allocation of new shares, reported the Financial Times.

The resolution to pay former chief executive Lars Olofsson a €1.5 million non-competition pay-off and an annual pension package of approximately €300,000-€500,000 was rejected by just over 48% of shareholders. The two resolutions on allocation of free shares and stock options for management and employees failed to gain the two-thirds investor backing needed to pass, said the Financial Times.

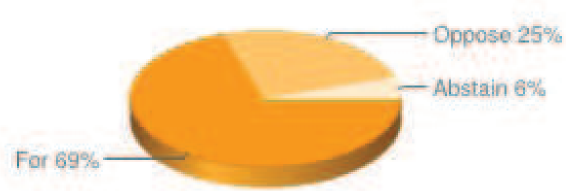
European Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

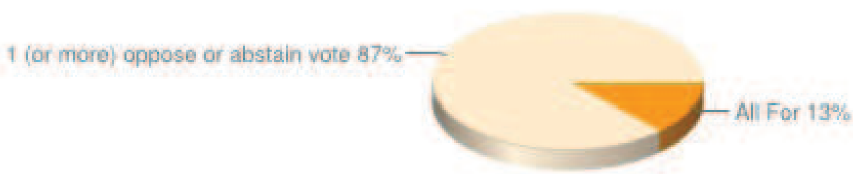
Total Resolutions	
For	134
Oppose	49
Abstain	11
Withdrawn	0
Total	194

Meetings	AGM / Combined	EGM	Total
Total Meetings	15	0	15
1 (or more) oppose or abstain vote	13	0	13

European Voting Record



European AGM Record / Combined



European EGM Record

There where no EGMs during the last period in the clients portfolio.

European Voting Timetable Q2 2012

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 5: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	TELIASONERAAB	03 Apr 12	AGM	2012-03-15
2	LONZAGROUP AG	03 Apr 12	AGM	2012-03-16
3	LOREAL SA	17 Apr 12	AGM	2012-04-02
4	PRYSMIAN SPA	18 Apr 12	AGM	2012-04-02
5	NESTLE SA	19 Apr 12	AGM	2012-04-02
6	SYNGENTAAG	24 Apr 12	AGM	2012-04-05
7	DNB NOR ASA	25 Apr 12	AGM	2012-04-12
8	AB INBEV (ANHEUSER-BUSCH INBEV) NV	25 Apr 12	AGM	2012-04-11
9	ABB LTD	26 Apr 12	AGM	2012-04-05
10	BAYER AG	27 Apr 12	AGM	2012-04-16
11	ACTELION LTD	04 May 12	AGM	2012-04-19
12	AIR LIQUIDE SA	09 May 12	AGM	2012-04-26
13	FRESENIUS MEDICAL CARE AG & CO KGAA	10 May 12	AGM	2012-04-26
14	TOTAL SA	11 May 12	AGM	2012-05-01
15	THALES	15 May 12	AGM	2012-05-03

European Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

US Corporate Governance Review

SEC whistleblower cases

230 cases were eligible for awards under the US Securities and Exchange Commission's (SEC) whistleblower program.

The latest results were revealed at its annual "SEC Speaks" conference on trends and priorities at the Commission. Since the hotline opened the department has returned more than 2,000 calls to potential leads. Sean McKessy, chief of the new Office of the Whistleblower, announced the statistics. The office, which serves as "liaison" between the whistleblower community and the enforcement staff, has received some criticism about its decision to allow whistleblowers to report wrongdoing to the SEC without having to report it internally beforehand. The "significant majority" of whistleblowers do in fact report internally before contacting the SEC, said McKenny in response, adding that he was "hard pressed" to think of an example where this did not occur.

Goldmans board pick irks AFSCME

The Federation of State, County & Municipal Employees (AFSCME) announced its disappointment over the decision of Goldman Sachs' independent directors to appoint James Schiro as independent lead director.

AFSCME had filed a proposal requesting that the firm separate the roles of chair and CEO but withdrew it after the bank agreed to appoint an independent lead director. Appointing a lead director should result in more accountability to shareholders. However, as former CEO of Goldman's auditor PwC and a member of the bank's board since 2009, Schiro is not considered independent by AFSCME. Indeed, he was on a list of unacceptable candidates the union had submitted to Goldman, reported CNNMoney. "It would be hard for him to be an independent advocate for shareholders," said AFSCME's Lisa Lindsley.

US resolutions go green, says E&Y

A publication by Ernst & Young warned companies that "a confluence of factors are working to sharpen the attention on the "triple bottom line" of environmental, social and economic performance."

In the white paper, *Leading corporate sustainability issues in the 2012 proxy season: Is your board prepared?*, the consulting firm said that investor concerns in the form of shareholder proposals on environmental and social issues will dominate other major proposal categories for the third consecutive year, with voting support for these proposals receiving even greater support. Increased shareholder activity will place more pressure on companies to engage with stakeholders on these matters, said Ernst & Young. As the investor demand for accountability and disclosure grows, Ernst & Young has advised companies to take advantage of these opportunities to discuss such topics with stakeholders as it enables the board to better understand their perspectives on key issues and the possibility of strengthening relations. The group noted the emergence of the following five key themes for the 2012 proxy season: corporate political and lobbying activity; energy extraction practices; sustainability reporting and GHG emissions reduction efforts; corporate diversity policies; and operational safety and accident risk reduction.

CF Industries' board challenged

Shareholders at US fertilizer manufacturer and distributor CF Industries had once again put forward a proposal urging the board to declassify.

Proponents for the measure, including The Los Angeles County Employees Retirement Associate and The Office of the Comptroller of the City of New York, asked that the board recognise the significance of shareholder interest in the proposal – last year 83.4% of investors backed the proposal. Classified boards are considered contrary to best practice as they can serve to entrench underperforming management. Bizarrely, the CF Industries board claimed staggered elections provide “accountability to stockholders” and “protection against undue influence of minority holders.” This despite the fact a majority of its own shareholders supported the call for reform last year!

US firms disclose lobbying efforts

A dozen US corporate heavyweights agreed to reveal their political spending and lobbying efforts in exchange for the withdrawal of shareholder proposals.

Coca-cola, General Electric Co. and Johnson & Johnson were among the companies that published more detailed information about areas like trade association memberships and top policy issues, Reuters said. The information will better enable the average investor to track down company lobbying activities, said Tim Smith, senior vice president at Walden Asset Management. Others calling for increased corporate disclosure include the AFSCME union and the New York State Common Retirement Fund.

Google fuels investor unease

Google compounded fears that shareholders are being disenfranchised after announcing a stock change that would create a new class of nonvoting shares.

The new class of shares, Class C, will have no voting power. The company has had a dual-class share structure in place since its inception and has made it public that it has no intention of increasing shareholder voting power. The company argued the dual-class structure shields it from outside pressure during potentially risky investments like YouTube and the mobile operating system Android. The new proposal was to be put forth at the company AGM but with the founders controlling the majority of voting power, the chance of it not passing was slim.

WellPoint lobbying challenged

A U.S. investor coalition called on shareholders to oppose the election of two WellPoint directors for their failure to oversee “high risk” political contributions.

According to the shareholder group, the second largest U.S. healthcare company by membership was targeted for its reluctance to explain why $86 million was transferred from the health insurer’s trade association to business lobby group the U.S. Chamber of Commerce. The payment by WellPoint (a member of the Chamber) was issued at the height of the campaign against President Obama’s health care plan. Change to Win, U.S. labor organization and part of the shareholder campaign to force companies to disclose their political and lobbying expenditures, said “this is the most egregious clandestine campaign funding we have ever seen.” This is the first time shareholders have held board members rather than a company accountable for political and lobbying expenditure decisions, said The Washington Post.

U.S. pay ratio too wide say unions

CEOs of S&P500 listed companies now make 380 times the salary of average workers in the U.S., according to the latest review of executive pay by the AFL-CIO.

AFL-CIO, which has been reporting U.S. CEO pay trends for the past 15 years, shows the overall pay for S&P500 CEOs has reached nearly $13 million. Average U.S. worker pay for the same period totalled $34,053 – a mere 2.8% increase. This new level of executive pay, which has increased by 13.9% compared to last year, places the U.S. as the country with the widest pay gap in the world.

Wal-Mart under more scrutiny

Pressure continued to build for U.S. retail giant Wal-Mart as new evidence linking the company to corporate interest group U.S. Chamber of Commerce's lobbying campaign to amend the U.S.' anti-bribery law surfaces.

Over the past two years the Chamber has increased its efforts to amend parts of the U.S.' 1977 Foreign Corrupt Practices Act, which prohibits U.S. companies and their subsidiaries from bribing foreign officials. The notion of amending the law has sparked serious debate in both the Justice Department and Capital Hill. So much so that it provoked a response form Secretary of State Hillary Rodham Clinton who stated that the Obama administration is "unequivocally opposed" to weakening the FCPA. However, it has gained considerable backing from a number of corporations, trade groups such as the Retail Industry Leaders Association and former attorney general (and influential lobbyist) Michael B. Mukasey whose law firm has received over $200,000 from the Chamber, reported the Washington Post.

Wal-Mart's own involvement in bribery first became public knowledge when the New York Times exposed a series of wrongdoings at the company's largest foreign subsidiary, Wal-Mart de Mexico, which included an aggressive "campaign of bribery" to win building permits throughout the country. The New York Time's investigation into the matter was the first time the story was publicly revealed despite the activities having been known by company headquarters in Arkansas since 2005. According to reports, the campaign was orchestrated under former Wal-Mart CEO and current board member Lee Scott's watch. The retailer's activities were first brought to the attention of the company's lawyer when a whistleblower from the Mexican subsidiary contacted officials in 2005, leading to a widespread investigation that uncovered evidence of bribery totalling more than $24 million. Thomas D. Hyde, the company's former corporate secretary and ethic's officer, was at this time a member of the Institute of Legal Reform – a department within the Chamber that has led the campaign to amend the law, said the Washington Post. The misconduct was never reported by the company to Mexican or American officials. Of particular concern to critics is the Chamber's determination to gut the law and that multinationals like Wal-Mart have executives sitting on the Chamber's board. A top executive from Wal-Mart has been on the Chamber's board for almost a decade.

Should Wal-Mart be found it guilty, it would be in violation of the U.S. law.

CalPERS reports on ESG issues

The California Public Employees' Retirement Systems (CalPERS) created a roadmap for sustainable investing by issuing its first-ever report on the pension fund's journey to environmental, social and governance investments.

The report, *Towards Sustainable Investment: Taking Responsibility,* chronicles the steps the fund has taken to create a fiduciary framework that integrates sustainability across the its $235 billion investment portfolio as well as how this "total fund" approach will enable it to achieve long-term risk adjusted returns. In addition to examples and achievements, the report includes: the "3Ps" of the CalPERS Program: Priorities, Performance, and Procurement; the core themes of alignment of interest, climate change and human capital; sustainable principles at work in the pension fund's global proxy voting and Focus List programs; and the relationships CalPERS has with leading sustainable and corporate governance associations and academic bodies.

Chesapeake splits top roles

Chesapeake Energy has agreed to two crucial governance reforms: removal of the Founder Well Participation Program and separation of the chair and CEO.

The second-largest natural gas producer in the US announced that it has ended CEO Aubrey McClendon's controversial remuneration plan after the plan enabled him to borrow over a billion dollars from the company's treasury sparked widespread investor criticism, said the New York Times. The company has sought further shareholder approval by agreeing to appoint an independent chairman. The company's dual role had been a major concern for shareholders.

Knight Capital loses Say on Pay

Knight Capital became the latest company to have its remuneration package fall under the blades of the shareholder guillotine after failing to gain shareholder support for its executive pay package at the company's AGM.

Shareholders of the New Jersey based company rejected the remuneration plan by a margin of almost two-to-one, according to Financial News. Investors questioned the pay package of chief executive Tom Joyce whose remuneration was nearly $6.4 million last year. After the vote, Joyce pledged to work with the company's investors to "clarify and enhance" the company's pay structure. Adding that both the board and the management "take seriously the design of compensation policies and procedures."

Row over corporate lobbying

U.S. shareholder activists responded angrily to a Wall Street Journal editorial that attacked a campaign on disclosure of corporate funding of lobbyists.

The WSJ comment on the campaign for disclosure at WellPoint claimed that it was intended to "intimidate companies from exercising their free-speech rights" and was "part of the larger campaign by unions and liberal lobbies to demonize corporate donors." In response, U.S. governance veteran Nell Minnow penned a piece for the Huffington Post citing research showing that for every additional $10,000 a firm spent of political donations, its stock market price dropped 7.4 basis points below expectation. She wrote: "The people whose money is being spent are entitled to the information about what candidates and associations are being supported."

Analysts split over quarterlies

There is a clear split between U.S. analysts and those in the rest of the world over the value of quarterly reporting by companies, Citigroup research has shown.

Over half of the participants (57%) in the survey agreed that if companies were not required to issue quarterly reports they would be given more time to consider the longer-term investment case. The results to the questionnaire showed a sharp regional divide with over two-thirds of EMEA (66%) and AsiaPac (70%) analysts agreeing. Of these, Australia and Japan held the strongest views with 100% and 93%, respectively, supporting the reduction of quarterly reports. In contrast, 71% of analysts in the Americas disagreed. Further results indicated that more senior, male analysts were likely to agree with the statement compared to less experience junior analysts and females.

JP Morgan board challenged

In the aftermath of a serious shareholder challenge to banking giant J.P. Morgan, an increasing number of US investors backed proposals for the separation of chair and CEO this proxy season.

Results from the company's AGM showed that 40% of shareholders called for Jamie Dimon to relinquish his chairmanship title – up 6% compared to last year. Having combined roles at the top remains majority practice among US companies compared to the UK where very few companies fail to have an independent chair. Though it is difficult to say at this point in the US AGM season if the trend will continue. However, there were suggestions that momentum for splitting top roles is increasing. According to a Reuters report, many investors argued that having an independent chair in place should provide better oversight of pay and other governance issues.

Shareholders target fracking

A major investor campaign spearheaded by Boston Common Asset Management, the Investor Environmental Health Network and the Interfaith Center on Corporate Responsibility urged energy companies to adopt a set of best practice guidelines for shale gas fracking.

The 55 investors with $1 trillion in assets said in a joint press release that they will no longer willingly sit idly by as energy companies engaged in the practice known as ‘Fracking’ face concerns about industry drilling problems, growing regulatory uncertainty, and increasing opposition from concerned shareholders. Therefore they urged energy companies to adopt *Extracting the Facts: An Investor Guide to Disclosing Risks from Hydraulic Fracturing Operations*, which provides guidance based on 12 core goals and supporting practices and indicators inspired by energy companies’ requests, in dialogues with investors. The investors backing the guide believe adoption of the best practice principles can help energy companies pre-empt common impacts associated with fracking, including: bans, inconsistent practices that make it impossible for investors to make informed choices and growing shareholder unrest.

Investors unfriend Facebook IPO

Three separate shareholders of Facebook, Inc. filed class action lawsuits against the social media giant, its underwriters and Nasdaq OMX Group, Inc.

The first lawsuit, worth £1.8 billion, was filed by US-based law firm Robbins Geller.* In a press release the law firm alleged that the “Registration Statement and Prospectus issued in connection with the IPO were false and misleading” - a violation of the Securities Act. The plaintiffs of the second lawsuit, US-based Glancy Binkow & Goldberg LLP, claimed that weakened growth forecasts were “passed on only to a handful of large investor clients, not the public,” enabling certain investors to sell their shares before the price fell. The information omitted pertained to a reduction in revenue due to users accessing the site via mobile devices rather than traditional PCs. The third class-action suit was filed by Maryland resident and Facebook shareholder, Philip Goldberg, who claimed to have lost money from the failure of the company and its underwriters to disclose material information. Shares dropped by 20% since the company’s IPO.

*NB Alan MacDougall, PIRC’s managing director, is the European corporate governance adviser to the Robbins Geller firm.

CalPERS targets three companies

The California Public Employees’ Retirement System (CalPERS) called on fellow shareholders to support its governance proposals at three major U.S. companies.

The companies in question included Nabors Industries, Chesapeake Energy and New York Community Bancorp. “Egregious” executive pay was the chief concern at Nabors Industries. Though the company’s stock has decreased for the past five years, it proposed a $100 million non-performance severance package for the former CEO and approximately $50 million to the current CEO. At Chesapeake Energy CalPERS was advocating the removal of the 67% supermajority voting requirements. The U.S.’ largest pension fund asked shareholders of New York Bancorp to back its proposal to replace the company’s plurality voting standard with majority voting. Lastly, CalPERS announced that it would back proposals requesting access to the director nomination process at both Nabors Industries and Chesapeake Energy.

Wal-Mart directors challenged

In the wake of allegations of bribery, a record number of shareholders voted against Wal-Mart executives for the first time in the world’s largest company’s history.

Results from the company’s AGM showed that 13% of investors voted against the re-election of CEO Mike Duke, including just under 13% voting against founder Sam Walton’s son and chairman Robson Walton, and an additional 15.6% voting against former CEO Lee Scott. Wal-Mart’s chairman of the audit committee, Christopher Williams, also had just over 13% of votes cast against his re-appointment. With the Walton family controlling 47% of shares, investors had little chance of voting out executives. However, analysis from the New York City Comptroller's Office showed that, the Wal-Mart family aside, over 32% of shares were cast against both Duke and Williams, just over 31% went against Walton and more than 38% were against Scott, according to Bloomberg. Last year, Rob Walton, Scott and Duke had almost 100% shareholder backing. Wal-Mart reaffirmed its commitment to compliance and integrity in all of its operations after the AGM.

Best Buy board bust-up

Further shake ups in Best Buy's boardroom as founder Richard Schulze announced that he would resign his chairmanship effective immediately.

Schulze added that he would "explore all available options" for his 20% stake in the company. Hatim Tyabji, Best Buy director and executive chairman of Bytemobile, will replace Schulze, announced the company in a press release. In the wake of a company scandal involving Schulze's failure to report an inappropriate relationship between former CEO Brian J. Dunn and a female employee, he agreed to relinquish his chairmanship role at the June 2013 AGM. However, sources close to the situation believe the abrupt change implies some sort of disagreement between Schulze and the board around strategies for the company, said the New York Times. Best Buy is under investor scrutiny for $1.23billion in losses during the last fiscal year.

Poor voting on climate proposals

Recent analysis shows that three leading U.S. mutual funds failed to support a single climate change resolution during the 2011 AGM season.

American Funds, Fidelity and Vanguard voted on numerous shareholder resolutions but none of their votes cast favoured resolutions to improve corporate environmental and financial performance related to climate change, according to analysis undertaken for CERES. The analysis, undertaken by Jackie Cook, founder of Fund Votes, found that Fidelity abstained on 89% and voted against 11% of proposals on climate change and climate risk management strategies, despite its proxy voting guidelines stating that abstentions are used mainly when information on economic impact is lacking. Given the wealth of financial and analytical data on climate change, Cook argued that this clearly is not the case. Vanguard abstained on 88% and voted against 12% of these issues. American Funds voted against every climate change resolution filed in 2011.

Pressure for political disclosure

Strong support for corporate political disclosure and accountability resolutions reflects sustained investor interest this US proxy season.

According to US-based non-profit Center for Political Accountability (CPA), corporate political spending resolutions received over 40% of shareholder backing at five US companies: Coventry Health Care Inc (48.62%); Anadarko Petroleum Corp (46.62%); Windstream Corp (43.30%); CenturyLink Inc (41.08%); and CVS Caremark Corp (40.91%). Investor support for resubmitted resolutions on political disclosure grew at 12 out of 18 companies, with WellCare being one of the most notable after capturing almost 60% of total shareholder votes in favour or in abstention. An analysis of proxy votes obtained from 25 companies as of June showed that more than half of resolutions using CPA's model proposals on corporate political expenditures won over 30% of votes in favour, said CPA in a press release. CPA added that 13 of the 51 resolutions filed resulted in companies agreeing to work with shareholders. "Both institutional and retail shareholders are casting high votes for political transparency. They recognize and are responding to the heightened threat posed by secret political spending since Citizens United," said CPA president Bruce Freed.

Meanwhile, CNN reported that the US Supreme Court met in private to deliberate over its temporary block on Montana's Supreme Court's decision to reinstate a century old law that prohibits corporate political spending. Proceeding will require the court to revisit the highly controversial ruling that gave "free speech" to corporations in federal election expenditures.

FSOC weak on progress

Just two years after the implementation of the Dodd-Frank Act, the Systemic Risk Council (SRC), a private sector, non-partisan body, fears not enough progress has been made toward the implementation of financial reforms.

The Financial Stability Oversight Council and the Office of Financial Research were commissioned to oversee the U.S.'s financial system in the wake of the financial crisis. However, an investigation into their progress by the SRC found that a sense of complacency has made reforms seem less urgent. On this basis, the SRC has issued a set of priorities it believes deserve immediate attention by the regulators.

Water-risk disclosure still lagging

More robust water-related information is needed to help investors better evaluate the extent to which their investments are exposed to associated risks.

Recent analysis of over 80 corporate disclosures of water risks between 2009 and 2011 shows that company reporting of this issue has increased but that most of the information provided by companies fails to disclose financially material water-risks posed by climate change, according to *Clearing the Waters: A Review of Corporate Water Risk and Disclosure in SEC filings*. The report, undertaken by CERES, the U.S. coalition of investors, found that data from companies relating to financial impacts, quantitative water metrics and potential supply chain risks is lacking. The shareholder group argues that investors need the specificity and the hard numbers to ensure they are investing responsibly. Investors like Michael P. McCauley, senior officer at Investment Programs & Governance at the Florida State Board of Administration, argue that corporate water use has become a significant corporate governance issue due to the economic advantage companies can gain through sensible water use management.

Eight water intensive sectors have been covered in the report, including: beverages, chemicals, electric power, food, homebuilding, mining, oil & gas and semiconductors. The report concludes with a number of recommendations for companies, such as more quantitative data in SEC filings and providing investors with details of how water risks are being mitigated.

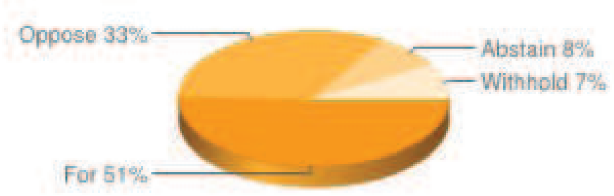
US Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	138
Oppose	90
Abstain	22
Withhold	20
Withdrawn	0
Total	270

Meetings	AGM	EGM	Total
Total Meetings	21	0	21
1 (or more) oppose or abstain vote	21	0	21

US Voting Record



US AGM Record

US EGM Record

There where no EGMs during the last period in the clients portfolio.

US Voting Timetable Q2 2012

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 6: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	UNITED TECHNOLOGIES CORP	11 Apr 12	AGM	2012-03-26
2	ADOBE SYSTEMS INC	12 Apr 12	AGM	2012-03-27
3	PNC FINANCIAL SERVICES GROUP INC	24 Apr 12	AGM	2012-04-15
4	L-3 COMMUNICATIONS HOLDINGS INC	24 Apr 12	AGM	2012-03-29
5	BAKER HUGHES INC	26 Apr 12	AGM	2012-03-29
6	eBAY INC.	26 Apr 12	AGM	2012-04-17
7	PFIZER INC.	26 Apr 12	AGM	2012-04-16
8	AT&T INC.	27 Apr 12	AGM	2012-04-17
9	FLIR SYSTEMS INC.	27 Apr 12	AGM	2012-04-17
10	CONSOL ENERGY INC.	01 May 12	AGM	2012-04-25
11	EMC CORP.	01 May 12	AGM	2012-04-25
12	LABORATORY CORP. OF AMERICA	01 May 12	AGM	2012-04-25
13	WISCONSIN ENERGY CORP.	03 May 12	AGM	2012-04-24
14	EQUIFAX INC.	03 May 12	AGM	2012-04-24
15	SPRINT NEXTEL CORP.	15 May 12	AGM	2012-05-02
16	REGIONS FINANCIAL CORP.	17 May 12	AGM	2012-05-10
17	ALTRIA GROUP INC.	17 May 12	AGM	2012-05-16
18	PRINCIPAL FINANCIAL GROUP	22 May 12	AGM	2012-05-11
19	THERMO FISHER SCIENTIFIC INC.	23 May 12	AGM	2012-05-11
20	KRAFT FOODS INC-A.	23 May 12	AGM	2012-05-15
21	INTERPUBLIC GROUP OF COMPANIES INC	24 May 12	AGM	2012-05-14

US Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

Japanese Voting Charts

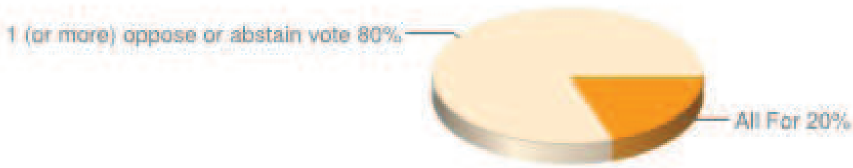
These graphs include meetings where PIRC made a voting recommendation to the client during the period.

Total Resolutions	
For	66
Oppose	9
Abstain	3
Withdrawn	0
Total	78

Meetings	AGM	EGM	Total
Total Meetings	5	0	5
1 (or more) oppose or abstain vote	4	0	4

Japanese Voting Record

Japanese AGM Record



Japanese EGM Record

There where no EGMs during the last period in the clients portfolio.

Japanese Reporting Timetable Q2 2012

List of meetings held throughout the period in the fund's portfolio.

Reported Meetings

Table 7: Reported meetings in quarter

	Company	Meeting Date	Type
1	LAWSON INC	29 May 12	AGM
2	TOYOTA MOTOR CORP	15 Jun 12	AGM
3	TOSHIBA CORP	22 Jun 12	AGM
4	JAPAN TOBACCO INC	22 Jun 12	AGM
5	INPEX CORP	26 Jun 12	AGM

Japanese Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

Global Corporate Governance Review

OECD report on related parties

The Organisation for Economic Co-operation and Development (OECD) has issued a follow up report to its May questionnaire on related party transactions (RPTs).

The report, entitled *Related Party Transactions and Minority Shareholder Rights* , spans across 31 jurisdictions with an in-depth emphasis on the legal and regulatory systems developed in Belgium, France, Italy, Israel and India. The five countries selected (particularly India and Italy) are all characterised by high levels of RPTs with either controlling shareholders or affiliated companies. The potential to abuse RPTs covering both equity and non-equity issues is an important policy issue though they are seldom banned, said the OECD. Instead, most countries introduce management and approval processes that seek to minimise the negative potential.

Glencore under scutiny

The activities of commodity trader Glencore in the Democratic Republic of the Congo came under scrutiny by campaign group Global Witness.

More specifically, the report called into question the role the company played in secret sales of stakes in the Kansuki and Mutanda mines in 2010 and 2011. MPs have also taken an interest in the involvement of other FTSE-listed mining companies, led by international development select committee member and Conservative MP Pauline Latham, reported the Guardian. Executives of the Britain's largest mining companies could find themselves before Parliament should the inquiry progress.

ACSI considers name and shame

The Australian Council of Superannuation Investors (ACSI) is considering publicly naming ASX200 companies that fail to make sufficient sustainability disclosures.

The decision comes on the heels of the investor body's publication of its fifth annual research, entitled *The Sustainability Reporting Journey: Sustainability Reporting Practices of the S&P/ASX200,* which found that there have been no clear trends toward better reporting since ACSI issued its first edition in 2008. The overwhelming majority of ASX200 companies continue to neglect investor requests and to address material sustainability risks by providing average to poor quality reports on their sustainability initiatives, according to ACSI. The number of Australian-listed companies structuring their reports on the Global Reporting Initiative's (GRI) reporting framework has declined while those companies making reference to the GRI has increased by just one since last year. Separate research provided by KPMG earlier this year found that Australian companies are falling behind other countries in terms of sustainability reporting, underscoring the need for Australian investors to take action.

Nomura investor targets toilets

At PIRC we're generally very supportive of shareholder resolutions, as we consider they can be a valuable tool for addressing specific issues. But some of them can be a bit, well, barmy.

On the Nomura AGM there were well over a dozen shareholder proposals. Not all of them address what we considered to be pressing shareholder concerns.

For example, Proposal 3 stated: "It should be stipulated in the Articles of Incorporation that a sales person must always state that "please remember as vegetables, healthy, diet" as an introductory remark when he/she introduces himself/herself to another person for the first time."

Proposal 5, meanwhile, sought the elimination of the practice of giving 'banzai cheers' at the AGM, stating: “the venue is small and there are many shareholders with strong armpit odor.”

Proposal 13 sought to require the company to replace the term ‘director’ with ‘crystal role.’

Seemingly the most pressing concern, however, were “daily movements,” as addressed under Proposal 12.

This ‘motion’ stated: “It should be stipulated in the Articles of Incorporation that all toilets within the Company’s offices shall be Japanese-style toilets, thereby toughening the legs and loins and hunkering down on a daily basis, aiming at achieving 4-digit stock prices… The Company is on the verge of bankruptcy. In other words, it is the time to hunker down. The Company cannot avoid bankruptcy if it merely adopts a spiritual approach such as encouraging sales persons to speak in a loud voice, but the Company can surely avoid failure if they straddle over a Japanese-style toilet every day and strengthen their lower body. If it cannot, it can only be accepted as a bad luck.”

To which we could only add, what a load of….

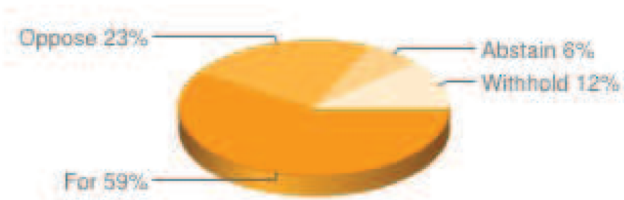
Global Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	136
Oppose	54
Abstain	14
Withhold	27
Withdrawn	0
Total	231

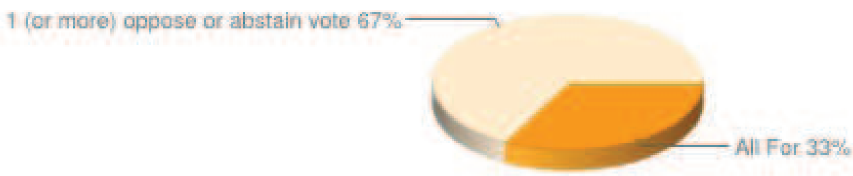
Meetings	AGM	EGM	Total
Total Meetings	18	3	21
1 (or more) oppose or abstain vote	18	2	20

Global Voting Record



Global AGM Record

Global EGM Record



Global Voting Timetable Q2 2012

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 8: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	CCR SA	13 Apr 12	AGM	2012-03-30
2	NATURA COSMETICOS SA	13 Apr 12	AGM	2012-04-03
3	NATURA COSMETICOS SA	13 Apr 12	**EGM**	2012-04-03
4	NEXEN INC	25 Apr 12	AGM	2012-04-12
5	WILLIS GROUP HOLDINGS PLC	25 Apr 12	AGM	2012-04-13
6	INTL MEAL CO HLDGS	30 Apr 12	AGM	2012-04-19
7	INTL MEAL CO HLDGS	30 Apr 12	**EGM**	2012-04-19
8	BARRICK GOLD CORP	02 May 12	AGM	2012-04-19
9	YAMANA GOLD INC	02 May 12	AGM	2012-04-19
10	SANTOS LTD	03 May 12	AGM	2012-04-25
11	NIELSEN HOLDINGS NV	08 May 12	AGM	2012-04-26
12	AIA GROUP LTD	08 May 12	AGM	2012-04-27
13	JARDINE MATHESON HLDGS LTD	10 May 12	AGM	2012-05-01
14	GAFISA SA	11 May 12	**EGM**	2012-05-01
15	GAFISA SA	11 May 12	AGM	2012-05-01
16	NEXANS	15 May 12	AGM	2012-05-03
17	LEAR CORP	16 May 12	AGM	2012-05-11
18	ALIGN TECHNOLOGY INC	23 May 12	AGM	2012-05-18
19	MTN GROUP LTD	29 May 12	AGM	2012-05-18
20	DOLLAR GENERAL	01 Jun 12	AGM	2012-05-25
21	YINGDE GASES GROUP CO LTD	15 Jun 12	AGM	2012-06-08

Global Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

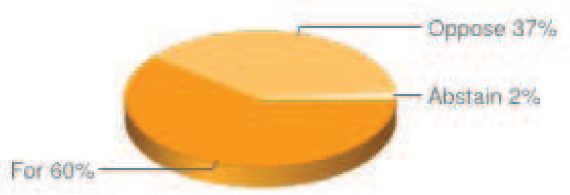
Asian Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

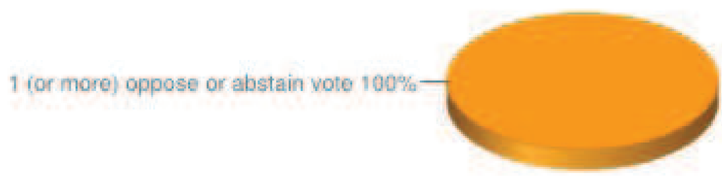
Total Resolutions	
For	50
Oppose	31
Abstain	2
Withdrawn	0
Total	83

Meetings	AGM	EGM	Total
Total Meetings	6	1	7
1 (or more) oppose or abstain vote	6	0	6

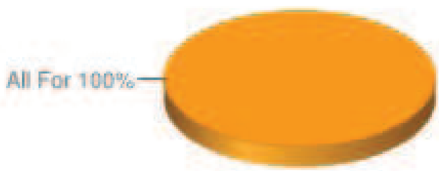
Asian Voting Record



Asian AGM Record



Asian EGM Record



Asian Voting Timetable Q2 2012

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 9: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	BANGKOK BANK PCL	12 Apr 12	AGM	2012-03-27
2	SAKARI RESOURCES LTD	26 Apr 12	AGM	2012-04-13
3	UNITED OVERSEAS BANK LTD	26 Apr 12	AGM	2012-04-17
4	UNITED OVERSEAS BANK LTD	26 Apr 12	**EGM**	2012-04-16
5	ENERGY DEVELOPMENT CORP	09 May 12	AGM	2012-04-25
6	CHINA MOBILE LTD	16 May 12	AGM	2012-05-04
7	BELLE INTERNATIONAL HLDG LTD	29 May 12	AGM	2012-05-23

Asian Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

PIRC Summary Report Appendices

UK

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at UK meetings for companies held by the fund during the period.

European

Analysis for "Oppose" and "Abstain" votes for resolutions at European meetings for companies held by the fund during the period.

US

Analysis for "Oppose", "Withhold" and "Abstain" votes for resolutions at US meetings for companies held by the fund during the period.

Japanese

Analysis for "Oppose" and "Abstain" votes for resolutions at Japanese meetings for companies held by the fund during the period.

Global

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at Global meetings for companies held by the fund during the period.

Asian

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at Asian meetings for companies held by the fund during the period.

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Regulated by FSA

Agenda Item 10

Pension Fund Committee
Meeting to be held on 27 July 2012

Electoral Division affected:
None

Transaction of Urgent Business

Contact for further information:
Chris Mather, (01772) 533559, Office of the Chief Executive,
Chris.mather@lancashire.gov.uk

Executive Summary

A report on items dealt with under the procedure for dealing with matters of urgent business.

Recommendation

The Committee is asked to note the report.

Background and Advice

Appointment of Independent Adviser

The Pension Fund Committee at its meeting on 25 May 2012 considered a report on the appointment of Independent Investment Advisers to the committee. The committee agreed to reappoint Mr Eric Lambert for a period of three years until 31 June 2015 and noted that the other adviser Mr Noel Mills had indicated a desire to step down for personal reasons.

Subsequently Mr Mills' personal circumstances have changed and he has indicated to the County Treasurer that he would be willing to be reappointed for a period of two years. This would mean that the appointments of the two advisers did not end simultaneously. Given that officers would, in May 2012, have recommended the committee to reappoint Mr Mills and that members of the committee also indicated regret at not being able to reappoint Mr Mills, the County Treasurer has, under the council's Urgent Business Procedure, approved the reappointment of Mr Mills as an Independent Investment Adviser to the committee for a period of two years from 1 July 2011.

It was necessary to deal with this matter under the Urgent Business Procedure as the Mr Mills' current contractual term was due to expire prior to the next meeting of the Pension Fund Committee.

Lancashire County Council

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

This decision removes the risk that an appointment process could fail to find a suitable candidate, and it also avoids the costs of undertaking such an exercise.

The appointment of Mr Mills for two years eliminates the risk that exists from the contracts of both advisers ending at the same time.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel

Reason for inclusion in Part II, if appropriate

N/A