Lancashire County Council

Pension Fund Committee

Friday, 30th November, 2012 at 10.00 am in Cabinet Room 'C' - County Hall, Preston

Agenda

Part 1 (Open to Press and Public)

No.	Item	
1.	**Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any Pecuniary and Non-Pecuniary 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 27 July 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	**Fund Performance Report** (Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972.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 - 16)

6. **Investment Panel Report** (Pages 17 - 28)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972.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).

7. **Global Equities Transition Report** (Pages 29 - 36)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972.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)

8. **Administration Sub-Committee Report** (Pages 37 - 42)

9. **Update on Local Government Pension Scheme 2014 and the Public Service Pensions Bill** (Pages 43 - 52)

10. **Statement of Investment Principles Report** (Pages 53 - 64)

11. **Fund Shareholder Voting Report** (Pages 65 - 102)

12. **External Audit, Annual Governance Report 2011/12** (Pages 103 - 124)

13. **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.

14. Date of Next Meeting

The next meeting of the Committee will be held on Friday 22 March 2013 at 10.00 a.m. at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Lancashire County Council

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 27th July, 2012 at 11.00 am in Cabinet Room 'C' - County Hall, Preston

Present:

County Councillor David Westley (Chair)

County Councillors

T Aldridge	M Parkinson
M Brindle	S Riches
M Devaney	M Welsh
P Evans	B Winlow
F De Molfetta	K Young

Co-opted members

Bob Harvey, (Trade Union representative)
Councillor Mark Smith, (Blackpool Council representative)
Councillor Dorothy Walsh, (Blackburn with Darwen Borough Council representative)
Ron Whittle, (Trade Union representative)

Eric Lambert, Independent Adviser to the Pension Fund was also present.

It was reported that Mr Trevor Castledine had been appointed to the position of investment manger within the County Treasurer's Department. The Committee welcomed Mr Castledine.

1. Apologies

Apologies were received from County Councillors M France and G Roper, and Noel Mills, Independent Adviser.

2. Disclosure of Pecuniary Interests

None.

3. Minutes of the Meeting held on 25 May 2012

The Minutes of the meeting held on 25 May 2012 were presented.

Resolved: That the Minutes of the meeting held on 25 May 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 May 2012, focussing on the key areas of:

- the funding position;
- cash flow;
- investment performance and allocation; and
- risk management of the Fund.

It was reported that the Fund's custodian's risk management processes were now operational and that the custodian's first report was being reviewed. A full risk management report, with integration into the analysis of managers' performance, would be presented to the next meeting.

There was a general discussion on the report presented and officers responded to specific questions on the Fund's bonds, property and infrastructure portfolios.

Resolved: That the report and the on-going work of the Investment Panel to implement the Fund's investment strategy, which seeks to improve fund performance, be noted.

6. Investment Panel 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 received a report from the Investment Panel setting out the work of the Panel in its meetings on 25 May and 26 June 2012. The Committee's attention was specifically drawn to the following key areas:

- The investment context in which the Fund was operating and in particular the effects of the weak economic growth, the so-called "fiscal cliff" in the US and the on-going problems within the euro zone;
- Investment decisions that had been taken within the Lower Volatility Strategies Allocation to help manage the effects of extreme market volatility;
- Further allocation work that was being undertaken on a number of investment opportunities mainly in the "lower volatility" asset classes; and
- Potential restructuring of Private Equity and Fixed income mandates.

There was a general discussion on the report presented and officers agreed to pursue discussions with admitted bodies (housing associations) that were looking to issue bonds in order to gain a greater understanding of the investment issues from the bond issuer's perspective.

Resolved: That the report be noted.

7. Pension Fund Administration Sub-Committee

The Committee received the minutes of the Pension Fund Administration Sub-Committee from its meeting on 13 June, 2012.

The Sub-Committee had considered reports on:

- Your Pension Service – Annual Administration Report;
- An update on the proposals for the new Local Government Pension Scheme; and
- Membership of the Local Government Pension Scheme and Auto-enrolment.

It was noted that Your Pensions Service had experienced an extremely busy year. This was due to the considerable increase in the number of retirements and requests for benefit estimates, as well as the move to an integrated pensions administration and payroll system. Despite this it was pleasing that Your Pensions Service had been reaccredited for the Customer Service Excellent award.

The Committee's attention was also drawn to the development of a new Communications Strategy. The Strategy would be key to preparing staff for auto enrolment with effect from January 2013, 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.

A further detailed report on new Communications Strategy would be presented to the Administration Sub-Committee on 13 November. It was agreed that the Sub-Committee's membership should be expanded to enable all employer representatives on the Committee to take part in the development and roll out of the new Strategy. It was suggested that a joint communication with the Trade

Unions might encourage a greater take up of the Local Government Pension Scheme.

Resolved:

(i) That the minutes of the Pension Fund Administration Sub-Committee meeting held on 13 June 2012 be noted.

(ii) 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 new Communications Strategy.

8. Annual Report and Accounts of the Fund - 2011/12

The Committee considered the Annual Report and Accounts of the Pension Fund for 2011/12.

The Committee was informed that the Statement of Accounts was currently being audited by the Audit Commission. The Audit Commission's auditor's opinion would be included in the published Annual Report when the audit was complete. A copy of the Annual Report 2011/12 was presented at Appendix 'A'. The content of the Annual Report included the following sections:

- An overview of the management and financial performance of the fund;
- The Governance Compliance Statement;
- Administration of the Fund;
- Investments of the Fund;
- The accounts and financial statements;
- Actuarial Valuation;
- The Governance Policy Statement;
- The Communication Policy Statement;
- The Funding Strategy Statement;
- The Statement of Investment Principles

It was noted that the County Council's Constitution required the Pension Fund Annual Report to be approved by the Committee and submitted to the Full Council for information.

Resolved: That the 2011/12 Lancashire County Pension Fund Annual Report, as now presented, be approved for submission to the Full Council.

9. Fund Shareholder Voting Report Q2 2012

The Committee considered a comprehensive report on the Fund's shareholder voting arrangements and voting activity for the period 1 April to 30 June 2012. It was noted that the Fund had voted on 1,908 occasions during this period and had opposed or abstained in 27% of votes.

Resolved: That the report be noted.

10. Transaction of Urgent Business

The Committee was informed that the County Treasurer had, under the procedure for dealing with matters of urgent business, approved the reappointment of Mr Noel Mills as an Independent Investment Adviser to the Committee for a period of two years from 1 July 2011.

The Committee welcomed the reappointment of Mr Mills.

Resolved: That the report be noted.

11. Urgent Business

None.

12. Date of Next Meeting

It was noted that the next meeting of the Committee would be held on Friday 30 November 2012 at 10.00 am at County Hall, Preston.

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 30 November 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 11 October 2012. A copy of the minutes of the meeting is attached at Appendix 'A'.

Recommendation

The Committee is asked to note the minutes of the Pension Fund Administration Sub-Committee meeting held on 11 October 2012.

Background and Advice

The Pension Fund Administration Sub-Committee met on 11 October 2012 to consider reports on the following:

- Membership of the Local Government Pension Scheme and Auto-enrolment; and
- Member Self Service

Further information including the decisions taken can be found in the minutes of the meeting which are attached at Appendix 'A'.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

There are no risk management implications arising from this item.

Lancashire County Council

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	11 October 2012	Chris Mather/OCE/01772 533559

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Lancashire County Council

Pension Fund Administration Sub-Committee

Minutes of the Meeting held on Thursday, 11th October, 2012 at 9.00 am in Cabinet Room 'D' - County Hall, Preston

Present:

County Councillor Geoff Roper (Chair)

County Councillors

M Brindle
K Young
F De Molfetta

Co-opted members

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

County Councillor Roper took the chair in the absence of County Councillor Welsh.

1. Apologies

None.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 13 June 2012

Resolved: That the minutes of the meeting held on 13 June 2012 be confirmed and signed by the Chair.

4. Membership of Local Government Pension Scheme and Auto-enrolment

The Sub-Committee considered a detailed communications action plan and timetable for the roll out of the previously agreed Communications Strategy.

The Strategy was designed to encourage a greater take up of the Local Government Pension Scheme (LGPS) by County Council employees. It was proposed to launch the internal communications campaign to coincide with the County Council's auto-enrolment date (1 January 2013) and the roll out of the campaign was expected to begin week commencing 29 October with a feature in Phil's update. The campaign would continue through to February 2013.

It was explained that the County Council was responsible for the auto enrolment of employees and it was important that the Pension Fund Committee took advantage of the auto enrolment exercise to increase membership of the LGPS.

Members noted that the communications action plan included:

- A poster and leaflet campaign
- Regular features in Phil's Updates
- A staff notice campaign, including Live Q & A's
- Letters to all staff including those who would not be auto-enrolled
- Financial planning sessions & surgeries
- Website developments
- Launch of self service function

It was noted that all campaign materials would be made available to other Fund employers including District Councils and Unitary Authorities as the auto enrolment process began to affect them i.e. at the point that individual employer staging dates were confirmed by the Pensions Regulator. The Your Pension Service would also run surgeries if requested to do so by other Fund employers.

Members also noted that the campaign would link into an exercise being undertaken by the Unison trade union to highlight the benefits of employees joining the LGPS.

Resolved: That the Communications Strategy action plan and the timescales for the roll out of the Strategy, as now presented, be approved.

5. Report on Member Self Service

The Sub-Committee considered a report on the development of a Member Self Service system that would allow scheme members including pensioners online access to their data through a secure website.

The new system would enable members to:

- Perform pension forecasts
- Check and amend contact/address details
- Check pension scheme membership and accuracy of records
- View nominations and download forms to amend / complete
- View Annual Benefit Statements online
- View payslip & P60 details online (pensioners only)
- Change bank account details (pensioners only)
- View and download Scheme documents, guides, factsheets, leaflets etc.

This development was due to go live at the end of November 2012 to coincide with the issue of annual benefit statements for current active members of the

Lancashire County Pension Fund. Members would be informed by newsletter that their statements could be accessed on line. It was noted that members would still be able to request information including statements in hard copy format. The newsletter would contain a guide to registration. Pensioners and deferred members would be informed of this development under separate cover.

It was confirmed that significant and robust testing of the new system had been undertaken to ensure that information could be accessed and amended securely online. Audit checks had also been built into the system to help detect any fraudulent activity.

Resolved: That the implementation of Member Self Service be noted.

6. Urgent Business

None.

7. Date of Next Meeting

To be confirmed by the County Secretary and Solicitor.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Pension Fund Committee
Meeting to be held on 30 November 2012

Electoral Division affected: None

Update on LGPS 2014 and the Public Service Pensions Bill
(Appendices 'A' and 'B' refer)

Contact for further information:
Diane Lister, 01772 534827, County Treasurer's Department
diane.lister@lancashire.gov.uk

Executive Summary

This report updates the Committee on the progress of the Local Government Pension Scheme (LGPS) 2014 proposals and the statutory consultation framework relating to draft regulations.

This report also covers the key provisions of the Public Service Pensions Bill and its impact on the LGPS 2014.

Recommendation

The Committee is asked to note the report.

Background and Advice

(i) Update on LGPS 2014

A joint statement has been issued by the LGPS 2014 Project Board to inform stakeholders of progress in respect of the reform of the LGPS. The update is attached at Appendix 'A'.

The proposals on the 2014 LGPS scheme design (Work stream 1), as jointly agreed by the Local Government Association (LGA) and trade unions, were endorsed by employers and members in a consultation exercise undertaken during the summer.

Draft regulations were expected to form the basis of a statutory consultation in the autumn. However the work involved in developing the details required for regulations has taken longer than initially envisaged and draft regulations are now expected before the end of the year with consultation then taking place early in 2013.

Lancashire County Council

The delay does not change the basis of the LGPS 2014 proposals on Scheme Design. Details of the proposals are attached at Appendix 'B'.

In respect of Scheme governance and cost management (Work stream 2), the LGA and trade unions have reached agreement on a set of proposals covering the future governance and cost management of the scheme.

However, despite detailed discussions with the government on these proposals, final sign off has not yet been reached. The essential elements of these proposals include governance, transparency and future cost management of the Scheme.

Final regulations are still expected during 2013 in order that Scheme Actuaries can take account of expected cost savings as part of the 2013 round of formal triennial LGPS Valuations.

(ii) Public Service Pension Bill

The Independent Public Service Pensions Commission published its final report (The Hutton Report) in March 2011. The Government accepted its recommendations as the basis for consultation with public servants, trades unions and other member representatives.

The Public Service Pension Bill implements the agreement reached and introduces primary legislation to adopt a new common UK legal framework for public service pension provision.

The Bill is a framework Bill and its powers supersede those in the Superannuation Act 1972. It does not contain details on individual scheme design as this will be set out in secondary legislation and individual Scheme rules.

The Bill was published on 13 September 2012. By the introduction of the Pensions Bill the government expects to cut the cost of public sector pensions by nearly one-half over the next fifty years. The Bill will:

- enable the creation of new, Career Average public service pension schemes to replace the largest existing final salary schemes;
- link normal pension ages to State Pension age to manage longevity risk;
- introduce an employer cost cap to ensure unforeseen changes in cost are controlled to protect the taxpayer;
- set out requirements for scheme governance, regulation and administration to deliver transparency and accountability;

- allow for the provision of protections, protecting those closest to retirement, so that those ten years from their Normal Pension Age on 1 April 2012 will not see any change in when they can retire, nor any decrease in the amount of pension they receive on retirement;

- provide that existing schemes will be closed to future accrual with effect from 31 March 2014, although transitional arrangements will allow for benefits accrued in current schemes to continue to be linked to final salary when leaving.

In respect of Scheme governance in particular, the Bill provides that:

- each scheme must have a Scheme Manager (for LGPS this is expected to be the Administering Authority) responsible for administration, governance and the provision of a Pension Board. This provision enables the Scheme Manager to delegate responsibilities to a Pension Board in which case it is expected that the current Pension Fund Committees would become the Pension Board, although certain requirements in terms of the composition of the Board may be set out in regulations. The remit of the Pension Boards will be to ensure compliance with legislation, regulation and codes of practice.

- the Pensions Regulator will have a significant role overseeing the operation of public sector pension schemes with the requirement for the Regulator to issue a code of practice for scheme management. The Regulator will have the power to appoint an appropriately skilled person to help the Pension Board carry out its functions if they consider it to be appropriate for the purpose of ensuring compliance with the new legislation. If such an appointment is made, the board must have regard to the advice of the appointed person, and their costs are to be met by the Scheme Manager. The exact circumstances under which the Regulator will appoint such a person are not yet clear and further reports will be presented to the Committee as the new regulatory framework is published. The Regulator will also require Board members to have knowledge and understanding about the scheme and the law relating to pensions in much the same way as the requirements for trustees of private sector pension schemes. In addition, the Regulator will have the power to intervene and help recover contributions that are owed to the scheme by the employer.

- an actuarial valuation is made of schemes in accordance with Treasury directions. In relation to the LGPS this appears to give the Treasury wider powers than currently enjoyed albeit that the expectation is that this provision covers only the separate work which might be carried out in connection with the LGPS nationally i.e. any cost capping calculations. However, to remove any ambiguity and in recognition of the financial management of the funded LGPS in comparison to the unfunded public sector schemes, amendments to the Bill may be necessary.

The Bill will now work its way through Parliament before being enacted during 2013. Individual schemes, including LGPS, will then issue secondary legislation defining new scheme regulations ahead of the commencement date, expected to be 1 April 2014.

Consultations

N/A

Implications:

Public Sector Pension Reform will fundamentally change the framework that the LGPS currently operates within. This change will need careful management at a local level to ensure compliance with the new requirements, especially in terms of governance and administration.

Risk management

Reports on the implications of the new regulatory framework will be presented to the Pension Fund Committee as the new framework becomes clear.

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

Public Service Pensions Bill

LGPS 2014 - JOINT STATEMENT

UPDATE ON PROGRESS OF WORKSTREAMS 1 AND 2

SCHEME DESIGN (WORKSTREAM 1)

The proposals agreed jointly by the Local Government Association (LGA) and trade unions were roundly endorsed by employers and members in a consultation exercise undertaken in the summer.

It was expected that draft regulations designed to implement these proposals would be the basis of a statutory consultation in the autumn. However the work involved in developing the details required for regulations has taken longer than initially envisaged and we would now expect regulations by the end of the year.

The delay will not change the basis of the agreement reached and we can confirm that the regulations will set out the scheme consulted on in the summer.

SCHEME GOVERNANCE AND COST MANAGEMENT (WORKSTREAM 2)

The Local Government Association (LGA) and trade unions reached agreement on and submitted to government at the end of July a set of proposals covering the future governance and cost management of the scheme.

Extensive and detailed discussions have since followed with the government on these proposals and a point of final sign off has not yet been reached. However in order to clarify the nature of those discussions and to dispel any misinformation that may be circulating we set out below the essential elements of those proposals.

1	**Both governance and cost management are equally essential to the future sustainability of the scheme and should not be considered in isolation**
2	**A national LGPS board would be set up to include representatives of scheme employers, scheme members, the government and professional bodies. The remit of the board would be to extend best practice, increase transparency, co ordinate technical and standards issues and provide an effective liaison with the scheme regulator**

3	The board would also manage the future cost of the scheme and explore effective improvements in value for money in the areas of administration and investments
4	Although not having any statutory powers of its own the board would make recommendations to the Secretary of State, the regulator or professional standards bodies in order to further its remit
5	At the local level we propose that boards provide for a greater degree of segregation between funds and administering authorities and that the potential for conflicts of interest at both member and officer level is reduced
6	Membership of local boards is proposed to require a minimum recognised level of skills and knowledge and to include representation for fund employers and trade unions
7	We also propose that best practice with regard to transparency and accountability is extended across all funds
8	For cost management a total future service target cost for the scheme from April 2014 be set at 19.5%
9	The cost of the scheme shall be measured at each valuation taking into account both model and individual fund data with movements in cost driven by changes to membership data or assumptions reflected in changes to future scheme design
10	Such changes are to be considered, and actions to amend the scheme agreed by both employers and unions with recommendations made to the Secretary of State. Where the movement is 2% or more in either direction the Secretary of State shall be obliged to take action
11	Although financial assumptions are excluded from the formal process we are proposing that movements in these be considered by the national board in order to ensure the future sustainability of the scheme
12	Finally the project have recommended that a working party be set up to investigate potential solutions to the issue of past service deficits.

We shall continue to work closely with government and are seeking to agree an outcome with regard to these proposals as soon as possible. It would be our intention for narrative covering governance and cost management to be included with the draft regulations in the forthcoming statutory consultation.

LGPS 2014 Project Board
1st November 2012

For an explanation of the terms underlined see the LGPS 2014- Glossary
These documents describe proposals and do not override any existing legislation. Any examples given are for illustr
not as an estimate of the benefits you may receive

LGPS 2014 - 'AT A GLANCE'

CHANGES APPLY FROM APRIL 2014

All pensions in payment or built up before April 2014 will be protected. If you are currently in receipt of a pension or have left with a deferred pension these changes do not affect you. If you are currently a contributing scheme member your pre April 2014 pension will still be based on final salary at retirement and the current Normal Pension Age.

MAIN PROVISIONS OF LGPS 2014

The table below shows the main provisions of the proposed new Local Government Pension Scheme (LGPS 2014) for membership from 1st April 2014 compared with those of the current scheme (LGPS 2008). These changes apply only in England and Wales (not Scotland or Northern Ireland). See the glossary for definition of terms in the table below.

	LGPS 2014	LGPS 2008
Basis of Pension	**Career Average Revalued Earnings (CARE)**	**Final Salary (FS)**
Accrual Rate	**1/49th**	**1/60th**
Revaluation Rate	**Consumer Price Index (CPI)**	**Based on final salary**
Pensionable Pay	**Pay including non-contractual overtime and additional hours for part time staff**	**Pay excluding non-contractual overtime and non-pensionable additional hours**

Employee Contribution Rate – Average 6.5% in both LGPS 2008 and LGPS 2014

LGPS 2014 From	To	Gross Rate	LGPS 2008 From	To	Gross Rate
Up to £13,500		5.5%	Up to £13,500		5.5%
£13,501	£21,000	5.8%	£13,501	£15,800	5.8%
£21,001	£34,000	6.5%	£15,801	£20,400	5.9%
£34,001	£43,000	6.8%	£20,401	£34,000	6.5%
£43,001	£60,000	8.5%	£34,001	£45,500	6.8%
£60,001	£85,000	9.9%	£45,501	£85,300	7.2%
£85,001	£100,000	10.5%	More than £85,300		7.5%
£100,001	£150,000	11.4%			
More than £150,000		12.5%			

	LGPS 2014	LGPS 2008
Contribution Flexibility	Yes, members can pay 50% contributions for 50% of the pension benefit	No
Normal Pension Age	Equal to the individual member's State Pension Age (minimum 65)	65
Lump Sum Trade Off	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
Death in Service Lump Sum	3 x pensionable pay	3 x pensionable pay
Death in Service Survivor Benefits	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - immediate payment with service enhanced to Normal Pension Age Tier 2 - immediate payment of pension with 25% service enhancement to Normal Pension Age Tier 3 - temporary payment of pension for up to 3 years	Tier 1 - immediate payment with service enhanced to Normal Pension Age (65) Tier 2 - immediate payment of pension with 25% service enhancement to Normal Pension Age (65) Tier 3 - temporary payment of pension for up to 3 years
Indexation of Pension in Payment	CPI	CPI (RPI for pre 2011 increases)
Vesting Period	2 years	3 months

FUTURE SCHEME COST MANAGEMENT

If the costs of the LGPS change beyond certain limits still to be agreed, there will be negotiations between unions, employers and government about how to meet those cost changes.

PENSION PROTECTION ON TRANSFER

LGPS members who are compulsorily transferred will be able to able to retain membership of the scheme.

LGPS 2014 – at a glance v 5.0 – 31st May 2012

Pension Fund Committee
Meeting to be held on 30 November 2012

Electoral Division affected:
'All'

Statement of Investment Principles
(Appendix 'A' refers)

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

Executive Summary

The regulations governing the operation of the Fund require that the Statement of Investment Principles must be reviewed and if necessary, revised, in case of any material change to the Principles within 6 months from the date of change. The change of investment managers with the implementation of the global equities mandate constitutes such a change.

An updated Statement of Investment Principles is attached at Appendix 'A'.

Recommendation

The Committee is asked to approve the revised Statement of Investment Principles set out in Appendix 'A'.

Background and Advice

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 - Statutory Instrument 2009/3093 state that the Statement of Investment Principles must be reviewed and revised to incorporate any material changes to the Pension Funds policy on:

(a) the types of investment to be held;

(b) the balance between different types of investments;

(c) risk, including the ways in which risks are to be measured and managed;

(d) the expected return on investments;

(e) the realisation of investments;

Lancashire County Council

(f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;

(g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and

(h) stock lending.

The Statement of Investment Principles attached at Appendix 'A' reflects the material changes made to the Fund's investments by the Investment Panel.

Consultations

Independent Advisers.

CIPFA guidance on the application of the Myners Principles.

CLG guidance on the regulations in SI 2009/3093

Implications:

This item has the following implications, as indicated:

Risk management

Non compliance with statutory regulation.

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

Paper	Date	Contact/Directorate/Tel
SI 2009/3093	1 December 2009	Mike Jensen/ Resources/01772 534742
CLG guidance on SI 2009/3093	1 December 2009	Mike Jensen/ Resources/01772 534742
CIPFA guidance on the application of Myners Principles	December 2009	Mike Jensen/ Resources/01772 534742

Lancashire County Pension Fund

Statement of Investment Principles

Introduction

Lancashire County Council ("LCC") is the administering authority of the Lancashire County Pension Fund (the "Fund"). This Statement of Investment Principles ("SIP") sets out the principles governing its decisions about investments made by the Fund It has been prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Fund has produced the SIP following consultation with the Fund's Investment Panel, and a representative of the Fund's Actuary.

Responsibility for Investment Management

Lancashire County Council is responsible for administering the Fund under the Pension Scheme regulations 1997 (as amended). It delegates its responsibilities to:

- The Pension Fund Committee;
- The Administration Sub Committee;
- The Fund's Investment Panel;
- The Fund's Investment Managers.
- The Fund's Custodian; and
- The Treasurer to the Fund

The division of responsibility is set out in detail in the Governance Policy Statement, which is available at www.yourpensionservice.org.uk or on request from the Fund, but in summary, responsibilities are allocated as follows:

Pension Fund Committee

The Pension Fund Committee has overall responsibility for investment policy and monitoring overall performance. The Committee meets four times a year, and currently comprises 14 elected County Councillors, 4 representatives of the District Councils and Unitary Authorities within the Fund, 2 representatives of scheme members and a representative of the Higher and Further Education Sectors in Lancashire.

Investment Panel

The Investment Panel consists of two independent advisors, the Treasurer to the Fund (as Chair), the officer of the County Council fulfilling the role of Chief Investment Officer for the Fund and an officer of the County Council identified by the Treasurer to the Fund to oversee investment compliance activities.

The Panel meets at least quarterly, or otherwise as necessary. The Panel may operate through sub groups to undertake particular tasks. It formulates recommendations to the Treasurer to the Fund and/or the Pensions Fund Committee through meetings of the full Panel.

The Panel is required to provide advice to the Treasurer of the Fund regarding:

a. Recommendations to the Pension Fund Committee in relation to the Investment Strategy for the Fund;
b. The broad composition of the Fund's investment portfolio, management style and types of investment;
c. The proposed procurement process, tender award criteria and evaluation methodology for external advisers and other external assistance including investment managers, property agents and advisors, corporate governance adviser, Fund Custodian, performance measurement advisers, the Fund Actuary and the Fund's AVC Provider ("external support") to enable the Treasurer to the Fund to seek the approval of the Pension Fund Committee to commence the procurement of any required external support;
d. The selection and appointment of any required external support (subject to the role of the Pension Fund Committee), their remit and terms of office;
e. The allocation of ranges and thresholds within which the Investment Managers should operate;
f. Review of the Statement of Investment Principles and compliance with investment arrangements;
g. Recommendations on the detailed management of the investment portfolios including the selection of pooled funds; and
h. Performance measurement.

Investment Managers

The management of the Fund’s investments is structured so as to provide diversification of management style and produce an acceptable spread of risk across the portfolio whilst maximising returns.

All Fund managers are subject to investment due diligence and all the segregated fund managers are UK FSA registered. New allocations may be made from time to time and Investment Managers are added to, removed or changed as necessary.

The Fund's Investment Managers are listed in its Annual Report

Role of Lancashire County Council in-house staff in respect of the accounts and investments of the Pension Fund

Under the Lancashire County Council Scheme of delegation to Chief Officers, the Treasurer to the Fund, is responsible for carrying out, in consultation with the Investment Panel, the County Council’s duties under the Local Government Pension Scheme (Management and Investment of Fund’s) Regulations 1998, (as amended) with regard to the requirement to review the investments made by the Fund Managers. She reports at each meeting of the Pension Fund Committee.

The Treasury and Investment, Financial Accounting and Taxation and Investment Compliance Teams within the County Treasurer's Directorate support the Treasurer in respect of her Pension Fund investment and accounting responsibilities and provide the following services:

a. Investment management services;
b. Production of the Pension Fund Annual Report;
c. Preparation and maintenance of the accounts and balance sheet of the Pension Fund;
d. Verification and monitoring of the investment data produced by the Fund managers to independent custodian records;
e. Production of Pension Fund Business Plan;
f. Completion of various statistical questionnaires;
g. Preparation of agenda, working papers and reports for the Investment Panel meetings, Pension Fund Committee meetings and other miscellaneous investment meetings;
h. Maintenance of Pension Fund internal cash account and investment of Pension Fund Cash not held by the investment managers;
i. Provision of accounting data for IAS19 calculations;
j. Monitoring compliance with policy laid down by the Investment Panel and Pension Fund Committee;
k. Maintenance of regular dialogue with investment managers and custodians;
l. The provision of data for performance monitoring and interpretation of performance results;
m. The conducting of procurement exercises to secure the services of Investment Managers and other service providers on behalf of the Fund.
n. The identifying of and conducting of due diligence on individual investment opportunities for consideration by the Investment Panel.
o. Monitoring voting action by the managers;
p. Advice to the Treasurer on Pension Fund Investment issues;
q. Verification, monitoring and payment of Pension Fund fee invoices;
r. Monitoring the receipt of income due to the Fund;
s. Representing the Treasurer at the Local Authority Pension Fund Forum meetings and other relevant Pension Fund Investment meetings;
t. Interpretation and implementation of the requirements of new legislation relating to Pension Fund accounting and investments;
u. Attendance at various seminars covering new developments in respect of Pension Fund Investment issues; and
v. Research initiatives

Investment Objective

The Fund has two objectives in terms of its investment activities:

1. To ensure that resources are available to meet the Fund's liabilities through achieving investment performance at least in line with actuarial assumptions.
2. To achieve full funding (i.e. no funding deficit) over a period no longer than the current recovery period.

The current funding target assumptions include an assumed investment return (discount rate) of a yield based on market returns on UK Government gilt stocks and other instruments which reflect a market consistent discount rate for the profile and duration of the Fund’s liabilities, plus an Asset Out-performance Assumption (“AOA”) of 2.5% p.a. for the period pre-retirement and 1.0% p.a. post-retirement.

The asset out-performance assumption represents the allowance made for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

The allowance for this out-performance is based on the liability profile of the Fund, with a higher assumption in respect of the “pre-retirement” (i.e. active and deferred Pensioner) liabilities than for the “post-retirement” (i.e. pensioner) liabilities. This approach allows for a gradual shift in the overall equity/bond weighting of the fund as the liability profile of the membership matures over time.

Types of Investment

The Investment Panel ("the Panel") will provide expert professional advice to the Pension Fund Committee in relation to investment activities that fall within its approved strategy, including the following categories of investment:

Equities;

Fixed interest and index linked securities;

Property;

Cash; and

Commodities

Advice will include the management of foreign exchange risk and the use of financial derivatives where appropriate.

Advice on equities will involve the use of active and passive management styles, the use of public and private markets, and the choice of Investment Managers and pooled funds.

Advice on fixed interest and index linked securities will involve the use of investment grade and non-investment grade credit, and the choice of Investment Managers, pooled funds and direct investment opportunities.

Property advice will include the direct acquisition of land and premises, the development of such land, and improvements and refurbishment of such premises. It will also include the use of indirect pooled property investments.

Investments in infrastructure may be separately grouped, but they fall within the above categories.

Balance between Different Types of Investment

The investment strategy sets out a balance between different asset classes as follows:

Asset Class	Range %
Global Equities – Active and Passive, Physical and Index. Private and Publicly Quoted	40-60
Diversified Property –UK and Overseas. Direct and indirect.	10-20
Lower Volatility Strategies - (including but not exclusively, Fixed Income, PFI, Credit strategies, Infrastructure, Currency, Commodities, Absolute Return, Cash, funds and index, Local development/PPP type allocations)	20-40

The Active Public Equity and Fixed Interest Managers have full discretion to invest within each investment category subject to statutory limits and any asset allocation ranges around the benchmark, agreed between the Investment Panel and the Managers. The Property Manager's mandate is advisory with final decisions being taken by the Treasurer to the Fund based upon that advice.

With pooled funds, the manager of the investment fund operates within the constraints imposed by the constitution of the pooled fund, as reviewed and approved by the Investment Panel.

<u>Investment Limits imposed under the Local Government Pension Scheme (Management and Investment of Fund’s) (Amendment) Regulations 2003</u>

The limits shown in Column 1 below are those laid down under the 1998 Regulations. The limits in Column 2 are those allowed under the 2003 and 2005 Regulations and may be used by Local Authority Pension Funds if, following proper advice, they have sought approval by their Pension Fund Committees for the increases and the reasons for adopting the increases are detailed in the Statement of Investment Principles.

The Fund's Investment Panel and Pension Fund Committee have reviewed the 1998 Regulations limits and have adopted the increased limits for any single insurance contract and also for all contributions to partnerships.

	Column (1) Limits under regulation 14 (2)	Column (2) Limits under regulation 14 (3)
1. Any single sub-underwriting contract.	1%	5%
2. All contributions to any single partnership.	2%	5%
3. All contributions to partnerships.	5%	15%
4. with the sum of - (a) all loans; and (b) and deposits with - (i) any local authority, or (ii) any body with power to issue a precept of requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000(a)) in respect of accepting deposits as a result of an order made under section 38(1) of that Act, and all loans.	10%	-
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding.	10%	-
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	-
8. All sub-underwriting contracts.	15%	-
9. All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body.	25%	35%
9a. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body.	25%	35%
9b. All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body	25%	35%
10. Any single insurance contract.	25%	35%
11. All securities transferred under stock lending arrangements.	25%	35%

Stock Lending

Stock lending is undertaken up to the 35% limit above. The programme is run by the Fund's Custodian, which monitors performance, limit and counterparty credit adherence, and voting requirements

Policy on Risk

The overriding objective of the Fund in respect of its investments is to minimise risk and maximise return while reducing volatility. The structure of the investment management arrangements has been implemented in order to produce a balanced spread of risk for the portfolio.

Operational risk is minimised by having custody of the Fund's financial assets provided by a regulated, external, third party, professional custodian.

The Fund's Global Custodian is Northern Trust. All public market investments are held in nominee accounts of Northern Trust.

All private market investments, including interests in private equity, property and other pooled funds are held directly in the name of Lancashire County Council as administering authority of the Lancashire County Pension Fund. Northern Trust provides detailed investment accounting and reconciliation services for all private market investments.

The title deeds in respect of the Fund's property holdings are held by Lancashire County Council and its property solicitors

The expected return on investments

Each manager is expected to achieve an excess return on the assets under their management greater than the relevant benchmark. In assessing performance of each manager the Investment Panel takes in to account the long-term nature of the investment process and returns are judged primarily on an annualised basis over a rolling three-year period. The Investment Panel reviews the appointment of each manager at least every three years or such shorter period as may be necessary. The targets and benchmarks in place are as follows:

- ♦ The Global Equity specialist managers have a target to outperform the MSCI All World index by 2.5% (net of fees) on a rolling three year basis. They are benchmarked against the MSCI All World index
- ♦ The Government Bonds manager is expected to outperform the FTSE All Stocks benchmark performance return by 0.75% (net of fees) on a rolling three year basis
- ♦ The Corporate Bonds manager is expected to outperform the IBOXX sterling Non Gilts benchmark on a rolling three year basis.
- ♦ Bonds and cash held for treasury management purposes are expected to outperform the FT 7 day LIBID

- The Private Equity Manager has a target to outperform the median return in the British Venture Capital Association (BVCA) survey of Private Equity returns by 3%. The Private Equity benchmark is FTSE All Share
- The Infrastructure managers are expected to outperform an 8% absolute benchmark on a rolling three year basis.
- The Non Investment grade bond mandate is expected to outperform the Credit Suisse leveraged loan BB & B Benchmark on a rolling three year basis.
- The property manager is expected to outperform the IPD All Property Index Benchmark return on a rolling three year basis.

Monitoring and Review

The investment activities of the Fund's Investment Managers are reviewed at each Panel meeting and reported on to the Pension Fund Committee. At these meetings, asset allocation and investment performance of the Investment Managers is reviewed.

The WM survey of Local Authority Pension Fund returns is also used by the Fund for comparative information purposes.

The Fund's Actuary carries out a triennial review of the Fund and sets the employers' contribution rates for each three year period. Details of investment strategy and activity are an important element of the actuarial review.

The Annual Report is produced by the Treasurer for all employing bodies within the Fund, and this report, together with various information bulletins produced in respect of the Pension Scheme, provides details of Investment Policy and performance relating to the Investment Managers. Extracts from the Report are circulated to all members with the Fund's newsletter and are posted on the Fund's web site (www.yourpensionservice.org.uk).

Policy on Realisation of Investments

As the Fund is cash flow positive after including investment income, there is no need to realise investments in order to pay for benefits.

The Fund Managers realise investments as and when they consider appropriate in accordance with their management discretion. The Treasurer having received advice from the Investment Panel approves the realisation of pooled funds and properties.

Where investments are held in portfolios with a discretionary investment mandate, the funds realised are held to the account of the Investment Manager for reinvestment. In all other cases, the funds realised are as cash and managed through the Fund's usual treasury management processes.

Social, Environmental and Ethical Considerations

The Fund takes an active stance on corporate governance issues. It uses Pensions Investment Research Consultants ("PIRC") to vote on its behalf at shareholder meetings. PIRC advises on Socially Responsible Investment issues and issues voting guidance and commentary for shareholder meetings. PIRC is instructed to vote the Fund's shares in accordance with its guidelines unless an Investment Manager requests a different vote for investment management reasons. In the latter case, the Treasurer to the Fund will decide how best to cast the vote in the long-term financial interest of the Fund.

The Fund is a member of the Local Authority Pension Fund Forum ("LAPFF"), which is a group of like-minded local authority pension funds that meet to discuss and act / engage in respect of Socially Responsible Investment and Corporate Governance issues.

Principles of Investment Practice

The Fund's compliance with the six principles of investment practice laid out in Local Government Pension Scheme (Management and Investment of funds) regulations 2009 is described below:

Principle 1: Effective Decision Making

Fully compliant: The decision making process is fully outlined in the Governance Policy Statement, Governance Compliance Statement and Statement of Investment Principles. A Pension Fund Business Plan is approved by the Pension Fund Committee on an annual basis.

Principle 2: Clear Objectives

Fully compliant: The overall objective for the Fund is outlined in the Statement of Investment Principles. The Investment Panel sets benchmarks for measuring the performance of each investment and an overall benchmark for the Fund as a whole in order to monitor the attainment of the objectives.

Principle 3: Risk and liabilities

Fully compliant: The Investment Panel and Pension Fund Committee have considered the appropriate assets for the Fund following Asset/Liability studies and decided upon an investment strategy involving a diversification of investments amongst equities, property and investments offering the prospect of acceptable returns with lower volatility.

Principle 4: Performance assessment

Fully compliant Investment performance reports are produced by the Custodian monthly and by WM Company quarterly for consideration by the Investment Panel and the Pension Fund Committee.

Principle 5: Responsible ownership

Fully compliant: PIRC has been appointed the Fund's proxy to vote the Fund's shares at shareholder meetings. PIRC votes in accordance with its voting guidelines unless an Investment Manager requests differently, in which case the Treasurer to the Fund would decide how the vote should be cast in the best interests of the Fund. The Fund is a member of the Local Authority Pension Fund Forum, which is primarily concerned with Corporate Governance issues and shareholder activism. Voting action is monitored on a quarterly basis.

Principle 6: Transparency and reporting

Fully compliant: The Statement of Investment Principles outlines who is responsible for strategic and asset allocation decisions for the Fund and the reasons behind this Structure. It contains the current investment objective and details of the operational aspects of the Fund's investments.

The Fund provides all of its Members with regular information bulletins. The Annual Report and the Fund's statutory statements are made available to all the Fund's employers and members through the web site www.yourpensionsservice.org.uk.

Pension Fund Committee
Meeting to be held on 30 November 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

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 at shareholder meetings.

The attached report (Appendix 'A') covers the period 1 July to 30 September 2012. The Fund has voted on 330 occasions and has opposed or abstained in 33% of votes. PIRC recommends not supporting resolutions where it does not believe best governance practice is being applied. PIRC's focus has been on promoting independent representation on company boards, separating the roles of CEO and Chairman and ensuring remuneration proposals are aligned with shareholders' interests.

The Fund has signed up for portfolio monitoring by the US law firm Barrack, Rodis & Bacine to ensure that the Fund claims and receives all amounts awarded under class actions.

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.

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).

PIRC's quarterly report to 30th September is presented as at Appendix 'A'. This report not only provides details of the ballots cast on behalf of the Fund but also provides a commentary on events during the period relevant to environmental and social governance issues.

In addition PIRC 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 September 2012 is summarised below:

Region	Voting action:				
	For	Oppose	Abstain	Withheld	Total
UK	195	30	37	-	262
Europe	-	-	-	-	-
USA	12	12	2	5	31
Japan	4	4	-	-	8
Rest of World	9	17	3	-	29
Total	220	63	42	5	330

The period July to September is relatively quiet with 330 ballots cast compared with 1,908 in the prior quarter. The Fund has voted for 67% of shareholder resolutions and has opposed or abstained in 33% of resolutions. Voting abstention is regularly used by institutional investors as a way of signalling a negative view on a proposal without active opposition.

The Fund opposed the approval of the Remuneration Report for a number of well known companies including BT, MITIE, Tate & Lyle, De La Rue, National Grid and Stagecoach, where PIRC did not consider the incentive plans were properly disclosed or aligned with the interests of shareholders or sufficiently challenging.

The appointment of directors was opposed where PIRC considered the director concerned was not independent, had too many other commitments to devote a proper amount of time, or was too closely connected with the failure of a bank.

An example of where the Fund abstained was an extraordinary general meeting called to remove Sir Michael Rake as Chairman of Easyjet. The founder of Easyjet wanted to remove Sir Michael Rake because of his involvement with Barclays when it was found to have been rigging the LIBOR interest rate. The Board of Easyjet were supportive of Sir Michael Rake. PIRC's view was that the case to remove Sir Michael Rake was not convincing. However, it not oppose his removal because it was concerned about his time commitments to other directorships, so it abstained.

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

In its opposition to board resolutions, PIRC has focused on promoting the election of truly independent directors, splitting the CEO and Chairman roles and ensuring directors' remuneration packages are properly aligned with shareholder interests.

The PIRC report also makes reference to the Kaye Review which reported on 23 July 2012. This review looked at the workings of the investment markets and concluded that they are too biased towards short-termism and promoting transactions. The report makes recommendations to promote stewardship and long-term decision making and embed fiduciary duties in the system.

In September, the Fund signed a portfolio monitoring agreement with the US shareholder class action lawyers Barrack, Rodos and Bacine (BRB). BRB is one of the leading US firms that brings class actions against companies on behalf of shareholders where wrong-doing by company managements and directors is alleged. Their role is not only to seek damages from shareholders but also to promote improved governance in the companies affected.

BRB will hold details of the Fund's equity investments and ensure that it lodges claims and participates fully and in any class actions that take place. In the USA, all shareholders benefit from awards made in class actions irrespective of whether they were named as a plaintiff, provided the appropriate claim form is submitted. BRB offers this service free of charge because knowledge of losses helps the firm be appointed lead plaintiff in proposed class actions

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.

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 oversight and lack of independence.

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

N/a

Lancashire Council

Proxy Voting Review
July 2012 – September 2012

October 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

SABMiller Plc - AGM 26th July

A lack of independent representation on the board was an issue at SABMiller.

Non-executives Geoffrey Bible and Dinyar Devitre are not considered independent as they are nominees of Altria, the largest shareholder. Non-executive Howard Willard is not considered independent as he is a nominee and former CFO of Altria.

Non-executives Carlos Pérez Dávila and Cyril Ramaphosa are not considered independent as they are nominees of Santo Domingo Group - the Company's second largest shareholder. Alejandro Santo Domingo Dávila is not considered independent as he is also a nominee of the Santo Domingo group. Furthermore, he has served on the board for over nine years and there are concerns regarding his time commitments.

Senior independent director and newly appointed deputy chairman John Manser is not considered to be independent as he has served on the board for more than nine years. His promotion to deputy chairman is designed to appease fears of a concentration of power at the head of the Company, following the appointment of an executive chairman, but his length of tenure raises questions over his ability to ensure independent oversight.

There is insufficient independent representation on the board. Therefore, we recommended shareholders oppose the election of all seven directors.

Newly appointed executive chairman Graham Mackay stepped up to this position from that of chief executive, following the retirement of Meyer Kahn, who himself was a former chief executive of the Company. It is intended that he will make the transition to non-executive chairman once Alan Clark is appointed as the new chief executive in a year's time. This does little to allay fears of a concentration of power at the head of the Company. We recommended shareholders oppose his election.

We also recommended that shareholders oppose the remuneration report. The report clearly states that "a significant proportion of executive pay is variable." It fails, however, to give any realistic estimate as to the potential future payouts under the 'value share award' scheme that was instigated two years ago. The 'value share award' scheme, for which disclosure in the remuneration report is less than transparent, essentially rewards executives a cut of any increase in market capitalisation of the Company above the median over a five year period.

Combined awards under the annual bonus, share option and performance share programmes, during the year under review, are considered to be excessive, with the soon to be executive chairman, Mr Mackay, and the CFO receiving 520% and 634%, respectively, of their base salaries.

The lower vesting thresholds for EPS growth attached to the share option scheme (based on real EPS growth) and performance share awards (compound annual EPS growth) are not challenging against brokers' forecasts. Moreover, the EPS vesting scale for these schemes are not sufficiently wide to encourage outperformance.

Micro Focus Plc - AGM 26th September

Combined roles and remuneration were concerns at Micro Focus.

There is no de-facto division of responsibilities as executive chair Kevin Loosemore assumes both the role of the Chairman and of a CEO. His service contract provides him with possible termination payments in excess of one year. We recommended shareholders oppose his re-election.

In terms of remuneration policy, General termination provisions amount to 12 months base salary however, in the case of Mr Loosemore his termination provisions provides for 150% of salary pay out. In addition, if he is dismissed other than for cause (or if his role is diminished), the recruitment share awards will vest and he may be entitled to a pro-rated bonus for any period worked but, not for any part of the notice period worked. An oppose vote was recommended.

UK Corporate Governance Review

The long and the short of it

The publication of the final report of the Kay Review in July signalled a potentially important shift in the discussion about the nature and function of financial markets. But will its recommendations bite?

Before we look at the specifics of the report it's worth reflecting on the broad picture that emerges. In fact, if you stand back and look at the full picture the Review has outlined, it is clear that the investment chain as currently structured is not working effectively. The Review suggests that in almost every link in the chain there is a bias in favour of activity, regardless of whether this can be proven to be in the interests of either issuers or savers.

This bias in favour of transactions is underpinned by a set of ideas that fetishise certain aspects of the operation of equity markets to the exclusion of any discussion of their over-riding function. The Review is particularly strong on these points, arguing that there has been plenty of talk about liquidity, efficient price discovery and so on, but these are seen as ends in their own right, rather than features of a market that serves issuers and savers well. In fact, there might even be tension between different objectives.

The Review states: "Measures to make the market more 'efficient,' in the technical sense implied by the efficient market hypothesis, may have the effect of making the market less efficient in the broader and more important sense of achieving better resource allocation through better corporate decisions."

This kind of disconnect between the operation of markets in themselves, separate from the interests of either users or providers of capital, is a significant theme of the report. The two threads that weave through the Review's 17 reform proposals seem to us to be the need for disintermediation on the one hand and the re-establishment of trust and professional standards in the investment industry on the other.

This is most explicit in the Review's recommendation that both directors and shareholders (whether asset managers or asset owners) should adopt Good Practice Statements that promote stewardship and long-term decision making. This isn't a million miles away from the approach floated by the Tomorrow's Company report *Restoring Trust* issued back in 2004. Sir Richard Sykes, who led the project, even suggested that the financial services sector needed the equivalent of a Hippocratic Oath. To state the obvious, trust in financial services is rather lower now even than when that recommendation was put forward.

It's not just a question of best practice. The Review rightly highlights the need for fiduciary duty to be embedded throughout the system. Once again, it's indicative of how little trust there is in the system at present that we need a set of basic ideas such as that intermediaries should act in their client's interest.

Kay's call for the establishment of a new investor forum to facilitate collective engagement is helpful. Regular PIRC Alerts readers will be aware of our scepticism about the value of the existing lash-up of trade bodies, now going under the name of the Institutional Investor Committee. If stewardship is going to be effective and command public confidence a new start is needed, and that requires a genuinely independent body. The mainstream of the investment industry makes the valid point that any body needs senior practitioners involved. We agree, but these cannot just be positions – how often has the IIC's advisory council met, for instance? In addition, such a body needs at least some radical voices. It is, after all, senior practitioners who have been in place whilst the events of the last few years have taken place.

Finally, the emphasis on allowing companies to shift away from the need to manage short-term earnings announcements ought to be widely welcomed. Moving the focus to truly informative narrative reporting and away from quarterly updates should enable directors to focus on the needs of the business, rather than short-term pressures.

Of course, the big unanswered question is, will all this work? The Review steers largely clear of direct regulatory intervention. This must raise a question about the extent to which the reforms will have force. But if the industry doesn't start to put its house in order will Government be able to resist a more direct approach?

New investor body is an old idea

The Kay Review's suggestion that a new body needs to be created to facilitate stewardship activities is a good one. It's also been floated before.

Governance geeks may want to have a look at a speech Lord Myners gave when he was a Treasury minister back in October 2009. In it he said: "I question the absence of an organisation in the UK that speaks solely on behalf of institutional investors without a commercial interest, as opposed to a tangential activity of trade associations. The most appropriate arena for this to take place would surely be an industry-wide institute operating with close ties to the academic institutions also engaging in the debate. I have in mind something similar to the Council of Institutional Investors. But no such organisation exists in the UK. Such a body would focus exclusively on promoting understanding and best practices in stewardship and good governance, unfettered by any other loyalties or priorities."

Compliance and annual elections

Following the end of the UK AGM season approaches, we thought it would be interesting to look at those companies that are still lagging behind in terms of best practice.

We focused on companies in the FTSE350 (ex-Investment Trusts) that are still not allowing shareholders to approve all directors on an annual basis [Code B.7.1]. At the end of June 2011, 125 companies had not sought shareholder approval for all directors at the most recent AGM. Since the turn of the year, this number has fallen to 14: Bellway PLC; Electrocomponents PLC; Grainger PLC; Elementis PLC; Jardine Lloyd Thompson Group; Millennium & Copthorne Hotels; KCom Group PLC; Schroders PLC; Shanks Group PLC; Aegis Group PLC; Ip Group PLC; London & Stamford Ppty Ltd; Kentz Corp; and International Consolidated Airlines Group SA.

Company compliance statements on this point make for interesting reading. For example, Millennium & Copthorne Hotels offers no explanation of its non-compliance, or Shanks where the board "does not believe it is necessary to require executive directors to stand for annual re-election as the Chairman and non-executives have an existing accountability to shareholders for ensuring executives perform effectively and a responsibility if necessary to remove them from their post if they fail to do so."

A similar stance is taken at London & Stamford, where the board states that it "has not followed the provisions of the UK Corporate Governance Code, which requires all Directors to retire and offer themselves for re-election, as the Board believes this provision to be potentially detrimental to the effective and ongoing management of the Company." We considered this to be a statement rather than a suitable explanation, as it does not provide any clear evidence in support of such claims.

Haldane backs 'pluralistic' boards

Input from various stakeholders on company boards would lessen the risk of catastrophic errors, according to a senior Bank of England official.[6]

The case for pluralistic boards is "very strong," said Andy Haldane, executive director of financial stability at the Bank of England in an interview with openDemocracy. He said institutions could benefit from moving away from the corporate governance model of singular, non-plural decision-making, particularly in countries like the UK where company law makes the primary responsibility of managers to its shareholders. Haldane notes that this singular focus is reinforced through remuneration policies based around equity or equity-like instruments. He said that within the banking and financial sectors this has led to a corporate governance structure that allows those owning around 5% of the balance sheet to have the primary, and in some instances exclusive power, over the firm. While he suggests that pluralistic boards might be, on average, slightly "inefficient" decision-making, this is off-set by the decline in "group think" and avoidance of catastrophic errors that can arise from too homogeneous boards.

UK 2012 half-year voting trends

Remuneration continues to be the most controversial issue at UK AGMs, according to PIRC voting analysis.

We looked at a sample of just over 300 AGM results for FTSE All-Share companies in the first two quarters of 2012. The average vote against a remuneration report is 7.64%. The figure for the same period in 2011 was 6.1%. Defeats this year include Aviva, Cairn Energy, Centamin, Central Rand Gold, Pendragon and WPP.

If we compare individual companies directly between 2011 and 2012 there are some further interesting findings. Looking at a sample of 234 directly comparable results, we can see that the average change in the absolute level of opposition is 1.5%, or an average oppose vote of 7.9% in 2012 versus 6.4 in 2011. In contrast, the average level of abstention is down by 0.5%, which reflects anecdotal feedback that some investors are choosing to oppose rather than abstain on pay votes more often this season.

What is really striking is that the four highest year-on-year increases in opposition to remuneration policy came at companies that were defeated on their reports – Pendragon, Centamin, Cairn and Aviva. All four received oppose votes on their remuneration reports last year of less than 3%. In contrast, both Robert Walters and Afren, which were both defeated last year, saw very large reductions in the level of opposition compared to last year. Robert Walters saw the largest fall in the sample with a 38%.

Looking at director elections, the average vote against is virtually unchanged for the first half of 2012 at 1.88%, compared to 1.7% in 2011. easyJet saw four of its directors receive 42% votes against their re-election, although this is explained by the poor relationship with its controlling shareholder Sir Stelios Haji-Ioannou. Notably, a number of companies that received large votes against their remuneration reports also saw large votes against directors, including Pendragon, WPP, UTV and Barclays.

The average vote against an auditor appointment so far in 2012 is 1.1%, similar to 1.05% for the same period in 2011. The most notable votes against were at Grainger (17.8%) and Shaftesbury (16.5%). Both votes appear to have resulted from concerns about non-audit work being undertaken by the audit firm.

Votes against share issue authorities are also little changed with an average vote against of 2.98% for the first half of 2012, compared with 2.89% in 2011. There were a number of defeats, as often such authorities are special resolutions and as such require 75% in favour to pass. Defeated companies include easyJet, Anglo Pacific Group and Mondi. Notably, in Mondia's case, its AGM statement refers directly to the influence of South African shareholders. Lonmin, which also registered a large vote against a resolution relating to share authorities, made a similar statement.

One resolution type where the vote against is up are those where companies are seeking authority to hold meetings on short notice. The average vote against in 2012 so far is 5.47%, compared to 4.52% in the same period last year. As such, they are also the second most controversial issue for shareholders, if we use levels of voting dissent as an indicator. These are special resolutions, so they require 75% in favour to pass. At easyJet it was defeated though this was again largely the result of its controlling shareholder voting against. However, Unite Group came close to losing its vote too, with a 24.43% vote against.

Once again, it seems that overseas investors are having an impact. Our analysis of shareholder voting records suggests that resolutions relating to notice for holding general meetings are rarely opposed by UK institutional investors. This means that the level of opposition we are picking up in the figures is likely driven by overseas investors.

Vedanta suffers pay upset

Controversial Indian miner Vedanta saw a 12% vote against its remuneration policy in August, as its AGM was again targeted by human rights campaigners.

Given that the majority of Vedanta shares are controlled by Volcan Investments, representing the interests of the executive chairman and his immediate family, this denotes a significant vote against by minority shareholders. According to reports, inside the company's AGM human rights campaigner Bianca Jagger once again attacked Vedanta's record on human rights and environmental issues. Some investors also challenged the board.

Asil Nadir jailed for ten years

Having dodged criminal charges for years, in August Asil Nadir was jailed for 10 years for stealing millions from Polly Peck, his former business.

Nadir was found guilty of 10 counts of theft from the company totalling £29m. The former FTSE100 constituent collapsed in 1990 with significant debts and the company that controlled the Nadir family interests was raided by the Serious Fraud Office.

In one sense Nadir was one of the fathers of UK corporate governance. His behaviour at Polly Peck added to the momentum for reform of British boardrooms. The collapse of the company was, along with that of Coloroll, one of the factors that led to the Financial Reporting Council setting up the Cadbury committee. The scandal also convinced mainstream investors that governance was not just an abstract concern.

The jailing of Nadir has also exposed the problem of corporate funding of political parties. Nadir was a major Conservative Party donor and his conviction has led to calls, including from some senior Conservatives, for his donations to be returned.

Sports Direct bonus bungle

Sports Direct was another victim of the so-called 'shareholder spring' in September when its proposed bonus plan for Mike Ashley was defeated.

The company had proposed a new scheme to benefit executive chair Ashley, which, if approved, would have given him the option to acquire eight million shares in the company at no cost, if four "Super Stretch Targets" were met. However, in a RNS release the company stated that the resolution failed to pass.

It's interesting to note that it was a special resolution proposing the new scheme, meaning that it required 75% in favour to pass. The vote is also binding on the company, rather than advisory. PIRC Alerts readers may remember that much energy was expended by business lobbyists arguing that the introduction of binding votes on remuneration combined with a higher voting threshold to pass would lead to chaos. This, then, is a perfect test case of that proposition.

The extent of the crisis at Sports Direct caused by this vote can be seen in the company's response to the defeat: "[A] new Super Stretch Share Scheme with further performance criteria will be proposed to shareholders at a future meeting."

Still, not everyone was happy with the result. One 'top ten' Sports Direct shareholder said that each shareholder should be asked how they voted and why. This call for accountability was rather compromised by the fact that the investor concerned would only comment anonymously.

UK directors' pensions: enormous

Figures from the TUC's tenth annual PensionsWatch survey reveals a growing disparity between the pension pots of directors at top UK companies compared to the rest of the workforce.

An analysis of the pension arrangements of 351 directors from the FTSE100 found that the average transfer value for a director's defined benefit (DB) pension is now £4.33 million. This represents an average annual pension of £240,191, or 24.4 times the size of the average occupational pension (£9,828).

The survey also revealed that the average company contribution to directors' defined contribution (DC) pension is £144,508. The average contribution rate to a director's DC scheme is 22%, nearly four times the size of the average employer contribution rate of six percent in DC pensions. It is over seven times the size of the maximum employer contribution required under the new automatic enrolment regime. Payment methods are also changing with an increasing number of executives receiving cash payments instead of participating in company pension schemes.

The TUC said that although executive pay and bonuses have come under major scrutiny, the confusing and sometimes misleading reporting of directors' pensions has escaped shareholder and media scrutiny. So far the most notable attempt by investors to improve disclosure of directors' pension entitlements was a joint letter by the National Association of Pension Funds and the Local Authority Pension Fund Forum. But to date shareholders in general have not tackled this issue.

More pay vote defeats

Darty and AEA Technology were the latest companies to lose the votes on their remuneration reports in September, as shareholder opposition to high pay continued.

The resignation of Darty's chief executive, Thierry Falque-Pierrontin, failed to prevent major investor revolt at its AGM. Irritated by the company's announcement last month that it erroneously stated stock options awarded to Falque-Pierrontin in 2009 were linked to performance targets, 58% of shareholders voted against Europe's third-largest retailer's remuneration report. PIRC had advised shareholders to vote against the remuneration report.

According to the AEA's RNS statement, the vote against its remuneration report was an enormous 71.32%. PIRC had recommended that shareholders vote against. Only Central Rand Gold has recorded a worse defeat this year, with a 74.36% vote against its remuneration report.[3] AEA's defeat makes the total nine so far this season, well ahead of any previous year.

Ofcom clears Sky, mauls Murdoch

As expected, in September broadcasting regulator Ofcom ruled that BSkyB was 'fit and proper' to hold a broadcasting licence. But it also fired a broadside at former chair James Murdoch.

Essentially Ofcom's decision can be distilled down to two important points. First, there is little in Sky's own behaviour to suggest that it is not 'fit and proper'. Second, that James Murdoch's influence is not significant enough for his presence as a non-executive director on the board to count against the company. So far, for Sky, so good.

However, the language used by Ofcom in respect of James Murdoch's role at News International is extremely harsh. One might even argue that it has criticised him personally more severely than even the Department of Culture, Media and Sport (DCMS) select committee's report into phone-hacking did. Ofcom points out that Murdoch had a number of opportunities to dig deeper into practices at The News of the World (NOTW).

First there was the famous 2008 meeting, and email exchanges, involving then NOTW editor Colin Myler and legal manager Tom Crone. Then there was The Guardian's 2009 story alleging that the Gordon Taylor settlement had been used to cover up the extent of phone-hacking. Finally, there was the first report of the DCMS committee which accused News International of "collective amnesia" in respect of wrongdoing.

Ofcom concludes: "We consider James Murdoch's conduct, including his failure to initiate action on his own account on a number of occasions, to be both difficult to comprehend and ill-judged. In respect of the matters set out above, in our view, James Murdoch's conduct in relation to events at NGN repeatedly fell short of the exercise of responsibility to be expected of him as CEO and chairman."

Of course, criticism from an industry regulator alone isn't sufficient to have any impact on Murdoch. In both News Corp and Sky he is protected by his own family's dominant shareholding. So, despite Murdoch having been criticised by both the select committee and Ofcom, the FT reported last week that James Murdoch was likely to gain an expanded role at News Corp.

However, this isn't the end of the story. For one, Ofcom clearly leaves the door open, saying it will look at what comes out of the Leveson Inquiry and what gets disclosed in criminal proceedings. Perhaps this will come to nothing. But then some market participants confidently predicted that James Murdoch had passed the worst last July. Since then he has lost the BSkyB chair and stood down from other companies' boards. The hacking scandal has not played out in its entirety yet, and it's possible that Ofcom may need to revisit its decision.

Second, as a number of news reports picked up last week, there is an implication in the Ofcom report that had Murdoch remained as chair of Sky then things might have been different. Yet the BSkyB board unanimously backed him, and recommended shareholders re-elect him as chair. That now looks to have been a very risky gamble. In light of this, does leaving him on the board, rather than removing him entirely, look to be sensible?

Bumi faces probe into finances

UK-listed Indonesian miner Bumi has launched an investigation into alleged financial irregularities in one of its affiliates.

According to reports, a probe has been ordered into to potentially suspect transactions at PT Bumi Resources. This follows evidence being presented to the board by non-executive directors. The reports states that PT Bumi Resources, in which Bumi has a 29% holding. is controlled by the Bakrie family. The Bakries in turn are one of the largest shareholders in Bumi.

In a formal statement Bumi said: "An independent investigation has been commissioned to investigate the allegations on an urgent basis, and is to report to the Board. The Company also intends to contact relevant authorities in the UK and Indonesia, as appropriate, in respect of some of the allegations. "

Bumi is one of a number of recently listed companies that, whilst traded on the UK market, are essentially overseas businesses. In addition, a number of such companies in the extractives industries have a very limited free float, meaning that minority shareholders can struggle to have their voices heard, and unusual governance practices are difficult to challenge.

UK Voting Analysis

Table 1: Top Oppose Votes

	Company	Type	Date	Resolution	Proposal	Funds Vote	Oppose %
1	EASYJET PLC	**EGM**	13 Aug 12	1	To remove Sir Michael Rake from office as director and Chairman of the Company	Abstain	52.76
2	SABMiller PLC	AGM	26 Jul 12	2	Approve the Remuneration Report	Oppose	22.57
3	NATIONAL GRID PLC	AGM	30 Jul 12	19	Issue shares with pre-emption rights	For	20.22
4	ATKINS (WS) PLC	AGM	01 Aug 12	20	Adopt Long-term Growth Unit plan	Abstain	18.51
5	SABMiller PLC	AGM	26 Jul 12	11	Re-elect Mr M Q Morland	Oppose	17.52
6	DAIRY CREST GROUP PLC	AGM	17 Jul 12	14	Meeting notification related proposal	For	17.42
7	SABMiller PLC	AGM	26 Jul 12	9	Re-elect Mr P J Manser	Oppose	15.62
8	SABMiller PLC	AGM	26 Jul 12	14	Re-elect Mr M C Ramaphosa	Oppose	13.72
9	NATIONAL GRID PLC	AGM	30 Jul 12	22	Meeting notification related proposal	For	12.32
10	GREENE KING PLC	AGM	04 Sep 12	9	Issue shares with pre-emption rights	For	12.11

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	2	66	0	0	1	33	0	0	3
Annual Reports	13	48	3	11	11	40	0	0	27
Articles of Association	2	100	0	0	0	0	0	0	2
Auditors	17	68	6	24	2	8	0	0	25
Corporate Actions	2	100	0	0	0	0	0	0	2
Corporate Donations	7	100	0	0	0	0	0	0	7
Debt & Loans	0	0	0	0	0	0	0	0	0
Directors	88	75	17	14	12	10	0	0	117
Dividend	13	100	0	0	0	0	0	0	13
Executive Pay Schemes	1	20	2	40	2	40	0	0	5
Miscellaneous	13	100	0	0	0	0	0	0	13
NED Fees	0	0	0	0	0	0	0	0	0
Non Voting	0	0	0	0	0	0	0	0	0
Say On Pay	0	0	0	0	0	0	0	0	0
Share Capital Restructuring	0	0	0	0	0	0	0	0	0
Share Issue/Re-purchase	37	80	9	19	0	0	0	0	46
Shareholder Resolution	0	0	0	0	0	0	0	0	0
Undefined	0	0	0	0	2	100	0	0	2

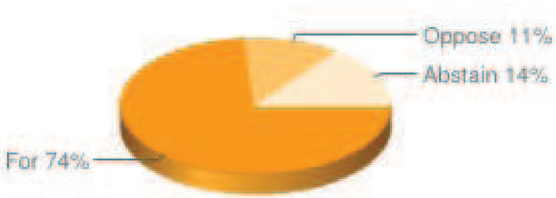
UK Voting Charts

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	195
Oppose	30
Abstain	37
Withdrawn	0
Total	262

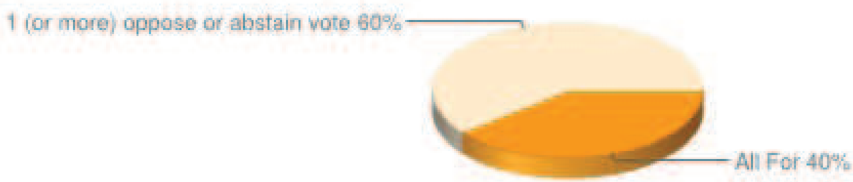
Meetings	AGM	EGM	Total
Total Meetings	13	5	18
1 (or more) oppose or abstain vote	13	3	16

UK Voting Record



UK AGM Record

UK EGM Record



UK Voting Timetable Q3 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	BT GROUP PLC	11 Jul 12	AGM	2012-06-28
2	MITIE GROUP PLC	11 Jul 12	AGM	2012-06-28
3	ICAP PLC	11 Jul 12	AGM	2012-06-29
4	MELROSE PLC	16 Jul 12	**EGM**	2012-07-04
5	DAIRY CREST GROUP PLC	17 Jul 12	AGM	2012-07-11
6	DE LA RUE PLC	26 Jul 12	AGM	2012-07-17
7	TATE & LYLE PLC	26 Jul 12	AGM	2012-07-16
8	SABMiller PLC	26 Jul 12	AGM	2012-07-16
9	PAYPOINT PLC	27 Jul 12	AGM	2012-07-17
10	NATIONAL GRID PLC	30 Jul 12	AGM	2012-07-18
11	ATKINS (WS) PLC	01 Aug 12	AGM	2012-07-18
12	EASYJET PLC	13 Aug 12	**EGM**	2012-08-02
13	DAIRY CREST GROUP PLC	16 Aug 12	**EGM**	2012-08-06
14	STAGECOACH GROUP PLC	24 Aug 12	AGM	2012-08-14
15	GREENE KING PLC	04 Sep 12	AGM	2012-08-20
16	XSTRATA PLC	07 Sep 12	**EGM**	2012-08-28
17	XSTRATA PLC	07 Sep 12	COURT	2012-08-28
18	MICRO FOCUS INTL PLC	26 Sep 12	AGM	2012-09-13

Not Voted Meetings

Table 4: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	MICRO FOCUS INTL PLC	26 Sep 12	**EGM**	0 shares available to vote

UK Upcoming Meetings Q4 2012

List of meetings scheduled to be held throughout the period by UK companies currently in the fund's portfolio.

Table 5: Upcoming Meetings

	Company	Meeting Date	Type
1	DIAGEO PLC	17 Oct 12	AGM
2	PERSIMMON PLC	17 Oct 12	**EGM**
3	BHP BILLITON GROUP (GBR)	25 Oct 12	AGM
4	SMITHS GROUP PLC	01 Nov 12	AGM
5	BARRATT DEVELOPMENTS PLC	01 Nov 12	AGM

6	WOLSELEY PLC	01 Nov 12	AGM
7	HAYS PLC	07 Nov 12	AGM
8	GALLIFORD TRY PLC	09 Nov 12	AGM
9	ASSOCIATED BRITISH FOODS PLC	01 Dec 12	AGM

AIM UK Market Voting Timetable Q3 2012

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

AIM UK Market Upcoming Meetings Q4 2012

There are no upcoming meetings for this region.

Fledgling UK Market Voting Timetable Q3 2012

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

Fledgling UK Market Upcoming Meetings Q4 2012

There are no upcoming meetings for this region.

European Corporate Governance Review

Employee reps on the board

A recent announcement by the new French government suggesting that employee representation on public company boards could be introduced, may herald more interest in the idea.

According to a report in the FT in July, Pierre Moscovici, the finance minister, told a conference that the Government would be outlining legislation in the next few months aimed at tackling executive pay. Part of the package will apparently include “provisions to place workers’ representatives on the boards of companies, including on remuneration committees.”

Obviously official employee representation in the governance of companies is not a particularly novel reform in Europe. In a number of countries employees are represented on the supervisory boards of companies, and it’s a well-known feature of the Rhineland capitalist model. But could it spread to the UK? Whilst the overwhelming opinion would currently be against this kind of reform, there are reasons to think that moves in this direction could be possible.

For example, it is notable that the Department of Business, Innovation and Skills has twice sought views on the idea of employee representation on remuneration committees. To date, the large majority of opinion has been against this idea, and BIS has not sought to pursue it. But the fact that such a reform even made it into consultations marks a significant break with recent history. In addition, it is clear that there is some sympathy with the idea of employee representation within the Liberal Democrat half of the Coalition Government.

More generally, the idea of employee representation on remuneration committees has been championed by the High Pay Centre. The opposition Labour Party has committed to introduce the Centre’s reform proposals in full, including the proposal on remuneration committee membership, and senior figures in the party have repeatedly spoken in favour of the idea. And the reform, not surprisingly, has the support of trades unions.

Incoming TUC General Secretary Frances O’Grady made it clear in a recent interview with the Independent that it is a key public policy issue for the UK labour movement.

It’s fair to say that the UK corporate governance community is largely unsympathetic. But then again, there wasn’t much support for annual director elections, and the idea of a binding vote on executive pay was opposed by most investors. Both reforms were introduced anyway. On that basis, perhaps we ought to keep an open mind about some form of employee representation in corporate governance being introduced in the next few years.

Hedge funds may face pay battle

Some hedge fund managers could see an overhaul of their pay practices as soon as next year under new regulations included in the European Union’s Alternative Investment Fund Managers directive (AIFMD).

Provisions in the AIFMD would impose restrictions on fund manager pay, such as bonus deferrals and clawbacks, as part of the EU’s latest move to regulate the hedge fund and private equity industry. UK hedge funds thought they would be somewhat safeguarded from the EU’s rule by the Financial Services Authority but the draft guidance issued from the European Securities and Markets Authority did not include measures for national authorities to exempt categories of funds from the curbs, according to the Financial Times. Not surprisingly, hedge fund managers like their pay the way it is, with some calling the idea of deferral and clawback rules “wholly unreasonable.”

Deutsche Bank pay clampdown

Deutsche Bank has adopted rules that will allow the company to clawback awards its employees earned at former employers.

Under the new rules, recently hired senior staff of Europe's largest bank by assets will have to forego unvested stock from previous positions that was exchanged for shares at the bank that has not yet been paid out should staff fail to meet expectations. The decision comes after a number of recent banking scandals have put pressure on banks to hold their employees accountable for excessive risk taking and illicit behaviour. Clawback rules have been in place in the UK and Europe since 2009, but UBS was the first international bank to begin introducing clawbacks after the 2008 financial crisis. While pay consultants expect a sharp increase in the use of clawbacks this year, they warn that the financial sector must work in unison if the plan is to work.

Investors back radical audit rules

A Europe-wide coalition of investors has backed plans for a tougher stance on auditor appointments as a way to avoid conflicts of interest.

In a letter to the Financial Times the group set out support for both mandatory rotation of auditor and for auditors to derive no more than 50% of the audit fee in the provision of non-audit work. The group also called on the European Commission to "investigate as a matter of some urgency whether IFRS is delivering accounts that provide a 'true and fair' view".

Signatories include the Universities Superannuation Scheme and Railpen, two of the UK's biggest pension funds, Legal & General Investment Management, one of the largest asset managers, and investor groups such as VEB, the Dutch investors association, and the Local Authority Pension Fund Forum.

Since the financial crisis some shareholders have sought a greater focus on accounting and audit issues. There is a sense that the audit process has not worked effectively. During the crisis dozens of banks across Europe have required financial assistance from the state in one form or another. Yet auditors apparently failed to find anything at fault before the banks ran into trouble.

The suspicion that part of the problem might be conflicts of interest that affect auditor scepticism has received support from a new source in recent years from the field of behavioural ethics. In the book *Blindspots*, Max Bazerman and Ann Tenbrunsel argue that the way that the audit system is currently structured makes it "psychologically impossible" to make objective judgments· They argue for a very tough line on potential conflicts of interest, backing mandatory rotation and a bar on non-audit work.

Interestingly, the position adopted in the investor letter is stronger than that advocated by some UK investors. For example, in its response to the EC's proposals, the Institutional Investor Committee argued against both mandatory auditor rotation and low threshold on the level of non-audit work.

Swiss plan for binding pay vote

'They'll all move to Switzerland' has been the stock response of defenders of high pay in the City and elsewhere for years. But Switzerland may not be a safe haven for the highly-paid for much longer.

A campaign led by businessman turned politician Thomas Minder seeks to introduce a binding shareholder vote on the remuneration of managers and directors. He also wants to ban golden parachutes and golden hellos. His proposal will be voted on in a national referendum next March.

Current practice in Switzerland is that some companies voluntarily put their policies to an advisory vote, but it is not mandatory. If Minder's campaign for a binding vote is not successful, a counter motion put forward by the business lobby group Economiesuisse which would make it mandatory for companies to hold an advisory vote on remuneration policy could be adopted.

Europe pursues gender quotas

The European Commission may press ahead with plans to require at least 40% of non-executive positions on listed company boards to be held by women, according to reports in September.

According to the FT, which saw a draft of the proposal, the EC plans to require firms with over 250 employees or more than 50m Euros in revenue to report annually on their boards' gender make up. The report claims that if businesses fail to meet the mandatory target they could be hit with fines and also barred from contracts. The EC wants to introduce quotas to address slow progress in improving board diversity.

Such a move would put the EC on collision with the UK, which, in common with its position on most governance issues, continues to support a voluntarist model. However, a number of other European Union countries including France, Italy, the Netherlands and Spain are already pursuing a mandatory approach.

European Voting Timetable Q3 2012

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

European Upcoming Meetings Q4 2012

There are no upcoming meetings for this region.

US Corporate Governance Review

ICCR reports engaging behaviour

Could this proxy season be the start of a new era in US corporate dialogue?

Poor engagement on the part of US companies has often been cited as a leading cause for shareholders with investments in these companies to file a much higher number of resolutions than here in the UK where corporate dialogue is commonplace. Yet, for the first time in 40 years, the Interfaith Center on Corporate Responsibility (ICCR) has done the reverse. During the current proxy season, ICCR has filed 160 resolutions and engaged in 170 dialogues with companies, Social Funds reported. ICCR offers a twofold explanation for this change: an increase in mainstream investors voting in line with shareholders like ICCR on environmental, social and governance issues and a growing recognition of the business case for sustainability by corporate America.

Splitting top roles is key US issue

The separation of the roles of CEO and chair at S&P500 companies remained a major concern for investors this season, according to analysis by Sullivan & Cromwell.

Shareholder proposals calling for the separation of top roles or that the chairperson be an independent director increased by 50% compared to last year. Though they received strong shareholder backing (35% on average), just two actually passed at S&P500 companies. Other governance related shareholder proposals that received significant investor support include those that sought to declassify the board, adopt majority voting, eliminate supermajority provisions and cumulative voting. In particular, board declassification proposals showed a significant increase compared to 2012. Turning to social policy issues, the law firm noted a marked increase in both the number of proposals and shareholder support compared to recent years. Of these, the most notable were requests for additional disclosure on political expenditure and/or lobbying costs. However, none of the proposals on political issues passed this proxy season.

Smucker’s agrees to climate plan

Two major U.S. sustainable investment houses pulled a climate-related risk shareholder proposal after American food conglomerate Smucker’s agreed to their demands.

Trillium Asset Management and Calvert Asset Management announced in a joint statement that the 115 year old Ohio-based manufacturer agreed to a goal for certified coffee to reach 10% of its total retail purchase by 2016. The company has also agreed to a partnership with the sustainable development Hanns R. Neumann Stiftung Foundation and a partnership with the World Coffee Research. Shareholders applauded the move but cautioned that this is just a first step, and that the company “must do more to address investor concerns through greater disclosure, performance improvements, and accountability mechanisms.”

The two investment firms submitted a similar proposal at last year’s AGM, which received 30% of shareholder votes. PIRC had advised shareholders to support the pair’s proposal to adopt an expanded green coffee stability plan.

CII targets banks over Libor

The Council of Institutional Investors (CII) has written to 18 banks about the integrity of Libor.

The U.S. shareholder activist group is calling on the banks to undertake reviews, led by independent directors, of how they set Libor, Euribor and other rates. The CII also wants full disclosure of potential losses related to Libor misreporting. Recipients of the CII letter included all Libor-reporting banks: Bank of America, Barclays, BNP Paribas, Citibank, Credit Agricole, Credit Suisse, Deutsche Bank, HSBC, JPMorgan Chase, Lloyds Banking Group, Norinchukin Bank, Rabobank, Royal Bank of Canada, Royal Bank of Scotland, Societe Generale, Sumitomo Mitsui, Tokyo-Mitsubishi UFJ and UBS.

CalPERS dual class boycott threat

The U.S.' largest pension fund announced in August it is considering boycotting initial public offerings (IPOs) of companies that have a dual-class ownership structure.

According to the California Public Employees' Retirement System's (CalPERS) Global Governance Program Update, the $238 billion of assets under management giant has decided to throw its weight behind the removal of the ill received dual-class structure by developing an IPO governance strategic plan that will address core governance standards of accountability and transparency such as removing dual class, classified or plurality voting structures. The decision was based on a number of significant events in 2012 such as Facebook and Manchester United where a minority of shareholders control a majority of votes.

Withhold votes reveal concerns

Withhold votes for board nominees may offer a better insight into investor perceptions of a company than previously thought, according to new research.

The Investor Responsibility Research Center Institute (IRRCi), which commissioned the study, said that their findings strongly suggest higher withhold votes for board nominees are often indicative of investor concern for oversight, and should be taken seriously. In the study, *The Election of Corporate Directors: What Happens When Shareholders Withhold a Majority of Votes from Director Nominee?*, which reviewed the cause and effects of shareholder opposition to 175 director nominees at Russell 3000 companies between 2009 and 2012, IRRCi found that 50% of withheld votes can be attributed to company specific issues and that over 75% of withhold votes are attributed to six main factors. The first four of these issues are considered violations of governance practices: poison pill adoption without shareholder approval, failed attendance, related party transactions and overboarding, while the last two relate to company specific remuneration and discontent with the board's oversight of the company's affairs. The study also found that only 5% of majority withheld votes led to the removal of a director nominee among the sample.

Aetna political spending probe

Pressure is building against U.S. health care giant Aetna to disclose information about multi-million dollar donations in political spending found in the company's Political Contributions and Related Activity report.

Institutional investors began questioning Aetna about the "voter education initiatives" that had appeared only in the company's footnotes. The coalition wrote to Aetna's CEO Mark Bertolini asking for further disclosure but he has refused to provide specific details of the contributions, claiming that they were for "educational activities." Separate regulatory findings revealed that the company had previously made payments to two conservative "think tanks" – the American Action Network and the U.S. Chamber of Commerce, in the amount of $3 million and $4 million, respectively. The $922 billion in assets investor coalition has kept the pressure on Aetna despite the company's reluctance to cooperate. The group's request has also been supported by investors outside of the U.S. New York State Comptroller Thomas DiNapoli said that "this episode should serve as a wake-up call that disclosure of political spending is an issue about which shareholders should be deeply concerned."

PIRC believes that all political contributions should be disclosed in the annual report for the benefit of shareholders. Therefore, in May, PIRC backed the shareholder proposal put forward at the company's AGM that sought greater disclosure.

News Corp reshuffles its board

Rupert Murdoch has reshuffled the News Corp board by nominating the former President of Colombia Alvaro Uribe and former U.S. Secretary of Labor Elaine L. Chao.

Long time directors Andrew Knight and John Thornton will retire after the company's October 16 AGM in Los Angeles and board member Arthur Siskind will serve as director emeritus. Mr Uribe has been accredited with improving the cities and highways in Colombia during his 2002-2010 presidency, while Ms Chao served as Secretary of Labor under the Bush administration. The board change up comes after New Corp announced plans to separate its publishing business from its entertainment division.

The appointment of Uribe in particular has already been questioned by some commentators. On the surface it appears indicative of News Corp's fascination with well-connected members of the political elite, rather than its respect for the need for independent oversight on board. As such, it looks as though once again the AGM will see the company pushed to reform further. The company's filing ahead of the AGM reveals that this year it faces three shareholder resolutions.

Christian Brothers Investment Services and members of the Local Authority Pension Fund Forum have jointly filed a resolution seeking the appointment of an independent chair. Nathan Cummings Foundation has filed a resolution seeking to eliminate News Corp's controversial dual class share structure. Finally, a small shareholder has filed a resolution calling for the introduction of simple majority voting.

It's also likely that the company will face criticism over executive remuneration. Although both Rupert and James Murdoch have seen their bonuses reduced to take account of the hacking scandal, they still received $10.4m and $5m, respectively. This is despite both being severely criticised in the Department of Culture, Media and Sport select committee's report into phone-hacking. In particular, James Murdoch was criticised for not taking action for addressing phone-hacking earlier, which could have prevented Parliament from being misled in 2009.

The scandal is far from over. It has emerged in September that News Corp is set to face a further wave of civil claims. According to reports, a further 230 claims could be in the works. In addition, it has been reported that Labour MP Siobhain McDonagh has launched a legal action against both News International and The Sun relating to the theft of her mobile phone. According to reports, the MP is seeking damages for alleged invasion of privacy and breach of confidence. This follows the arrest of a journalist in July.

Arrests related to hacking continue, with a number being made as part of Operation Tuleta, the probe into computer hacking. In addition, a senior counter-terrorism detective has been charged with breaching the Official Secrets Act in relation to information allegedly sent to the News of the World about the Scotland Yard probe into phone hacking.

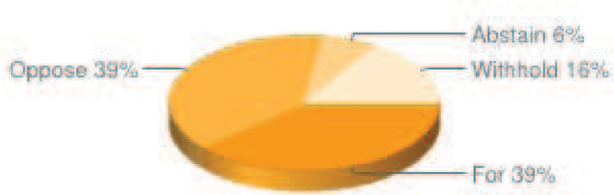
US Voting Charts

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	12
Oppose	12
Abstain	2
Withhold	5
Withdrawn	0
Total	31

Meetings	AGM	EGM	Total
Total Meetings	2	0	2
1 (or more) oppose or abstain vote	2	0	2

US Voting Record



US AGM Record

US EGM Record

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

US Voting Timetable Q3 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	MEDTRONIC INC	23 Aug 12	AGM	2012-08-10
2	H.J. HEINZ CO.	28 Aug 12	AGM	2012-08-16

US Upcoming Meetings Q4 2012

There are no upcoming meetings for this region.

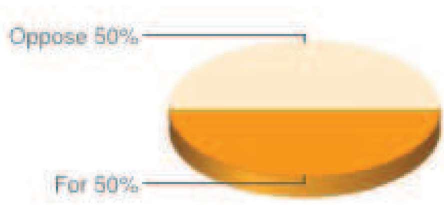
Japanese Voting Charts

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

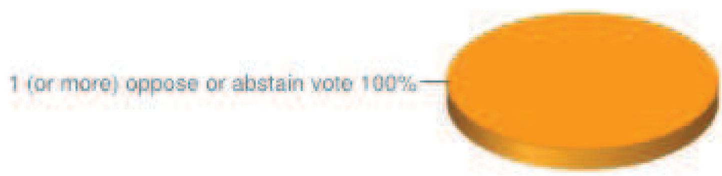
Total Resolutions	
For	4
Oppose	4
Abstain	0
Withdrawn	0
Total	8

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

Japanese Voting Record



Japanese AGM Record



Japanese EGM Record

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

Japanese Reporting Timetable Q3 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	DON QUIJOTE CO LTD	26 Sep 12	AGM

Japanese Upcoming Meetings Q4 2012

There are no upcoming meetings for this region.

Global Corporate Governance Review

Sustainable stock exchanges

Five leading stock exchanges committed to promote long-term, sustainable investments in their markets.

The announcement was made at the United Nations Conference on Sustainable Development in Brazil last month. The group, which includes NASDAQ OMX, the Brazilian Stock Exchange, the Johannesburg Stock Exchange, the Istanbul Stock Exchange and the Egyptian Stock Exchange, voluntarily agreed to work with listed companies, investors and regulators in both developed and emerging markets. The stock exchanges have a combined listing of over 4,600 companies. The endorsements came after three years of successful engagement between the Sustainable Stock Exchanges (SSE) Initiative and the stock exchanges.

"By encouraging companies to adopt good corporate governance practices where a social and environmental dimension is taken into consideration, and by helping investors to make socially responsible decisions, the SSE initiative can enhance transparency of information as regards capital markets and create more aware investors," said Edemir Pinto, CEO of BM&FBOVESPA.

Investors back arms trade treaty

A coalition of 39 global investors has called on UN Member States to support a strong and comprehensive Arms Trade Treaty (ATT).

The request put forward by the group of institutional investors, with a collective $3 trillion in assets under management, comes ahead of the United Nations Diplomatic Conference on the ATT in New York this month. The investors, who signed the *Global Investor Statement on the Arms Trade* , argue that the economy is "negatively affected by irresponsible transfers of conventional arms which contribute to insecurity, human rights violations, corruption and the diversion of public resources to destructive activities," say investors in the press release.

An ATT should prevent all types of international transfers of conventional arms and ammunitions where there is a substantial risk as well as include a comprehensive and detailed list of conventional arms, said the signatories in the joint statement.

First State Super stops smoking

Australian superannuation fund First State Super has announced its decision to divest from tobacco investments.

All tobacco-related investments, including companies involved in the manufacture of cigarettes and other tobacco products, will be excluded from the $32 billion fund's entire investment portfolio of twelve different investment options. The decision is in line with the fund's 770,000 members' strong support for the Australian Government's initiatives to minimise tobacco consumption.

Investments in the tobacco industry have been part of a much broader debate in terms of fiduciary duty. While many pension funds argue that it is their legal obligation to maximise returns and not ethical considerations, some stakeholders claim that these notions are based on misconceptions. On this matter, the CEO of First State Super, Michael Dwyer, said: "Our analysis shows there will be inconsequential financial impact from this decision for members' investment returns. It adds to the decision that the exclusion of direct tobacco investments is unquestionably the right thing to do."

Nomura scandal claims chief exec

Two senior executives at Japanese bank Nomura have agreed to resign in the wake of an insider trading scandal.

The bank announced that chief executive Kenichi Watanabe and chief operating officer Takumi Shibata have relinquished their positions after a probe into accusations that staff had leaked information on shares to clients before making it public. Koji Nagai, president of Nomura Securities, has replaced Watanabe and the bank's head of US operations, Atsushi Yoshikawa has been appointed to COO. The news comes a month after both Watanabe and Shibata were forced to take pay cuts. The two senior executives were the driving force behind the bank's international expansion as well as responsible for the takeover of the non-US assets of Lehman Brothers. The scandal has already led to the loss of Nomura's prominent role in Japan Airlines' IPO.

Climate remains investor focus

International investor networks remain committed to addressing climate change in their investment activities despite wider economic turmoil.

Key findings from the second annual report on global investor responses to climate change, undertaken by the Institutional Investors Group on Climate Change (Europe), the Investor Network on Climate Risk (North America) and the Investor Group on Climate Change (Australia and New Zealand), show that investors are advancing their practices to mitigate climate change and preparing to make investments in the future. For instance, 57% of asset owners that participated in the study said they conducted formal or informal climate risk assessments of their portfolio and that 26% have made changes to their investment strategies as a result of climate risk assessments. 78% of the 42 asset owner survey respondents said that they consider climate change integration in manager selection while 63% of the 51 asset manager survey participants said that they invest in climate solutions.

Hanwha chair faces fine and jail

In August Kim Seung-youn, chairman of the Hanwha Group was handed a $4.51 million fine and sentenced to a four year prison term for embezzlement, breach of trust and other charges.

The landmark decision by South Korean's courts shows a departure from previous law that often resulted in the country's family owned conglomerates or "chaebol" avoiding punishment. Seung-youn, the son of the Group's founder and controlling shareholder of the Hanwha Group, was often referred to as "God" by management in a display of unconditional loyalty, and that he used Hanwha Group affiliates to "unfairly support" companies that he owned as well as those owned by his brother, said the court. Hawtha Group is one of the largest conglomerates in South Korea.

Australian unions warning on HFT

Certain types of high frequency trading (HFT) act to encourage speculative behaviour across the financial system, according to a new briefing paper.

In the paper the Australian Council of Trade Unions (ACTU) argues there is reason to believe that HFT represents a risk to long-term capital market participants such as Australian industry and not-for-profit super funds. However it says the extent of that risk, and the associated costs to members, is presently unknown.

The ACTU calls on funds to recognise HFT as an investment risk. It says funds should commission a report from their investment teams or consultants that detail how and to what extent HFT is built into their current portfolio, and what costs/benefits HFT delivers to members. This cost/benefit analysis should include an assessment of systemic risks in addition to fund-level risk. In light of this analysis funds should then consider the extent to which portfolio reliance on HFT should be reduced.

Secondly, the ACTU says that via their collective bodies and associations funds should call for and support further detailed analysis and policy development in relation to measuring collective HFT risk and what steps Australian regulators should take to mitigate it.

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	9
Oppose	17
Abstain	3
Withdrawn	0
Total	29

Meetings	AGM	EGM	Total
Total Meetings	1	4	5
1 (or more) oppose or abstain vote	1	3	4

Global Voting Record

Global AGM Record

Global EGM Record

Global Voting Timetable Q3 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	BANK SARASIN & CIE AG	31 Jul 12	**EGM**	2012-07-12
2	CCR SA	02 Aug 12	**EGM**	2012-07-23
3	HUABAO INTL HLDGS LTD	08 Aug 12	AGM	2012-07-31
4	ARIBA INC	29 Aug 12	**EGM**	2012-08-24
5	NEXEN INC	20 Sep 12	**EGM**	2012-09-05

Global Upcoming Meetings Q4 2012

List of meetings scheduled to be held throughout the period by Global companies currently in the fund's portfolio.

Table 9: Upcoming Meetings

	Company	Meeting Date	Type
1	CSL LTD	17 Oct 12	AGM
2	SONIC HEALTHCARE LTD	01 Nov 12	AGM
3	WOOLWORTHS LTD	01 Nov 12	AGM
4	WESFARMERS LTD	14 Nov 12	AGM
5	ANZ-AUSTRALIA & NEW ZEALD BK	01 Dec 12	AGM

Asian Voting Timetable Q3 2012

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

Asian Upcoming Meetings Q4 2012

List of meetings scheduled to be held throughout the period by Asian companies currently in the fund's portfolio.

Table 10: Upcoming Meetings

	Company	Meeting Date	Type
1	SINGAPORE PRESS HOLDINGS LTD	01 Nov 12	AGM

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.

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.

For Private Circulation only

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Email: info@pirc.co.uk
http://www.pirc.co.uk
Regulated by FSA

Pension Fund Committee
Meeting to be held on 30 November 2012

Electoral Division affected: All

External Audit
Annual governance report 2011/12
(Appendix 'A' refers)

Contact for further information:
Fiona Blatcher, 0161 234 6393, Grant Thornton,
Fiona.C.Blatcher@uk.gt.com

Executive Summary

The Audit Commission requires the Council's external auditors to issue an annual governance report which summarises the conclusions of its audit work. The governance report for the year ended 31 March 2012 is attached at Appendix ‘A’. This report has already been considered by the Council’s audit committee at its meeting on 26 September 2012 where it considered the contents of the report, approved the letter of representation and agreed the action plan

Recommendation

The Committee is asked to consider the matters raised in the report

Background and Advice

Attached at Appendix ‘A’ is the external auditor's annual governance report for the year ended 31 March 2012. The report has been produced in accordance with the Audit Commission’s statutory Code of Audit Practice for Local Government bodies.

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Lancashire County Council

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

Paper	Date	Contact/Directorate/Tel
N/A		

Appendix 'A'

Annual governance report

Lancashire County Pension Fund

Audit 2011/12

Contents

Key messages

This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.

As at 10 September 2012, my audit is substantially complete and I expect to issue an unqualified audit opinion and issue audit reports on the financial statements of the Pension Fund. The reports will cover:

- the Pension Fund's financial statements as presented in the Lancashire Pension Fund Annual Report; and
- the Pension Fund's financial statements as presented in the administering authority's accounts for Lancashire County Council.

Internal Control Environment

The Fund has an adequate control environment in place overall. Officers have dealt effectively with significant events during the year without detriment to the control environment, including:

- implementation of new pensions payroll arrangements;
- the change in custodian arrangements including ensuring the accurate and complete transfer of assets;
- management of the new bank account arrangements;
- the procurement of new equity fund managers for 2012/13; and
- the purchase of new style infrastructure investments.

However, I report to you the need to address the potential misclassification of accounting entries between the County Council and the Pension Fund. This has continued despite the introduction of a separate bank account for the pension fund. Management action has been agreed to address this issue during 2012/13.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence.

I am aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguard to reduce the threat.

Table 1: **Threats and safeguards**

Threat	Safeguard
A member of the audit team is related to an officer within the pension administration section (Your Pension Service).	Our member of staff does not undertake, or have responsibility for the review of, any of our work relating to the work of the Pensions Service.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2011/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (page 5 and appendix 2);
- take note of the issues raised at page 7 and 8; and
- approve the letter of representation, provided alongside this report, on behalf of the Council and Pension Fund before I issue my opinion.

Financial statements

The Pension Fund's financial statements are an important mechanism for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements included within the Authority's Statement of Accounts and the financial statements included within the Pension Fund Annual Report. Appendix 1 contains copies of my draft audit reports.

Uncorrected errors

There are no uncorrected errors within the financial statements of the Fund.

Corrected errors

The audit work undertaken has identified the following item where the primary financial statements have been corrected.

- The investment assets balance and investments liabilities balance had been understated by £0.7m (as detailed at appendix 2).

In addition, a small number of amendments have been made to the accompanying disclosure notes to ensure disclosure requirements have been fully met and to improve accuracy.

None of the amendments have affected the underlying financial position of the Pension Fund.

Specific risks and my findings

I reported to you in my 23 January 2012 Audit Plan the significant risks and areas where additional audit work was required, that I identified and considered relevant to my audit of your financial statements. In the table below I report to you my findings against each of these risks.

Table 2: **Risks and findings**

Risk	Finding
Valuation of Private Equity and Infrastructure Investments The Fund has material investments of £287.5m at 31/3/12 placed in private equity funds and infrastructure assets. These assets are not traded on open markets, and the valuations are therefore subject to significant estimation.	I have evaluated and tested the controls operated by the pension fund and custodian in relation to the valuation of these assets. I have completed additional testing of a sample of valuations back to audited fund values taking into account subsequent transactions. I have not identified any issues to bring to your attention.
Implementation of New Pensions Payroll System A new pension payroll system was implemented during 2011, resulting in the payroll being run directly from the pension administration system. The ledger file development for the new system was not completed until February 2012 resulting in a significant delay in postings to the ledger for the new pensions payroll. The implementation of any new major financial system brings with it inherent risks of material misstatement and this is increased in this case due to the delay in being able to post entries to the ledger.	I have evaluated and tested the controls operating over the new payroll system including those to ensure an accurate and complete transfer of the figures into the ledger. I evaluated and relied upon internal audit testing of a sample of pension payments to ensure they were made to bona-fide pensioners, calculated and accounted for correctly. I completed a predictive analytical review based on previous years figures and known changes to obtain assurance about the overall completeness of the pension payments. The issues caused by the delay in being able to post amounts to the ledger have been resolved. I have not identified any issues to bring to your attention.
New Custodian The Fund entered into a new custodian contract that commenced in August 2011. This involved a change in provider of custodian services, and a resultant transfer of assets between custodians.	I have evaluated and tested the controls operated by the pension fund to ensure a complete and accurate transfer of assets between the Custodians. I have also reviewed the controls assurance report provided by the new custodian to ensure that their controls provide me with the expected level of assurance over the accuracy of the figures included within the pension fund financial statements. I have not identified any issues to bring to your attention. I have also tested the values provided by the custodian back to information from the various fund managers and pension fund records.

Significant weaknesses in internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. However, I have identified the following control weakness which I wish to bring to your attention.

In previous years the transactions of the pension fund have been made through the Council's bank account because a separate bank account was not maintained for the pension fund. This gave rise to a potential risk of misallocation of monies between the County Council and the Pension fund. Each year detailed work has been completed to ensure that the cash position between the County Council and the Pension Fund was correctly stated. Each year an adjustment was made between the pension fund and the Council to achieve a balanced position for the pension fund. This 'balancing adjustment' was thought to be necessary because of timing differences between the recording of transactions and the physical movement of cash. However, the amount was never fully reconciled.

From 30 March 2011, a separate pension fund bank account has been in operation. As a result, this issue was expected to be resolved.

However, it was considered impractical to move straight to a position where all transactions were made directly via the pension fund bank account. Instead daily transfers of cash were made between the Council's and pension fund's bank accounts on the basis of recorded transactions. In order to close the pension fund accounts a balancing adjustment of £1.2m between the Council and Pension Fund was required this year.

From the 1 April 2012, following the implementation of the new ledger system and a separate ledger for the pension fund, the bank account has operated fully. All transactions now go directly into the pension fund bank account. Finance staff plan to investigate the adjustment of £1.2m during 2012/13 with the aim of clearing this balance from the ledger by 31 March 2013. They also intend to ensure such un-reconciled balances do not exist going forwards. The new arrangements from 1 April 2012 should facilitate this with a monthly closedown possible and therefore earlier identification and resolution of any imbalance, should it occur.

I have performed detailed testing around this issue. I am satisfied that although there is potential for a non-material misclassification error between the two sets of accounts, there is unlikely to be a material error affecting either Lancashire Pension Fund or Lancashire County Council.

Recommendation

R1 Priority should be given to reconciling the pension fund balance on a monthly basis during 2012/13 with the aim of investigating any unexplained differences as quickly as possible. This work should include ensuring that the balance brought forwards from 2011/12 of £1.2m is investigated and addressed appropriately.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

Changes to IAS 24 for 2011/12 require the inclusion of an extended disclosure note about the compensation of key management personnel. The CIPFA code for 2011/12 includes a specific dispensation from this requirement, instead following the regulatory disclosure requirements around remuneration of members and staff. The code is silent on whether this dispensation applies to the accounts of the pension fund. No disclosure has been made within the pension fund accounts of the compensation of key management personnel, but will be kept under review by the County Treasurer until the guidance is clarified.

Pension Fund Annual Report

I have completed my review of the pension fund's draft report and the financial statements included within it. The annual report will be updated to reflect the agreed amendments on the Pension Fund accounts. I have also identified an inconsistency within the narrative within the report which refers to positive cash flows of £86.4m against the £94.3m presented in the accounts. Following amendment of the Annual report I expect to provide an unqualified report on the financial statements included in the Annual Report by 26 September 2012.

Fees

I reported my planned audit fee in the 23 January 2012 Audit Plan.

I will complete the audit within the planned fee.

Appendix 1 – Draft independent auditor’s reports

(i) DRAFT INDEPENDENT AUDITOR’S REPORT FOR THE FINANCIAL STATEMENTS OF THE COUNCIL

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL – PENSION FUND ELEMENT ONLY

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of the County Treasurer’s Responsibilities, the County Treasurer is responsible for the preparation of the Authority’s Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the 'pensions fund operation and membership' section to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the 'pensions fund operation and membership section' is consistent with the financial statements.

[*Signature*]

Karen Murray
District Auditor

[*Address*]

[*Date*]

(ii) DRAFT INDEPENDENT AUDITOR'S REPORT FOR THE PENSION FUND ANNUAL REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of the County Treasurer's Responsibilities, the County Treasurer is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

[*Signature*]

Karen Murray
District Auditor

[*Address*]

[Date]

Appendix 2 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Fund Account		Net Assets Statement	
Item of account	Nature of error	Dr £m	Cr £m	Dr £m	Cr £m
Investment Assets	The total value of Investment Assets had been understated by £0.7m.			4,360.7	
	Corrected Value			4,361.4	
Investment Liabilities	The total value of Investment Liabilities had been understated by £0.7m.			(0.8)	
	Corrected Value			(1.5)	

The above amounts relate to the treatment of the derivative investments.

Appendix 3 – Action Plan

Recommendations

Recommendation 1

Priority should be given to reconciling the pension fund balance on a monthly basis during 2012/13 with the aim of investigating any unexplained differences as quickly as possible. This work should include ensuring that the balance brought forwards from 2011/12 of £1.2m is investigated and addressed appropriately.

Responsibility	Deputy County Treasurer
Priority	High
Date	31/3/2012

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Pension Fund after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, [the Pension Panel] and the Audit Committee.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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September 2012