Lancashire County Council

Pension Fund Committee

Friday, 29th November, 2013 at 10.45 am in Cabinet Room 'D' - The Henry Bolingbroke Room, 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 6 September 2013** To be confirmed, and signed by the chair.	(Pages 1 - 8)
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)

No.	Item	
5.	**Investment Performance Report** (Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972.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 9 - 20)
6.	**Investment Panel Report**	(Pages 21 - 40)

Lancashire County Council

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972.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

12. 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.

13. Date of Next Meeting

The next meeting of the Committee will be held on Friday 27 March 2014 at 10.00 a.m. at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 6th September, 2013 at 10.45 am in The Duke of Lancaster Room (Formerly Cabinet Room 'C'), County Hall, Preston

Present:

County Councillor Terry Burns (Chair)

County Councillors

L Beavers	R Newman-Thompson
D Borrow	J Oakes
M Brindle	M Parkinson
G Dowding	D Westley
K Iddon	P White
J Lawrenson	B Yates

Co-opted members

Bob Harvey, (Trade Union representative)
Jane McCann, (HE/FE sector establishments representative)
Councillor Dorothy Walsh, (Blackburn with Darwen Borough Council representative)
Ron Whittle, (Trade Union representative)

1. Apologies

Apologies for absence were received from Councillors I Grant, P Leadbetter and M Smith.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 7 June 2013

The Minutes of the meeting held on 7 June 2013 were presented.

It was reported that several members had experienced difficulties completing the Knowledge and Skills Framework self assessment. It was agreed that any further completion of the self assessment should be halted and that a training and development plan be developed for consideration by the Committee. The plan would include training that could be provided by the Fund's Actuary, Fund Managers and via bite size briefings, as well as elements of the Hymans Robertson self assessment tool.

Resolved:

1. That the proposed training and development plan be noted.

2. That the Minutes of the meeting held on 7 June 2013 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. Investment 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 30 June 2013, focussing on the key areas of:

- the funding position;
- cash flow;
- investment performance;
- management performance;
- investment allocations; and
- risk management of the Fund including credit, liquidity, investment and operational risks.

Resolved: That the report 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 at its meetings held on 7 and 11 June and 24 July 2013. The Committee's attention was specifically drawn to the following key areas:

- The Investment Context in which the Fund was operating

- Private Equity and Property Strategies
- Further Allocations for discussion
- Investment Decisions
- Advisory Boards

Resolved: That the report be noted.

7. Application to become the single Pension Fund for Probation Staff

(Exempt information as defined in Paragraphs 3 and 4 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)

This item was unavailable when the agenda was despatched and the Chair of the meeting agreed, in accordance with agenda item 13 (Urgent Business), that the report should be considered at the meeting as a matter of urgency to enable the proposal, as mentioned below, to continue through selection process.

The Committee considered a report on the County Council's submission, as administering authority of Lancashire County Pension Fund (LCPF), of an application proposal to host a single pension scheme for the entities created by the Ministry of Justice as part of the Transforming Rehabilitation programme.

The Ministry of Justice had sought applications from administering authorities during the summer to host a single pension fund for Probation staff and new entities created as part of this Programme. The Committee noted that the County Treasurer had, in consultation with the Chair of the Committee, submitted the application proposal set out at Appendix 'A'.

The Ministry of Justice had now requested confirmation that, if successful, the proposal was supported and authorised by the Council of the administering authority. The Committee noted that the confirmation was needed to enable the LCPF proposal to continue through selection process.

Resolved: That the application proposal of Lancashire County Council, as administering authority of Lancashire County Pension Fund, to host a single pension scheme for the entities created by the Ministry of Justice as part of the Transforming Rehabilitation programme, as set out at Appendix 'A', be approved.

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

8. Private Equity Strategy

The Committee considered a report on a proposed new private equity strategy.

The Fund had a long standing private equity programme and as part of its programme of work to review the investment strategy in relation to each asset class, the Investment Panel had reviewed the Fund's strategy in relation to private equity, which encompassed a wide range of investments from start ups and venture capital to large scale buy outs.

Details of the current strategy and the proposed new private equity strategy, including authorisations required for its implementation, as recommended by the Investment Panel, were presented at Appendix 'A'.

Resolved: That the new private equity strategy and the authorisations required to implement it, as set out at Appendix 'A', be approved.

9. Property Investment Strategy

The Committee considered a report on a revised strategy for property investment.

The Fund had a long standing property portfolio and as part of its programme of work to review the investment strategy in relation to each asset class, the Investment Panel had reviewed the Fund's strategy in relation to property in the context of the Fund's overall investment strategy.

Details of the revised property investment strategy, as recommended by the Investment Panel, were presented at Appendix 'A'.

Resolved: That the revised strategy for property investment, as set out at Appendix 'A' and in particular:

a) The target long term absolute return target of 8% per annum.
b) The split of the total property allocation between a diversified core portfolio representing 70%-80% of the allocation and a specialist / opportunity portfolio representing 20%-30% of the total allocation.
c) A limit on the gearing in funds in which the allocation can be invested of 50%.

be approved.

10. Consultation on the Future Structure of the Local Government Pension Scheme

The Committee considered a report on the Government's consultation on structural reform of the Local Government Pension Scheme (LGPS).

The Minister responsible for the LGPS together with the Local Government Association had launched a consultation process seeking views on how the structure of LGPS might be reformed. Central to this consultation, was the belief set out in a number of speeches by the minister that there were currently too many LGPS funds and that fewer larger funds would be more efficient and effective in a range of ways.

The Committee considered a draft response (Appendix 'B') to this consultation on behalf of the Fund. The basic line taken was in favour of increasing collaboration, an area where the Lancashire fund already had strong credentials and against forced mergers. There were a number of reasons for this. Firstly forcing mergers was likely to create some significant issues around accountability to stakeholders in the new much larger funds. Secondly a belief that while funds could be too small, the converse was also true and funds could be too big and that the LGPS should therefore be aiming for the right size funds, although there was no evidence to indicate that larger funds necessarily performed better than smaller ones.

The key factor which was emphasised in the draft response was that all moves which aimed to professionalise the way in which LGPS funds were run were supported as this in itself had the potential to drive both performance and bring out areas where costs could be reduced. Again this was an area where the Fund had significant and useful recent experience.

Members expressed concerns about the objective of Pension Funds being required to provide greater investment in infrastructure. It was agreed that infrastructure investments should only be made where such investments offered the best possible return for the Fund and officers were asked to strengthen the consultation response to reflect the views of the Committee in this area.

Resolved: That, subject to the above amendment, the draft response to the consultation on structural reform of the Local Government Pension Scheme, as set out at Appendix 'B', be approved.

11. Annual Report and Accounts of the Fund - 2012/13

The Committee considered the Annual Report and Accounts of the Pension Fund for 2012/13.

It was noted that the Statement of Accounts was currently being audited by the external auditor and the auditor's opinion, together with any changes required as a result of the audit process would be included in the published Annual Report, when this had been completed.

A copy of the Annual Report 2012/13 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;
- Knowledge and Skills Framework
- 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 2012/13 Lancashire County Pension Fund Annual Report, as now presented, be approved for submission to the Full Council.

12. UK Stewardship Code compliance

The Committee considered a report on the adoption of a compliance statement to the UK Stewardship Code.

The Committee was informed that the Financial Reporting Council strongly encouraged all institutional investors to publish a statement on their website on the extent to which they had complied with the seven principles of the UK Stewardship Code. Whilst the Stewardship Code was principally aimed at asset managers, other institutional investors, including pension funds, were encouraged to report under it.

A copy of the Stewardship Code and the proposed compliance statement to the Code by the Lancashire County Pension Fund were presented at Appendix 'A' and Appendix 'B' respectively. It was noted that the adoption of the statement would ensure the Fund's compliance with the Code.

Resolved: That the Stewardship Code Compliance Statement, as set out at Appendix 'B', be approved.

13. Fund Shareholder Voting and Engagement Report

The Committee considered a comprehensive report on the Fund's shareholder voting arrangements and activity, and engagement activity for the period 1 April to 30 June 2013.

The Committee was informed that Pensions and Investment Research Consultants Ltd (PIRC) act as the Fund's proxy and cast the Fund's votes on its investments at company shareholder meetings. PIRC were instructed to vote in accordance with their guidelines unless the Fund instructed otherwise. It was agreed that the training and development plan agreed earlier in the meetings should include a session on the role and work of PIRC and the Local Authority Pension Fund Forum (LAPFF).

It was noted that the Fund had voted on 2,866 occasions during this period and had opposed or abstained in 29% of votes.

The Committee received details of live class actions in relation to companies in which the Lancashire County Pension Fund had previously or currently owned shares.

Resolved:

1. That the report be noted.

2. That a session on the role and work of PIRC and LAPFF, in addition to a session on class actions, be included in the Fund's proposed training and development plan.

14. Urgent Business

The chair agreed that an item relating to an application for the Lancashire County Pension Fund to become the single Pension Fund for Probation Staff should be considered at the meeting as a matter of urgency to enable the proposal to continue through the selection process. The report was considered under Part II of the agenda for the reasons explained above.

15. Date of Next Meeting

It was noted that the next meeting of the Committee would be held on Friday 29 November 2013 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)

Document is Restricted

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Document is Restricted

Pension Fund Committee
Meeting to be held on 29 November 2013

Electoral Division affected: None

Actuarial Valuation of the Lancashire County Pension Fund 2013
(Appendix 'A' refers)

Contact for further information:
George Graham, (01772 538102), County Treasurer's Directorate
george.graham@lancashire.gov.uk

Executive Summary

Every three years the Fund's actuary is required to undertake a formal valuation of the Fund in order to set employer contribution rates for the coming three years. The detailed valuation of the Fund based on the assets and liabilities at 31 March 2013 and John Livesey from Mercer (the Fund's actuary) will be presenting the results to the Committee.

Following the Valuation the Committee needs to determine the way in which the Fund will achieve both the bridging of the deficit within the Fund and a sustainable contribution plan for employers and proposals in relation to this are set out at Appendix 'A'.

If agreed with stakeholders following consultation these proposals will form the core of the Funding Strategy Statement which the Fund is required to produce after each valuation.

Recommendation

The Committee is asked to:

i. Note the results of the actuarial valuation;

ii. Approve the measures in relation to the setting of contribution rates set out in Appendix 'A' for consultation with stakeholders as part of the preparation of the Funding Strategy Statement.

Background and Advice

It is a statutory requirement that every three years the actuary undertake a valuation of the Pension Fund in order to set appropriate levels of employer contributions for the coming three years. This report and the accompanying presentation by the actuary set out the results of the latest valuation and proposals for setting contribution rates in the light of the results.

Consultations

Agreement of this report and the proposed framework for setting contribution rates will result in the beginning of a process of consultation with stakeholders.

Implications:

This item has the following implications, as indicated:

Risk management

The setting of contribution rates and valuation assumptions involves a range of risks, for example assumptions around take up of the new 50/50 option within the 2014 scheme. Analysis of these risks is reflected in coming to an overall contribution plan and package of assumptions.

There is a clear risk that the results of the valuation process may make the scheme unaffordable for some employers (particularly smaller ones) and the Fund's officers will take steps to handle this situation where it occurs in a sensitive way that protects the interests of all parties to the greatest possible extent.

List of Background Papers

Paper	Date	Contact/Directorate/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

2013 Actuarial Valuation of the Lancashire County Pension Fund

Introduction

This report presents the results of the 2013 actuarial valuation process at whole Fund level for consideration by the Committee in order to enable formal consultation with stakeholders on issues to be included in the revised Funding Strategy Statement (FSS).

Consultation has already begun with individual employers in order to fit in with the budgetary timetables which they adopt.

Background

Every three years the Fund's Actuary is required to carry out a formal valuation of the Fund in order to set employer contribution rates for the next three years.

The valuation currently being undertaken is based on the position of the Fund at 31 March 2013. However, it must also take into account a number of other specific forward looking factors such as the change in the benefit structure of the Local Government Pension Scheme from 1 April 2014 which will impact on the rate at which members build up new benefits.

The valuation is also taking place in the context of

- The ongoing reductions in the public sector workforce particularly in local government which results in fewer active members contributing to the scheme.

- The ongoing dislocation of the bond markets which affects the discount rate the actuary uses to value the Fund's liabilities.

As previously reported to the March meeting of the Committee all these factors combine to make this probably the most challenging valuation in the history of LGPS.

At its March meeting the Committee endorsed a number of propositions to underpin the valuation process, specifically

- The use of a tailored assumption on pay growth in the earlier years of the valuation model to reflect the impact of public sector pay restraint.

- The development of fund specific assumptions around life expectancy.

- The use, where appropriate of assumptions around the normalisation of bond yields to replace previous assumptions of Increased Inestment Return.

- The conversion of deficit recovery contributions to fixed cash amounts rather than a percentage of payroll.

- Changes in the way in which the pension strain that results from early retirements is dealt with.

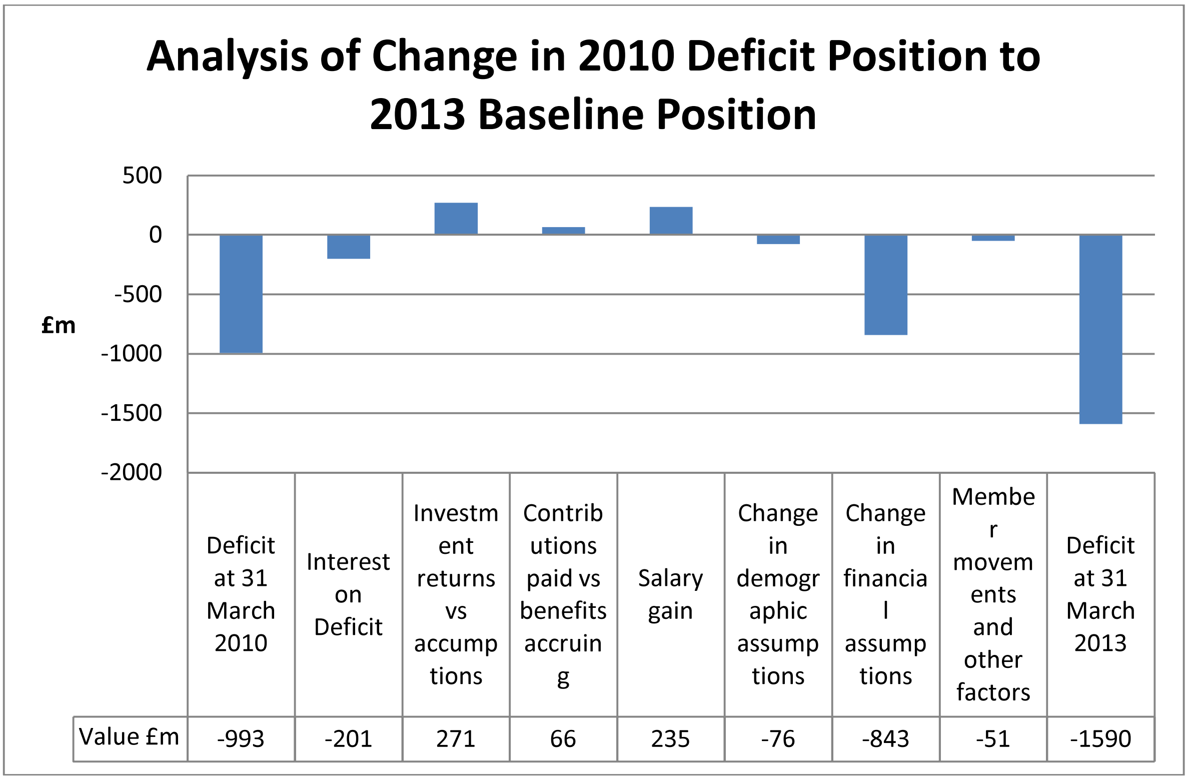
- An initial intention to bring the deficit recovery period down to 16 years (see below).

Valuation Results

The Fund's Actuary will present the results for the whole fund to the Committee. It should be emphasised that at this valuation there are significant differences between the results for different employers and these differences are much greater than has been seen previously.

At headline whole fund level the overall funding level based on the various updated assumptions is around 78% as at the 31 March 2013, compared to 80% at March 2010. This differs from the figures in the regular performance reports because of the revised assumptions. Given the significant negative movements in key elements such as the discount rate this should be seen as a positive result for the Fund.

The overall deficit on the Fund has increased from £0.993bn to £1.590bn.
As illustrated on the graph below the movement in the cash value of the deficit has been due to those factors which cannot be influenced by either the Fund or employers. Those factors which can be influenced have moved favourably.



These results clearly present a challenging position in terms of achieving the Fund's objectives of stable and affordable levels of employer contributions.

Achieving a Sustainable Contribution Plan

The key objective for the Fund is dealing with the valuation results must be to achieve a sustainable contribution plan which, all other things being equal, will make inroads in to the current deficit and create a situation where future service contributions are broadly matching liabilities as they build up. Given the considerable level of uncertainty both in terms of future movements in the financial markets and the real impact of changes in the LGPS scheme design this presents a very significant challenge.

To deal with this challenge it is proposed to reflect the following within the valuation as applied to individual employer contributions.

- A deficit recovery period of 19 years (unchanged from the 2010 valuation). This reflects the relative stability of the funding level and while a case might be made for extending the period further, for some employers, it is felt by fund officers and the actuary that to do so could be seen as imprudent particularly given the likely impact on funding levels of further reductions in employers' staffing levels.

- An assumption of 10% take up of the 50/50 option within the new scheme design in line with the assumptions made by the Government Actuary. If reality is that fewer than 10% of members take up this option employers will be underpaying future service contributions. Equally if more than 10% take up the option they will effect be making additional deficit contributions.

- Allowing for some of the impact of movements in bond yields between April 2013 and August 2013, in setting contributions.

- Where relevant adjusting the period over which it is assumed bond yields will revert to the mean (i.e. back to "normal") from 10 years to 5 years.

- Ensuring the new Future Service Contribution rates are paid in full from 1 April 2014. All other things being equal this means that contributions and new liabilities should build up in line with each other avoiding the deficit increasing.

- Allowing phasing of the increase in deficit contributions over the three years of the valuation period, but within this requiring that the inflationary increase is paid each year and the phasing results in the full payment by year 3. Because deficit contributions are now to be expressed as cash this means employers and the Fund will have transparency over the degree to which phasing results in underpayment towards the deficit (in effect an increase in the deficit recovery period). This gives employers a much clearer option around making additional payments against their deficit.

- Not allowing any employer to reduce the cash level of contributions between valuations. This allows the small number of employers in this position to make greater progress in reducing their deficit which is in the interests of both the Fund overall and the individual employers.

Taken together with the steps agreed in March these measures provide the best balance possible between the interests of employers in terms of affordability and those of the Fund in terms of being able to meet its overall liabilities as they fall due.

Schools and Academies

The increasing number of academies and free schools presents specific issues at this valuation as does the move to a cash value for deficit contributions in relation to maintained schools.

In relation to Academies, the Department for Communities and Local Government and the Department for Education have:

- Provided a form of guarantee intended to offset the risk to Pension Funds from the fact that academies only have a seven year funding agreement. While in many ways this guarantee is deficient the Government's intention is clearly that academies should be treated in terms of covenant in the same way as maintained schools.

- Consulted on "pooling" arrangements for academies. In practice this would mean that each Academy while retaining its own share of the deficit will have the same Future Service Contribution rate.

In relation to these issues it is proposed:

1. To treat academies as "ongoing" institutions in the same way as maintained schools.

2. To create three Academy pools, one for each Education Authority from which academies have transferred. This is likely to result in less movement in future service rates for the individual institutions.

For maintained schools the issue is that within the framework that exists for funding schools it is not possible to charge individual schools a fixed cash contribution to the deficit, nor is it practical as it would mean treating a further 700+ institutions as though they were separate employers. It is therefore proposed that for maintained schools deficit contributions are set as a percentage of pay taking into account the need to ensure both a minimum fixed amount and the relevant inflationary increase are collected. The relevant arrangements will need to be agreed on a case by case basis between the Fund's officers and the three education authorities.

Next Steps

A process of engagement with employers around the valuation results has already begun and will continue into the new calendar year. This process will now be extended to include consultation on a draft Funding Strategy Statement which formalises the various measures set out above and sets them alongside the Fund's high level investment approach.

The results of this process will be reported back to the Committee during the first quarter of the New Year alongside the issuing by the Actuary of the final rates and adjustments certificate.

Pension Fund Committee
Meeting to be held on 29 November 2013

Electoral Division affected: None

Pension Fund Training Plan 2013-15
(Appendix 'A' refers)

Contact for further information:
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Executive Summary

In order to ensure best practice within the Fund, and to comply with the Public Service Pensions Act 2013, a Training Plan for those charged with governance and financial management of the Lancashire County Pension Fund (i.e. Committee Members and Officers) is developed on an annual basis. At its meeting of 7 June 2013, the Pension Fund Committee agreed to the development of such a training programme.

Planning and monitoring that both Committee Members and the Officers of the Scheme comply with these requirements is provided through the adoption of an annual Training Plan, which is set out at Appendix A for member's consideration.

The key elements of the plan are designed to support members of the Committee in gaining the necessary knowledge and skills as a collective group over the following areas required by the CIPFA Knowledge and Skills Framework:

- Pension Fund governance;
- Accounting and Audit standards;
- Procurement of financial services;
- Investment performance and risk management;
- Financial markets and product knowledge;
- Actuarial methods and valuation.

It is comprised of a combination of internally developed training sessions, updates from officers and independent advisers, external events, and self-directed learning.

Recommendation

The Committee is asked:

1. to approve the proposed Pension Fund Training Plan including the external event approval process as set out at Appendix 'A',

2. to commit members to undertaking the training to enable the Committee to meet the requirements of the CIPFA Knowledge and Skills Framework.

Lancashire County Council

Background and Advice

Requirements

In order to ensure best practice within the Fund, and to comply with the Public Service Pensions Act 2013, a Training Plan for those charged with governance and financial management of the Lancashire County Pension Fund (Committee Members and Officers) should be developed on an annual basis. At its meeting of 7 June 2013, the Pension Fund Committee agreed to the development of such a training programme.

Central to this is the tenet that the Fund should secure appropriate training, having assessed the professional competence of both those involved in pension scheme financial management and those with a policy, management and or oversight role.

It is not required that each individual demonstrates a level of expertise in every aspect of Scheme governance and management, but rather that as a group both the Fund's Officers and the Committee has a level of knowledge and skills to ensure effective decision making.

Committee Members and Officers are also required to undertake training to satisfy the obligations placed upon them by the:

- Myners Principles (as detailed in the Statement of Investment Principles);
- Pensions Regulations and the Pensions Regulator;
- CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills; and the
- LGPS Governance Compliance Statement.

Approach

The approach to training will be supportive in nature with the intention of providing committee members and officers with regular sessions that will contribute to their level of skills and knowledge. Primarily based upon pre-Committee training sessions, it may also involve updates from officers and independent advisers. Details of external events will also be circulated as appropriate. This is in addition to an expectation that committee members will undertake some self-directed learning outside of the formal training. Fund officers will be available to provide additional support and advice.

The key elements of the plan are designed to support members of the Committee in gaining the necessary knowledge and skills as a collective group over the following areas required by the CIPFA Knowledge and Skills Framework:

- Pension Fund governance;
- Accounting and Audit standards;
- Procurement of financial services;
- Investment performance and risk management;
- Financial markets and product knowledge;
- Actuarial methods and valuation.

It is comprised of a combination of internally developed training sessions, updates from officers and independent advisers, external events, and self-directed learning.

Planning and monitoring that both Committee Members and the Officers of the Scheme comply with these requirements is provided through the adoption of an annual Training Plan (Appendix A).

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Without the required knowledge and skills, those charged with governance and decision-making within the Pension Fund may be ill-equipped to make informed decisions regarding the direction and operation of it.

Legal

In order to comply with the Public Sector Pensions Act 2013, appropriate training should be secured for those individuals selected to serve on Local Government Pension Scheme pensions boards.

Financial

The cost of members and officers attending external events including conferences will be met by the Pension Fund.

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

Paper	Date	Contact/Directorate/Tel
Public Services Pensions Act 2013	April 2013	Andrew Fox/ County Treasurer's Directorate/ x35916

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund

Training Plan

Lancashire County Council

www.lancashire.gov.uk

Contents

1. Introduction

1.1 This is the proposed Training Plan of Lancashire County Pension Fund managed by Lancashire County Council (the Administering Authority). It sets out a proposed rational and approach for approval by the Pension Fund Committee concerning the training and development of -

- the members of the Pension Fund Committee and;
- officers of the Pension Fund responsible for the management of the Fund.

1.2 The overall aim of the Training Plan is to support members of the Pension Fund Committee in their role as a member of this Committee.

2. Rationale

2.1 In order to ensure best practice within the Fund, and to comply with the Public Service Pensions Act 2013, a training plan for those charged with governance and financial management of the Lancashire County Pension Fund (Committee Members and Officers) should be developed on an annual basis. At its meeting of 7 June 2013, the Pension Fund Committee agreed to the development of such a training programme.

2.2 Central to this is the tenet that the Fund should secure appropriate training, having assessed the professional competence of both those involved in pension scheme financial management and those with a policy, management and or oversight role.

2.3 It is not required that each individual demonstrates a level of expertise in every aspect of Scheme governance and management, but rather that as a group both the Fund's Officers and the Committee has a level of knowledge and skills to ensure effective decision making.

2.4 Committee Members and Officers are also required to undertake training to satisfy the obligations placed upon them by the:

- Myners Principles (as detailed in the Statement of Investment Principles);
- Pensions Regulations and the Pensions Regulator;
- CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills; and the
- LGPS Governance Compliance Statement.

3. Approach

3.1 The approach to training will be supportive in nature with the intention of providing committee members and officers with regular sessions that will contribute to their level of skills and knowledge. Primarily based upon pre-Committee training sessions, it may also involve updates from officers and independent advisers. Details of external events will also be circulated as appropriate. This is in addition to an expectation that committee members will undertake some self-directed learning outside of the formal training. Fund officers will be available to provide additional support and advice.

3.2 The key elements of the plan are designed to support members of the Committee in gaining the necessary knowledge and skills as a collective group over the following areas required by the CIPFA Knowledge and Skills Framework:

- Pension Fund governance;
- Accounting and Audit standards;
- Procurement of financial services;
- Investment performance and risk management;
- Financial markets and product knowledge;
- Actuarial methods and valuation.

3.3 It is comprised of a combination of internally developed training sessions, updates from officers and independent advisers, external events, and self-directed learning. The detailed indicative plan is attached as Appendix A.

3.4 The Training Plans will be updated at least annually, taking account of the results from the Training Needs Assessments and those otherwise identified, and will be updated with events and training opportunities as and when they become available.

4. Evaluation

Pension Fund Committee members

4.1 In order to identify training needs and assess whether we are meeting the training requirements we will –

- Undertake as a Committee an annual training needs evaluation exercise in the form of a short self-assessment questionnaire, both individually and as a group in order to identify any perceived development needs.
- Where the evaluation highlights that there is a knowledge gap, the Committee will undertake either additional internal group bespoke training or individual external training as appropriate.
- The Committee will commit to an outline of internal bespoke training. This will be focussed around either emerging national changes or internal workloads (such as the introduction of a new asset class.)
- Report as appropriate in external documentation compliance with knowledge and skills requirements, such as progress in the Scheme's

Annual Report and Accounts, and Governance Statement compliance with the CIPFA Knowledge and Skills Framework and the Myners Principles.

Pension Fund officers

4.2 All senior officers with responsibility for administering and/ or managing the Pension Fund will be expected to complete the CIPFA Training Needs Assessment for Pension Professionals taking account of the requirements of their roles. Any identified training needs should form part of their ongoing Performance and Development Review.

4.3 **Delivery of Training**

Consideration will be given to various training resources available in delivering training to members of the Pension Fund Committee and relevant officers.

Evaluation will be given to the mode and content of training in order to ensure it is both targeted to needs and ongoing requirements and emerging events. It is to be delivered in a manner that balances both demands on Councillors time and costs. These may include but are not restricted to:

For Pension Fund Committee members	For Officers
• In-house	• Desktop/ work-based training
• Using an on-line Knowledge Library or other e-learning facilities	• Using an on-line Knowledge Library or other e-learning facilities
• Attending courses, seminars, and external events	• Attending courses, seminars, and external events
• Internally developed training days and pre/ post Committee meetings	• Training for qualifications from recognised professional bodies
• Shared training with other Schemes or Frameworks	• Internally developed sessions
• Regular updates from officers and/ or independent advisers	• Shared training with other Schemes or Frameworks

4.4 External events

Pension Fund Committee members

All relevant external events will be distributed to members of the Committee as and when they become available.

Members will be invited to express an interest in attending an event. The clerk to the Committee will receive any expressions of interest and shall liaise as necessary with the chair of the Committee, and the County Treasurer who shall under the Scheme of Delegation to Chief Officers approve the Committee's representation at the external event. A number of factors will be used to determine the level of representation including the relevance of the event, associated costs and an individual's identified development needs,

One Connect Limited will make the necessary event booking, accommodation and travel arrangements for members (and officers). The cost of members (and officers) attending an external event will be met by the Pension Fund.

Following attendance at an external event, Committee Members will be asked to provide verbal feedback at the subsequent Committee meeting to cover:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to Committee Members.

Officers

Following attendance at an external event, officers will be expected to report to their manager with feedback to cover:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to other officers.

5. Training Programme

The draft timetable below as Appendix 1 provides an indicative training programme covering areas that are likely to be necessary over the next 18 months. In addition, other items on topical or emerging issues may be added as appropriate, and the training programme flexed accordingly.

The indicative training plan includes details of pension related conferences held throughout the year. There is no expectation that members and officers attend such events as a matter of course, but highlights the availability of such training and networking opportunities and an overview of their content.

Indicative Training Programme 2013-15

Appendix 1

Ref	What	Who	When	Overview	Intended audience
1	Pre-Committee training	Fund actuary - Mercers	29 November 2013	Topic - Role of the Actuary and Actuarial Valuation 2013	All PFC members
2	Conference	LAPFF Annual Conference - Bournemouth	4-6 December 2013	Aimed at officers and PFC members focussing on engagement, stewardship and corporate governance	Officer and PFC members
3	PFC training	Independent advisers – Eric Lambert and Noel Mills*	January 2014	Topic - Portfolios and portfolio construction, risks and diversification	All PFC members
4	PFC training	Fund manager (global equities) – Baillie Gifford*	February 2014	Topic – global equities and fund management	All PFC members
5	Pre-Committee training	Investment Consultant – Redington*	27 March 2014	Topic - Risk and liability management	All PFC members
6	Conference	National Association of Pension Funds (NAPF) Local Authority Conference - Gloucestershire	19-21 May 2014	Aimed at officers and PFC members – various speakers and workshops focussing on a wide range of pension topics	Officer and PFC members
7	Pre-Committee training	Global custodian – Northern Trust*	6 June 2014	Topic - global custody; securities lending; performance reporting and benchmarking	All PFC members
8	Conference	CIPFA Annual Conference	July 2014	Aimed at officers and councillors with finance-related responsibilities – various speakers and workshops focussing on public finance issues	Officers and Councillors with finance-related responsibilities

Appendix 1 (continued)

Ref	What	Who	When	Overview	Intended audience
9	Pre-Committee training	Fund manager (private equity and infrastructure) – Capital Dynamics*	5 September 2014	Topic – Private Equity and Infrastructure: how it works and investment logic	All PFC members
10	Conference	LGC Investment Summit	September 2014	Aimed at officers and PFC members focussing on investment matters	Officer and PFC members
11	Conference	Baillie Gifford LA conference and training – Edinburgh	October 2014	Aimed at officers and PFC members focussing on investment matters	Officer and PFC members
12	Conference	National Association of Pension Funds (NAPF) Annual Conference - Liverpool	15 – 17 October 2014	Aimed at officers and PFC members – various speakers and workshops focussing on a wide range of pension topics	Officer and PFC members
13	Conference	CIPFA Pensions Network Annual Conference – London	November 2014	Aimed at officers and PFC members – various speakers focussing on a wide range of pension topics	Officer and PFC members
14	Pre-Committee training	Fund manager (property) – Contract start date expected July 2014	28 November 2014	Topic – UK and local property investment management	All PFC members
15	Pre-Committee training	Shareholder voting and engagement – PIRC*	27 March 2015	Topic - Role of proxy voting, how voting is done and engagement made	All PFC members

* - Details and timing to be confirmed.

In addition, induction training sessions can be arranged for any new Pension Fund Committee member.

Additional sessions may be incorporated as required.

Conference attendance:
Pension Fund Committee members are encouraged to attend some conferences and external training events to provide a wider knowledge of current key topics in line with the Member Development Training Policy.

Pension Fund Committee
Meeting to be held on 29 November 2013

Electoral Division affected: 'All'

Shareholder Voting, Engagement, and Fiduciary Duty
(Appendices 'A' and 'B' refer)

Contact for further information:
Andrew Fox, (01772) 535916, County Treasurer's Directorate,
Andrew.fox@lancashire.gov.uk

Executive Summary

In accordance with its policies on promoting corporate social responsibility in the businesses in which it invest the Fund works through Pensions and Investment Research Consultants Ltd (PIRC) as its Governance Adviser and the Local Authority Pension Fund Forum (LAPFF) to both ensure that shares are voted in accordance with sound governance principles and influence companies' behaviour.

This report provides the latest quarterly update for the Committee on the work undertaken on the Fund's behalf by PIRC and the engagement activity undertaken by LAPFF.

The attached report from PIRC (Appendix 'A') covers the period 1 July to 30 September 2013. The Fund has voted on 392 occasions and has opposed or abstained in 36% 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 attached engagement report from LAPFF (Appendix 'B') also covers the period 1 July to 30 September 2013.

Details of potential class actions in relation to companies in which Lancashire County Pension Fund owns, or has owned shares is also set out in the report.

An update on recent developments relating to fiduciary duty is also provided to the Committee.

Recommendation

The Committee is asked:

1. to note the report.

2. to welcome the Law Commission's review of fiduciary duty and to agree to review the position with regard to ethical investment and returns when the findings of the Law Commission are published.

Lancashire County Council

Background and Advice

1. Shareholder Voting and Governance

PIRC, 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 30 September is presented at Appendix 'A'. This report not only provides details of the votes 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 2013 is summarised below:

TABLE 1: GEOGRAPHIC VOTING OVERVIEW

Geographic Region	Meeting	Resolutions	For	Oppose	Abstain	Withheld	Non-Voting
SOUTH AND CENTRAL AMERICA	0	0	0	0	0	0	0
REST OF THE WORLD	2	66	31	26	9	0	0
ASIA	0	0	0	0	0	0	0
NORTH AMERICA	7	96	59	20	6	11	0
UK	7	136	105	12	19	0	0
EU	6	85	34	36	8	0	6
JAPAN	1	9	5	4	0	0	0

TABLE 2: ANALYSIS OF UK ALLSHARE VOTING RECOMMENDATIONS

Resolution Type	For	Percentage %	Abstain	Percentage %	Oppose	Percentage %	Total
Annual Reports	4	57.14	2	28.57	1	14.29	7
Remuneration Reports	0	0.0	2	28.57	5	71.43	7
Articles of Association	0		0		0		0
Auditors Appointment	4	57.14	3	42.86	0	0.0	7
Directors	55	77.46	12	16.9	4	5.63	71
Dividend	6	100.0	0	0.0	0	0.0	6
Executive Pay Scheme	0	0.0	0	0.0	1	100.0	1

The Fund was party to 392 resolutions during this period, of which 60% resulted in positive votes for shareholder resolutions and 36% were opposed or an abstention given. Voting abstention is regularly used by institutional investors as a way of signalling a negative view on a proposal without active opposition. In addition, within certain foreign jurisdictions, shareholders either vote for a resolution or not at all, opposition to these votes is described as vote withheld. These totalled 11 within the period, just under 3%. The remaining agenda items required no vote.

In relation to the UK, this quarter's report focuses upon the Competition Commission's proposals to reform the external audit arrangements of FT350 companies, a Department of Business, Innovation and Skills report suggesting that stock exchange listing led to increased levels of reporting and corporate governance, and a leading legal firm maintaining that a director’s fiduciary duty is not to maximise shareholder value through tax avoidance.

Within European markets, shareholders led by German investor group DSW have won an agreement from steel and industrial goods group ThyssenKrupp to hold an independent governance review. Separately, large financial services businesses may have to set board diversity targets under European Union plans, and Italy has became the first country to push ahead with introducing a tax on high-frequency trading.

The Italian Financial Transactions Tax will be explicitly focused on high-frequency trading and equity derivatives, which are often used by banks and companies to hedge against risk. Once above the threshold, order changes and cancelations of high-frequency traders will now be taxed at 0.02 per cent when they occur in intervals shorter than half a second. The levies will apply regardless of the place of the transaction or the country of residence of the counterparty.

Within the United States, the Securities and Exchange Commission (SEC) is seeking that US companies will need to disclose how the pay of their CEOs compares to that of their workers. Separately, shareholders have filed a proposal to abandon the dual shares class structure at Twenty-First Century Fox, which also faces a resolution from Christian Brothers Investment Services seeking the splitting of chair and chief executive roles.

Elsewhere, the Australian Council of Superannuation Investors (ACSI) has published updated advice to corporate Australia on how it will be assessing public company directors' behaviours and performance. ACSI's Governance Guidelines, updated in July, provide expanded context and commentary on investor expectations of board practices, executive pay structures and conduct during capital raisings.

China's environmental watchdog has halted new projects by the country's two largest refining companies because they missed pollution targets. The Chinese Ministry of Environmental Protection has temporarily banned new constructions as well as renovation and expansion of the existing refineries of China National Petroleum Corp. (CNPC) and China Petrochemical Corp., known as Sinopec Group. Together they account for more than three-quarters of China's total refining capacity. According to the Ministry, CNPC missed a target to reduce chemical-oxygen-demand, which is an indicator of water pollution, while Sinopec missed a target to reduce nitrogen-oxide emissions, a metric for air pollution.

The bans are a rather unusual step by the Chinese authorities, which shows that Beijing is stepping up environmental scrutiny of state-owned companies after mounting public discontent over environmental pollution in China. In January, this year, Beijing and several other locations suffered from severe air pollution and cadmium-tainted rice has been discovered in supplies in the southern province of Guangdong.

2. Shareholder Engagement through LAPFF

Lancashire County Pension Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest.

Members of the Committee may be interested to note the attached engagement report from LAPFF (Appendix 'B') which covers the period 1 July to 30 September 2013.

It sets out details of their activities in influencing governance, employment standards, reputational risk, climate change, finance and accounting, and Board composition, and provides a slightly different and wider perspective than the PIRC report.

3. Class Actions

United States

The Fund has appointed Barrack, Rodos and Bacine (BR&B) to provide a US class actions monitoring service with the aim of ensuring that the Lancashire County Pension Fund receives all monies due to the Fund by filing its proof of claim from these cases. This service is at no cost to the Fund.

BRB will identify class actions where the Fund has a potential loss arising from an alleged fraud or a securities law violation. This is achieved by the BR&B 'BEAMS' monitoring system which follows each securities case from the beginning to the end by ensuring its filing of the proof of claim so that the Fund may receive its payment.

Occasionally the Fund may be asked to participate in a class action, and/ or to apply to become the lead or co-lead plaintiff, but under US law any shareholder subject to such a loss will be automatically entered into and benefit from a class action without having to file an individual claim.

Details of current potential US cases as at 30 September 2013 are set out below:

Company Name	Effective Class Period Begin	Effective Class Period End	Case Status	Potential loss incurred ($'000)
Medtronic, Inc.	08/12/10	03/08/11	ACTIVE	27.71
CenturyLink, Inc.	08/08/12	14/02/13	ACTIVE	521.63
Barrick Gold Corp.	07/05/09	23/05/13	ACTIVE	411.36
Intuitive Surgical, Inc.	19/10/11	18/04/13	ACTIVE	251.54
ITT Educational Services, Inc.	24/04/08	25/02/13	ACTIVE	760.06

United Kingdom

Unlike class actions within the US jurisdiction, where all relevant recipients benefit from a class action when filed, class actions within the UK require investors to file their actions individually in order to potentially benefit from a successful class action. Such actions are therefore much less prevalent.

As reported at the previous meeting, and in keeping with the majority of other affected LGPS, the Fund is keeping a watching brief over developments in relation to Royal Bank of Scotland in relation to alleged actions that, it is argued, caused investors to suffer losses relating to a subsequent Rights Issue on 30 April 2008. The deadline for filing a claim, after which the case would be statute-barred, remains April 2014.

4. Fiduciary duty update

Following discussion of fiduciary duties at the March 2013 meeting of the Committee, there has been activity on a number of fronts relating to LGPS funds, much of which arises from many administering authorities taking on responsibility for Public Health from April 2013.

The previous report on fiduciary duty, presented to this Committee in March 2013, considered the question of whether a conflict arose between the County Council's then imminent take-on of public health responsibilities, the role of the County Council as administering authority for the Fund and the Fund's responsibilities regarding fiduciary duty. It also set out the Lancashire County Pension Fund's position, similar to that of Norfolk Pension Fund below, of maintaining a policy of voting and engagement with companies whose shares are held.

Committee members were informed in March that in order to meet its fiduciary duties, the Pension Fund cannot unilaterally decide to divest from an individual investment type without regard to the overall objectives of the Fund, or without taking appropriate professional advice including risk and return considerations. A decision to exclude particular investments on ethical grounds (and thus affect potential financial return) could be subject to legal challenge. Securing a decent financial return in order to meet future commitments to beneficiaries is the primary objective of a pension fund.

Since then, work across the LGPS has been ongoing in relation to this issue. In October 2013, a sub-committee of the newly created LGPS Shadow Advisory Board considered the issue and decided upon a number of actions:

- *The approach taken by Norfolk Pension Fund (links below) should be circulated to LGPS Funds as the basis of interim information;*
- *Counsel's opinion should be sought on the legal status of LGPS funds with regard to fiduciary duty and the limit of broader ethical considerations*.

http://www.norfolk.gov.uk/view/pensions250912item6pdf (Report); and

http://www.norfolk.gov.uk/download/pensions250912minspdf (Minutes)

Essentially, Norfolk Pension Fund Committee recommended that:

- *In light of the new local authority responsibilities for Public Health from April 2013, this Committee informs the Department for Communities and Local Government (as Regulator of the LGPS) of its consideration of this matter and the potential complexities and conflicts of interest for local authorities between their public health responsibilities and investments by LGPS Funds in the tobacco sector.*
- *The Committee monitors the outcome of the proposals within the Kay review of UK Equity Markets and Long-Term Decision Making which suggests further work should be undertaken by the Law Commission into the legal concept of fiduciary duty as applied to investment.*
- *The Norfolk Pension Fund maintains its current policy of voting and engagement and does not pursue exclusion of tobacco holdings but that the situation is reviewed when the legal position relating to the exercise of the Committee's fiduciary duty is clarified.*

Subsequently, the Law Commission has recently issued its consultation paper on fiduciary duty as it applies throughout the investment chain, with a closing date of 22 January 2014. Amongst other things, the paper asks if:

- *The law is right to allow trustees to consider ethical issues only in limited circumstances?*
- *The legal obligations on trustees are conducive to investment strategies in the best interests of the ultimate beneficiaries? And if not, what specifically needs to be changed?*

It is suggested that the Fund welcomes the prospect of greater clarity over fiduciary duty that these developments are intended to provide, and it is proposed that Lancashire County Pension Fund reviews the position when the outcome of the Law Commission's review of fiduciary duty is published.

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.

In order to meet its fiduciary duties, the Pension Fund cannot unilaterally decide to divest from an individual investment type without regard to the overall objectives of the Fund, or without taking appropriate professional advice including risk and return considerations. A decision to exclude particular investments on ethical grounds (and thus affect potential financial return) could be subject to legal challenge.

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.

Involvement in a non-US class action may result in losses incurred being recovered for the Fund, but should a case be lost then the Fund may incur related costs which may not be known with certainty at the time of filing. Applying for lead plaintiff status in the US may incur significant officer time and resources in bring a potential case to fruition.

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

N/a

Appendix 'A'

Lancashire Council

Proxy Voting Review
July 2013 – September 2013

October 2013

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UK Corporate Governance Review

CC sets out audit reform plans

FTSE 350 constituents will have to put their statutory audit engagement out to tender at least every five years, but won't be forced to rotate audit firm, under proposals from the Competition Commission.

The Commission has published a provisional decision regarding the remedies it is considering introducing when it publishes its final report on the supply of statutory audit services to large companies in the UK this autumn. Whilst the Commission stops short of the more radical proposal of mandatory rotation, it is notable that its position is tougher than that currently adopted by the Financial Reporting Council (FRC). Currently the FRC suggests a 'comply or explain' approach to tendering, but on a seven-year cycle.

The Commission recommends the FRC's Audit Quality Review team should review every audit engagement in the FTSE 350 on average every five years. The Audit Committee should report to shareholders on the findings of any AQR report concluded on the company's audit engagement during the reporting period. The Commission also proposes a prohibition of 'Big-4-only' clauses and a shareholder vote on whether Audit Committee Reports in company annual reports contain sufficient information.

Notice for meetings the new pay

Regular readers of PIRC's AGM round-ups may have spotted our fondness for votes on notice for meetings. Under this type of resolution companies seek shareholder approval to be able to hold meetings on short notice. They are proposed as special resolutions and as such require 75% in favour to pass. We've spotted over the past couple of years that there have been some pretty big votes against resolution of this type, including the odd defeat, like Hammerson in 2011.[8]

The reason for these votes against, on a pretty innocuous agenda item, is the effect of overseas investors. Some non-UK investors oppose all resolutions of this type, seemingly on the basis that they believe they disenfranchise shareholders. In contrast, UK institutional investors routinely vote in favour. As a result sizeable votes against these resolutions can give you an indication of significant overseas ownership of the company concerned. But the votes are also getting bigger across the board.

If we look at the average vote against meetings-related proposals at FTSE350 companies over the past few years, we can see it rising over time. For the sake of comparability these are average oppose votes in the first six months of the last few years – 2010: 2.78%; 2011: 4.24%; 2012: 5.31%; 2013: 7.4%. Undoubtedly this must, in part, reflect the shift in the underlying ownership of UK public companies. But here's the really interesting thing – the average oppose vote on a remuneration report in the first six months of 2013 was 6.5%. And this level of opposition is also way above the average vote against other important resolutions, such as director elections or auditor appointments.

The upshot is that the increasingly large proportion of shares that are held overseas are now resulting in voting results that reflect non-UK concerns. Whilst executive pay might be considered the most controversial corporate governance issue to many in UK, in terms of votes against management, it comes second to overseas' investors fears of being disenfranchised when meetings are called. In addition, because the voting threshold required for companies to pass resolutions on notice for meetings, they are, inevitably, more likely to face being voted down.

Though the nature of the issue being voted on is rather technical to people not part of the proxy voting microcosm, what it represents, it strikes us, is rather a big deal. To date, discussions about the changing nature of share ownership, and what this means for the UK's corporate governance regime have been somewhat theoretical. What we are starting to see, in terms of real votes cast, is what it means in practice. As more shares are held by overseas investors we may begin to see more oddities like this.

BATM battered in bonus battle

Smallcap BATM Advanced Communications suffered the indignity of losing votes on three remuneration-related resolutions at its AGM in August.

The company's RNS statement on the AGM says: "Resolutions 1, 3, 4, 5 and 8 were duly passed, and Resolutions 2, 6 and 7 were rejected."

This means that BATM has the honour of being, to our knowledge, the first company to lose the vote on both its remuneration report (resolution 2) and its remuneration policy (resolution 7). This will matter a lot more from 1st October. Under the new system coming into force in the UK, the remuneration report will represent a backward look at practice during the year, the policy vote will be forward-looking, and binding.

The company was also defeated on resolution 6, which sought approval for a one-time special bonus of NIS 150,000 (£26,800) for performance in year 2012 to the CFO of the company, Ofer Barner. The company stated that it was in recognition of his special efforts in two areas of the company's business that were outside his normal duties and have been beneficial to the company. Notably, Mr. Barner also received a $25,000 "one-off" bonus last year for his special efforts in 2011.

PIRC recommended shareholders oppose all three resolutions.

BIS report: to list or not to list?

Listed companies find that UK stock exchanges "still offer value for money", and accept the governance requirements that come with it, according to research from the Department of Business, Innovation and Skills.

In August BIS has published a report about the perceptions of the UK stock exchanges and associated corporate governance and reporting issues. It is based on a small scale survey covering 17 listed and 14 unlisted UK mid-sized businesses (MSBs).

The report found that listing led to increased levels of reporting and corporate governance through oversight committees of the board such as those for audit, remuneration and nominations. But the vast majority of the surveyed listed businesses accept this because they see it as a necessary form of accountability for building shareholder confidence. Four fifths of all respondents, for instance, indicated that an independent audit adds value to the business by helping with market credibility. Most also accept that there will be increasing reporting requirements for carbon emissions reductions, new narrative reporting requirements, IFRS and general market standardisation in the near future. For unlisted companies, on the other hand, perceptions of the cost and time taken to undertake reporting remain potential deterrents for listing.

The survey also showed that shareholder engagement is important for LSE and AIM listed companies, who will meet twice yearly with key institutional investors to articulate their corporate policies. However, shareholders have only rarely impacted corporate policy of the surveyed companies. The "Shareholder Spring" did not seem to be an issue for many of the respondents. Several indicated that they are either too small or have executive salaries benchmarked with independent remuneration committees that provide transparency and investor confidence.

Short-termism in the market is predominantly an issue for smaller cap AIM listed companies, though larger ones going through restructuring and lengthy R&D were also affected, the research found. Several of the responding businesses were concerned about the short term orientation of brokers, analysts and asset managers. Some also raised concerns that regular market reporting can encourage market short-termism.

Many of the respondents acknowledged that board diversity in a broader sense, including gender, ethnicity and age, is a good thing as it could encourage recruitment from a wider talent pool. However, in the surveyed companies only one in ten members of boards were women. Not surprisingly, the vast majority of respondents oppose the introduction of quotas, suggesting that executive recruitment should be based on merit. They also oppose a cap on executive salaries for it could limit their capacity to compete for talent – a reoccurring rationale that has been criticised by PIRC and many others.

Avoiding tax is “not a legal duty”

Leading legal firm says director’s fiduciary duty is not to maximise shareholder value through tax avoidance.

In September business leaders in the FTSE 100 received an official legal opinion from Farrer & Co stating that they cannot claim it is their fiduciary duty to shareholders to avoid tax. “It is not possible to construe a director’s duty to promote the success of the company as constituting a positive duty to avoid tax’”, says the firm.

The law firm was commissioned by the Tax Justice Commissioners to clarify this matter, because they feared that executives are trying to justify tax avoidance by resorting to shareholder primacy. Farrer says directors have a wide discretion on this mater and if they choose to pay tax responsibly, they would in fact be protected by applicable law rather then being liable. John Christensen, director of the Tax Justice Network, which sent out the legal opinion said: “Legal risk in this area turns out to be a complete fiction, and company directors can stand firm and act according to their consciences rather than being swayed by what is effectively sales puff coming out of the tax avoidance industry.”

UK Voting Analysis

Table 1: Top Oppose Votes

	Company	Type	Date	Resolution	Proposal	Funds Vote	Oppose %
1	EXPERIAN PLC	AGM	17 Jul 13	16	Allow the board to determine the auditors remuneration	For	22.83
2	NATIONAL GRID PLC	AGM	29 Jul 13	18	Issue shares with pre-emption rights	For	22.41
3	SSE PLC	AGM	25 Jul 13	14	Issue shares with pre-emption rights	For	18.95
4	GREENE KING PLC	AGM	03 Sep 13	14	Issue shares with pre-emption rights	For	12.63
5	NATIONAL GRID PLC	AGM	29 Jul 13	21	Meeting notification related proposal	For	12.37
6	VODAFONE GROUP PLC	AGM	23 Jul 13	23	Meeting notification related proposal	For	11.63
7	SSE PLC	AGM	25 Jul 13	17	Meeting notification related proposal	For	11.49
8	VODAFONE GROUP PLC	AGM	23 Jul 13	19	Issue shares with pre-emption rights	For	7.94
9	GREENE KING PLC	AGM	03 Sep 13	4	Re-elect Tim Bridge as Director	Oppose	6.48
10	SAINSBURY (J) PLC	AGM	10 Jul 13	20	Meeting notification related proposal	For	6.17

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	0	0	0	0	0	0	0	0	0
Annual Reports	4	28	4	28	6	42	0	0	14
Articles of Association	0	0	0	0	0	0	0	0	0
Auditors	11	78	3	21	0	0	0	0	14
Corporate Actions	0	0	0	0	0	0	0	0	0
Corporate Donations	2	66	0	0	1	33	0	0	3
Debt & Loans	0	0	0	0	0	0	0	0	0
Directors	55	77	12	16	4	5	0	0	71
Dividend	6	100	0	0	0	0	0	0	6
Executive Pay Schemes	0	0	0	0	1	100	0	0	1
Miscellaneous	6	100	0	0	0	0	0	0	6
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	21	100	0	0	0	0	0	0	21
Shareholder Resolution	0	0	0	0	0	0	0	0	0
Undefined	0	0	0	0	0	0	0	0	0

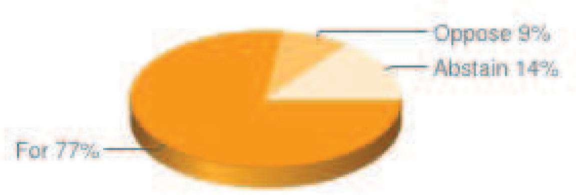
UK Voting Charts

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	105
Oppose	12
Abstain	19
Withdrawn	0
Total	136

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

UK Voting Record



UK AGM Record

UK EGM Record

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

UK Voting Timetable Q3 2013

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	SAINSBURY (J) PLC	10 Jul 13	AGM	2013-06-28
2	EXPERIAN PLC	17 Jul 13	AGM	2013-07-09
3	VODAFONE GROUP PLC	23 Jul 13	AGM	2013-07-10
4	SSE PLC	25 Jul 13	AGM	2013-07-18
5	NATIONAL GRID PLC	29 Jul 13	AGM	2013-07-22
6	GREENE KING PLC	03 Sep 13	AGM	2013-08-22
7	DIAGEO PLC	19 Sep 13	AGM	2013-09-04

UK Upcoming Meetings Q4 2013

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

Table 4: Upcoming Meetings

	Company	Meeting Date	Type
1	WOLSELEY PLC	01 Nov 13	AGM
2	HAYS PLC	13 Nov 13	AGM
3	SMITHS GROUP PLC	19 Nov 13	AGM
4	ASSOCIATED BRITISH FOODS PLC	07 Dec 13	AGM

AIM UK Market Voting Timetable Q3 2013

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

AIM UK Market Upcoming Meetings Q4 2013

There are no upcoming meetings for this region.

Fledgling UK Market Voting Timetable Q3 2013

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

Fledgling UK Market Upcoming Meetings Q4 2013

There are no upcoming meetings for this region.

European Corporate Governance Review

Elan shows why contracts matter

The chief executive of Elan looks set for a bumper pay-off as the Irish drugs company is taken over by the US-based pharma business Perrigo.

Under the termination provisions in his contract, which was revised last year, Kelly Martin is entitled to three times his salary, on-target bonus plus some other extras. This could see him cash out for up to $40m, according to a report in the Irish Independent in August. Not surprisingly, many shareholders were non-plussed by the terms in Martin's contract, and demonstrated their displeasure at the Irish-listed company's AGM in May. A vote on the "Report by the Leadership, Development and Compensation Committee" was defeated with 58% opposing. PIRC had recommended opposition, in large part due to the termination provisions contained in Martin's contract. But the defeat did nothing to alter the contract that had been agreed.

Examples like this show both why shareholders need to be alert to what companies put into directors' contracts and why a binding vote on remuneration policy is vital. In an ideal world shareholders ought to get an upfront vote on contractual terms. But at least under the system being introduced in the UK later this year shareholders will get a binding vote on the overall policy, which should be able to catch cases like this.

DSW wins ThyssenKrupp review

Shareholders led by German investor group DSW have won an agreement from steel and industrial goods group ThyssenKrupp to hold an independent governance review, Responsible Investor reports.

According to the report, the steel and industrial goods group has agreed to the review following a troubled period for the company, including multi-billion losses, and a price-fixing fine from German competition regulators. Dramatic negative developments at Steel Americas lead the Board to sell the two plants. Their revaluation at fair value resulted in an impairment charge of €3.6 billion. Already in 2011 the then chief executive was forced out.

At the company's AGM in January this year there was a 30% vote against the discharge for the board, which is extremely high by German standards. This was led by DSW and other investors. PIRC had recommended opposition at the time, due to concerns about management competence.

Now DSW says that the company has agreed to a review of its governance which will be carried out by accounting firm BDO, with results reported to the 2014 AGM.

Finance firms diversity pressure

Large financial services businesses may have to set board diversity targets under European Union plans.

According to reports, the European Union's Capital Requirements Directive IV large financial businesses will be required to establish a nominations committee and decide a "target for the representation of the underrepresented gender on the management body and how to meet it." Although many large listed financial firms may already be addressing diversity, the EU's intervention will increase the pressure for change. Last month PIRC revealed a sharp drop-off in female appointments to FTSE100 boards in the first half of 2013.

Norway revokes exclusion of AFI

The Norwegian Ministry of Finance has revoked the exclusion of two Israeli companies from the Government Pension Fund Global's investment universe.

Africa Israel Investments (AFI) and its Danya Cebus subsidiary had been excluded because of their links with construction projects in the occupied territories in the West Bank. In 2010, the fund had sold its

£760,000 stake in the company, which was also excluded by Danske Bank in the same year.
Now the sovereign wealth fund's Council of Ethics has recommended to the Norwegian government that it lift the ban as the two companies are no longer involved in construction activities in West Bank. Earlier this year the fund re-admitted BAE Systems and Finmeccanica. It has also revoked the ban on FMC, which ceased buying phosphate from Western Sahara. The fund continues to exclude 18 companies that produce weapons that violate humanitarian principles as well as 21 tobacco producers.

Zurich chair Ackermann resigns

Josef Ackermann, chairman of Zurich Insurance, resigned after an apparent suicide of the group's CFO.
Mr. Ackermann has been at the top of Switzerland's biggest insurer for barely a year when he announced that he would step down because of pressure to take some responsibility for the financial director's death and to avoid “any damage to Zurich's reputation”.
Pierre Wauthier, Zurich's chief financial officer, was found dead at his home in the canton of Zug last Monday. His family has blamed Mr. Ackermann for driving his executives too hard and pushed for his departure. Zurich's latest performance problems have frustrated Mr. Ackermann deeply, say people close to him. He and Wauthier had disagreed on various occasions, most recently in the run-up to the second quarter results when Zurich admitted it would miss some of the three-year targets it had planed to meet by the end of this year.
Ackermann's resignation remains puzzling as it leaves some ambiguity about its real causes due to vague statements he made in public. It might be true that Ackermann feels genuinely responsible for his executives but corporate governance or operational issues could be behind it. Investors reacted by wiping 2.5 per cent off Zurich's share price but the sell-off could become worse if Zurich will not provide greater clarity about the reasons behind the chairman's departure.

Italy's high-speed trading tax

Italy has became the first country to push ahead with introducing a tax on high-frequency trading.
The tax will be explicitly focused on high-frequency trading and equity derivatives, which are often used by banks and companies to hedge against risk. Once above the threshold, order changes and cancelations of high-frequency traders will now be taxed at 0.02 per cent when they occur in intervals shorter than half a second. The levies will apply regardless of the place of the transaction or the country of residence of the counterparty.
Italian bankers and brokers have, however, warned that the new taxes could further worsen liquidity in the Italian market. Financial transactions in the country have, namely, already fallen sharply after the government had introduced a tax on equities in March.

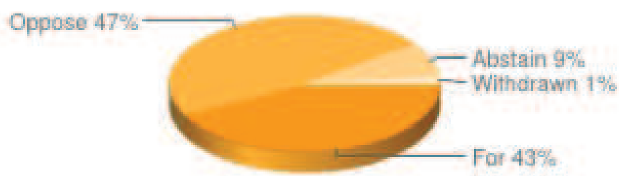
European Voting Charts

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

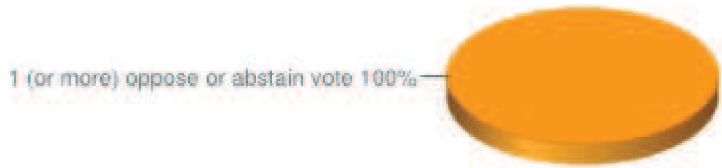
Total Resolutions	
For	29
Oppose	32
Abstain	6
Withdrawn	1
Total	68

Meetings	AGM / Combined	EGM	Total
Total Meetings	3	2	5
1 (or more) oppose or abstain vote	3	2	5

European Voting Record



European AGM Record / Combined



European EGM Record

European Voting Timetable Q3 2013

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

Voted Meetings

Table 5: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	FIAT INDUSTRIAL SPA	09 Jul 13	**EGM**	2013-06-27
2	D.E MASTER BLENDERS 1753	31 Jul 13	**EGM**	2013-07-17
3	COMPAGNIE FINANCIERE RICHEMONT SA	12 Sep 13	AGM	2013-09-02
4	SEADRILL LTD	20 Sep 13	AGM	2013-09-06
5	RYANAIR HOLDINGS PLC	20 Sep 13	AGM	2013-09-09

European Upcoming Meetings Q4 2013

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

Table 6: Upcoming Meetings

	Company	Meeting Date	Type
1	PERNOD RICARD SA	06 Nov 13	AGM

US Corporate Governance Review

US activists win JP Morgan scalps

Two JP Morgan directors have announced in July that they were standing down, in a major win for US shareholder activists seeking reform at the bank.

Long-time directors David Cote and Ellen Futter, both members of the heavily-criticised risk committee, are stepping down. They received votes in favour their election of just 59% and 53% respectively at the bank's May AGM, having been the target of a "vote no" campaign.

Their departures were described as "a good first step" by CtW Investment Group, which had campaigned against them following the 'London whale' scandal. The group said the bank should now completely overhaul how it manages risk, and seek shareholder input into the appointment of new directors.

SEC seeks pay-ratio disclosure

U.S. companies will need to disclose how the pay of their CEOs compares to that of their workers.

The sharply divided Securities and Exchange Commission (SEC) voted in favour of a new proposal, which requires all publicly listed companies in the U.S. to provide information on the ratio of the compensation of its CEO to the median compensation of its employees. Until now, SEC rules required that companies provide information only about executive compensation and not for other employees. The new rule was mandated by the 2010 Dodd-Frank Act that came as a response to high CEO pay at financial institutions that were bailed out by taxpayers during the financial crisis.

The SEC declined to address the main complaint by companies and trade groups, who demanded that global companies would be allowed to report the median pay only for U.S. employees. The proposal, however, allows companies to come up with their own methodology for calculating the median employee salary. Mary Jo White, SEC chair, said the provision gives "companies significant flexibility in complying with the disclosure requirement while still fulfilling the statutory mandate".

Business groups such as the U.S. Chamber of Commerce and the Center on Executive Compensation sharply oppose the measure claiming the data will be costly to compile and of little use to investors. Companies say investors have little appetite for such information, citing failed shareholder resolutions calling for CEO pay-ratio disclosure. Michael Piwowar, one of the two republican SEC commissioners that opposed the proposal, said "shame on us for putting special interests ahead of investors".

However, proponents argue greater transparency on pay-ratios will lead to greater scrutiny of the U.S. CEOs receiving astronomical remuneration. According to data compiled by Bloomberg, eight CEOs of U.S. companies such as Oracle Corp., Nike Inc., Starbucks Corp and CBS Corp were paid more than 1,000 times the average worker pay in their industry.4 The highest paid CEO in 2012 was Oracle's Larry Ellison, who according to Equilar's analysis earned $96m.

Not surprisingly, Democrats, unions and labour advocates praise the rule. Senator Robert Menendez, a New Jersey Democrat and author of the Dodd-Frank provision requiring the disclosure, made the point that America's middle class has not seen pay raises for years, while CEO pay is soaring. In his view, "this simple benchmark will help investors monitor both how company treats its average workers and whether its executive pay is reasonable". Commissioner Luis Aguilar claimed "shareholders have the right to know whether CEO pay multiples reflects CEO performance" and that comparing CEO compensation to the compensation of an average worker may help offset the inefficient upward spiral of executive pay. Richard Trumka, president of AFL-CIO labour federation, also argued that large pay disparities affect company performance because of diminished employee morale, loyalty and productivity.

The SEC proposal will now have a 60-day public comment period before SEC makes a final decision on its implementation. When in place, the rule will require companies to report the pay ratio for its first fiscal year commencing after the rule comes into force. This important step forward in remuneration transparency may also stimulate UK legislators to see the value of pay-ratio disclosure, something that was too quickly ruled out in our view.

CalPERS sets investment beliefs

CalPERS has adopted a set of investment beliefs that will provide a basis for strategic management of its investment portfolio.

The new investment beliefs that were adopted by California Public Employees' Retirement System's (CalPERS) Board of Administration are intended to inform organisational priorities and ensure alignment between the Investment Office and CalPERS staff. "Having an overarching set of Investment Beliefs to guide decision-making throughout the organisation will be a tremendous asset as we work toward our strategic goals," said Henry Jones, CalPERS Investment Committee chair.

Core to CalPERS approach are the following beliefs:

• Liabilities must influence the asset structure

• A long time investment horizon is a responsibility and an advantage

• Long-term value creation requires effective management of three forms of capital: financial, physical and human

The largest pension fund in the U.S., which holds more than $265bn in assets, will apply the investment beliefs as a framework for making decisions and they are not meant as a checklist to be applied to each decision.

A tweet that's worth $17bn

Apple's stock rocketed after a famous activist investor disclosed a large stake in the company.

In August, Carl Icahn, the American activist investor revealed his holding in Apple by tweeting: "We currently have a large position in APPLE. We believe the company to be extremely undervalued. Spoke to Tim Cook [Apple's CEO] today. More to come." These 112 characters boosted Apple's share price by 5%, raising the firm's market capitalisation by $17bn (£11bn).

Mr. Icahn, is known for his aggressive investment style and pressure on management to increase returns to shareholders or to shake up operations. This time, he wants Apple to borrow money cheaply and undertake a $150bn share buyback. In times when companies sit on large cash piles and borrowing is cheap activists investors are "more likely to seek dividends or share repurchases compared to targeting poor corporate governance or business strategy", explained Kerry Pogue, managing director at Activist Insight.

Investors pressure Murdoch

Shareholders file a proposal to abandon the dual shares class structure at Twenty-First Century Fox.

A group of investors filed a shareholder resolution that calls on Twenty-First Century Fox to abandon its dual class share structure. The media group, which recently separated from conglomerate News Corp is controlled by Rupert Murdoch, despite the fact that he owns only about 14 per cent of outstanding shares. According to investors, Mr. Murdoch, who is the company's chairman and CEO, controls nearly 40 per cent of the voting power of the company. This supposedly allows him to determine the outcome of shareholder votes.

As a result, shareholders are demanding an arrangement, where one share would account for one vote. The group that filed the proposal included, among others, Legal & General Investment Management on behalf of its client BT Pension Scheme and the $415m Nathan Cummings Foundation. Shareholders will vote on the resolution at the company's AGM in October in Los Angeles.

Fox also faces a resolution from Christian Brothers Investment Services seeking the splitting of chair and chief executive roles.

Shareholders split Timken

Activist shareholders split engineer Timken in two.

Following pressure from fund manager Relational Investors, which holds a 6.2 per cent stake in Timken, the US engineering company agreed to split in two units, separating its steel business from its ball bearings and power transmission equipment production. The decision comes after a non-binding vote at the engineering company's AGM in May, when 53 per cent of voting shares supported the split. Calstrs, the California state teacher's pension fund, which supported the split, argued it would raise Timken's share price by clarifying the value of the two sides of the company. The pension fund turned out being right as Timken's share price indeed rose just before and after announcing the split.

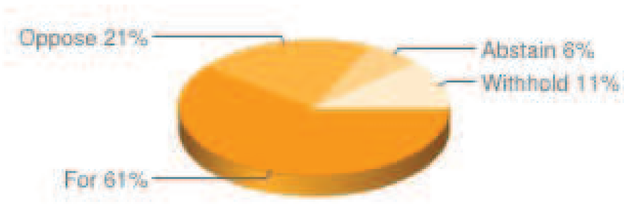
US Voting Charts

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	59
Oppose	20
Abstain	6
Withhold	11
Withdrawn	0
Total	96

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

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 2013

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

Voted Meetings

Table 7: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	SMUCKER (JM) CO.	14 Aug 13	AGM	2013-07-29
2	XILINX INC.	14 Aug 13	AGM	2013-07-29
3	MEDTRONIC INC	22 Aug 13	AGM	2013-08-06
4	H&R BLOCK INC.	12 Sep 13	AGM	2013-09-02
5	NIKE INC.	19 Sep 13	AGM	2013-09-05
6	FEDEX CORPORATION	23 Sep 13	AGM	2013-09-09
7	CONAGRA FOODS INC.	27 Sep 13	AGM	2013-09-12

US Upcoming Meetings Q4 2013

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

Table 8: Upcoming Meetings

	Company	Meeting Date	Type
1	ORACLE CORP.	31 Oct 13	AGM
2	MICROSOFT CORP.	19 Nov 13	AGM
3	CLOROX CO.	20 Nov 13	AGM

Japanese 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	5
Oppose	4
Abstain	0
Withdrawn	0
Total	9

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 Voting Timetable Q3 2013

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

Voted Meetings

Table 9: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	ORACLE CORP JAPAN	23 Aug 13	AGM	2013-08-13

Japanese Upcoming Meetings Q4 2013

There are no upcoming meetings for this region.

Global Corporate Governance Review

Olympus executives convicted

Three former executives of Olympus convicted of a £1.1bn accounting fraud were given suspended jail sentences this summer.

In July, the accounting scandal surrounding the Japanese camera maker, which emerged in 2011 when the company's British chief executive Michael Woodford questioned dubious payments and acquisitions, found an epilogue. A Tokyo court convicted three of the companies' former directors for covering up massive investment losses at the tech firm, violating securities laws and falsifying financial statements.

The former president Tsuyoshi Kikukawa and auditor Hideo Yamada received prison terms of three years, while ex-vice president Hisashi Mori was ordered a prison term of two-and-a-half years. They do not face immediate jail time, however, all three have been suspended up to five years. In addition, Olympus was fined £4.6m.

New ACSI governance guidelines

The Australian Council of Superannuation Investors (ACSI) has published updated advice to corporate Australia on how it will be assessing public company directors' behaviours and performance.

ACSI's Governance Guidelines, updated in July, provide expanded context and commentary on investor expectations of board practices, executive pay structures and conduct during capital raisings. The new guidelines include commentary on the issues considered when directors seek election, and re-election, to listed company boards. These factors include the performance of the company under the incumbent board, length of tenure, performance of the relevant director on other boards, as well as assessing their capacity and workload.

Executive pay concerns highlighted include –

- The payment of bonuses for making acquisitions rather than the value delivered to shareholders, rewarding acquisitive behaviour and 'empire building,' instead of improved performance.
- Fixed pay increases that simply represent a 'catch up' for executives in cases after a pay freeze has been applied.
- The use of normalised, or adjusted, earnings figures which shield executive incentive plans from costs incurred by the company. This adjustment should only be used to reasonably exclude one-off items.
- The payment of dividends to executives on unvested (and therefore unearned) incentive shares.
- Retention payments made without a clear, or robust, rationale.
- Termination payments that provide reward for mediocre performance, or failure.
- Full vesting of options and performance rights in the event of a takeover or change of control in the company, irrespective of how far into vesting period the options are and whether or not performance hurdles have been satisfied.

ACSI says that the introduction of the 'two strikes' rule has been successful, and its expectation is that companies which have received a first strike should respond to investor concerns by engaging and addressing material remuneration issues.

On capital raising ACIS says that boards remain ultimately responsible to shareholders, and so must maintain effective oversight of management and external advisers in the conduct of capital raisings to ensure that shareholder expectations are met. Boards should seek to minimise the costs of raising new equity and to ensure that the fees paid to advisers, including investment banks and underwriters, reflect value delivered and risks incurred.

Beijing gets tough on pollution

China's environmental watchdog halts new projects by the country's two largest refining companies because they missed pollution targets.

The Chinese Ministry of Environmental Protection has temporarily banned new constructions as well as renovation and expansion of the existing refineries of China National Petroleum Corp. (CNPC) and China Petrochemical Corp., known as Sinopec Group. Together they account for more than three-quarters of China's total refining capacity. According to the Ministry, CNPC missed a target to reduce chemical-oxygen-demand, which is an indicator of water pollution, while Sinopec missed a target to reduce nitrogen-oxide emissions, a metric for air pollution.

CNPC and Sinopec have so far not invested in reducing pollutants at refineries because of Beijing's control over fuel prices, which does not allow them to pass on the upgrade costs to consumers.

The bans are a rather unusual step by the Chinese authorities, which shows that Beijing is stepping up environmental scrutiny of state-owned companies after mounting public discontent over environmental pollution in China. In January, this year, Beijing and several other locations suffered from severe air pollution and cadmium-tainted rice has been discovered in supplies in the southern province of Guangdong.

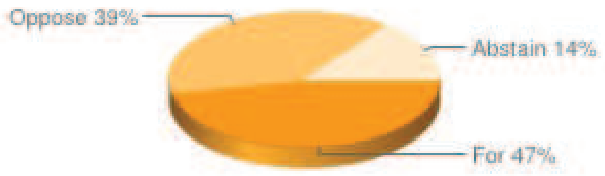
Global Voting Charts

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.

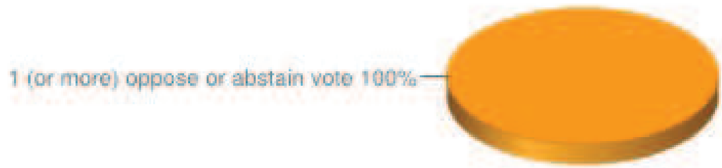
Total Resolutions	
For	36
Oppose	30
Abstain	11
Withdrawn	0
Total	77

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

Global Voting Record



Global AGM Record



Global EGM Record

Global Voting Timetable Q3 2013

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

Voted Meetings

Table 10: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	EMS-CHEMIE HOLDING AG	10 Aug 13	AGM	2013-07-29
2	NASPERS LTD	30 Aug 13	AGM	2013-08-20
3	SYDNEY AIRPORT	19 Sep 13	**EGM**	2013-09-09

Global Upcoming Meetings Q4 2013

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

Table 11: Upcoming Meetings

	Company	Meeting Date	Type
1	TELSTRA CORP LTD	15 Oct 13	AGM
2	CSL LTD	16 Oct 13	AGM
3	BRAMBLES LTD	22 Oct 13	AGM
4	CARSALES.COM LTD	25 Oct 13	AGM
5	TATTS GROUP LTD	31 Oct 13	AGM
6	WESFARMERS LTD	07 Nov 13	AGM
7	COMMONWEALTH BANK AUSTRALIA	08 Nov 13	AGM
8	SONIC HEALTHCARE LTD	22 Nov 13	AGM
9	WOOLWORTHS LTD	22 Nov 13	AGM
10	BAIDU INC -ADR	01 Dec 13	AGM
11	MYRIAD GENETICS INC	05 Dec 13	AGM
12	PROSPECT CAPITAL CORP	06 Dec 13	AGM
13	INCITEC PIVOT LTD	18 Dec 13	AGM
14	ANZ-AUSTRALIA & NEW ZEALD BK	19 Dec 13	AGM
15	MINDRAY MEDICAL INTL	28 Dec 13	AGM

Asian Voting Timetable Q3 2013

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

Asian Upcoming Meetings Q4 2013

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

Table 12: Upcoming Meetings

	Company	Meeting Date	Type
1	SINGAPORE PRESS HOLDINGS LTD	30 Nov 13	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.

European

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

US

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

Japanese

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

Global

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

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Appendix 'B'

Local Authority Pension Fund Forum

QUARTERLY ENGAGEMENT REPORT

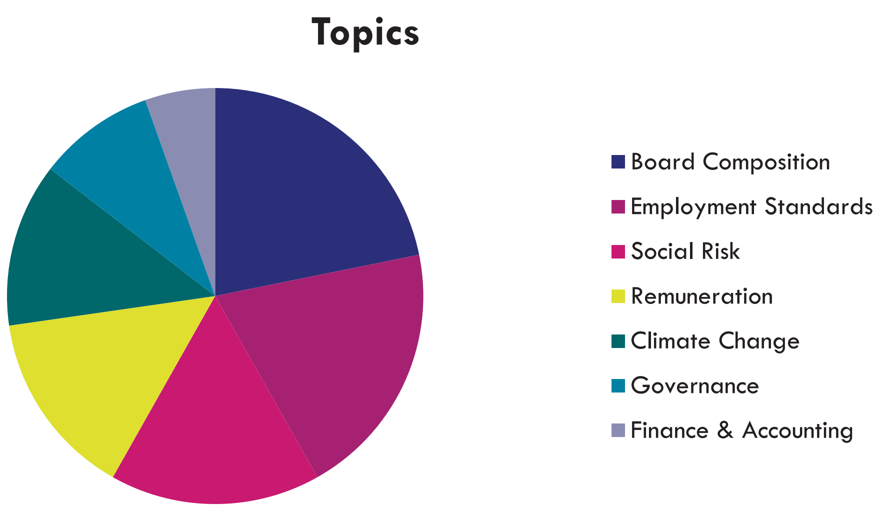
JULY TO SEPTEMBER 2013

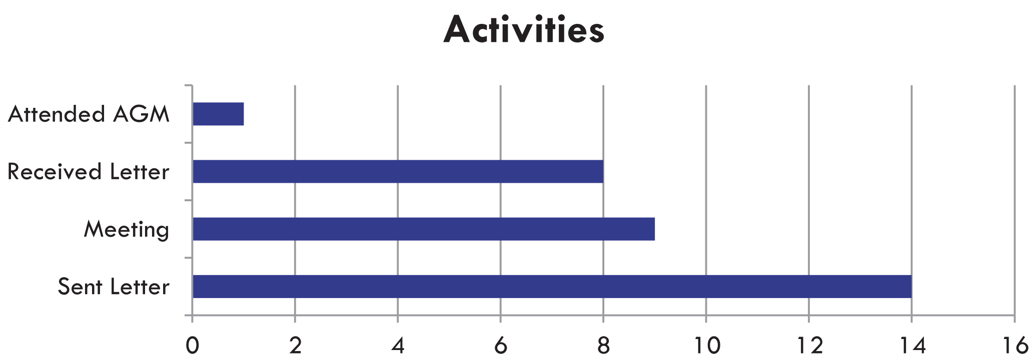
Local Authority Pension Fund Forum

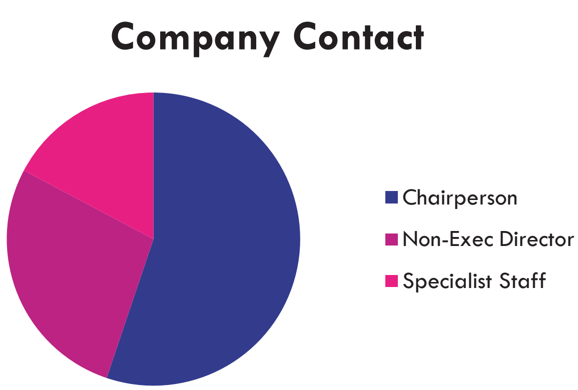
LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of local authority pension funds in the UK with combined assets of over £115 billion.

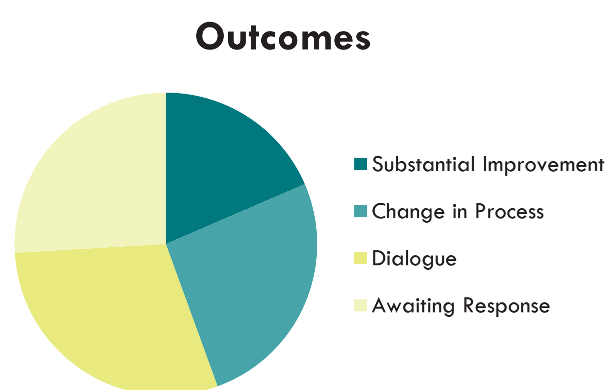
ENGAGEMENT SUMMARY

JULY TO SEPTEMBER 2013









ACHIEVEMENTS

- Attended the annual meeting of **Marks & Spencer** to express support for the Chairman Robert Swannell and the CEO, Mark Bolland. Held meetings with three companies identified in our annual global focus list: **Burberry**, **Bellway** and **Imagination Technologies**.

- Met with **Sainsbury's plc** to enquire about the impact of the Bangladesh factory tragedy on its supply chain and sourcing practices. Met with **Lonmin** to discuss ongoing challenges at the Marikana mine and the efforts by the company to settle the union dispute and improve working conditions.

- Focussed on carbon emission management with **National Grid** chair, the company subsequently improved its CDP scoring, as did **Rio Tinto**, with whom the Forum met earlier in the year.

- Received responses from **Lloyds**, **HSBC** and **Standard Chartered** on their views on the impact of the Bompas QC opinion on the legality of IFRS. Barclays replied last quarter.

- Corresponded with **Kier Group** about the recent concerns that UK companies were involved in blacklisting staff that raised health and safety concerns with management.

- Advocated in favour of mandatory audit re-tendering in a letter to the **UK Competition Commission**.

THE FORUM IN THE NEWS

Investors question the credibility of IFRS
Compliance Week, The Telegraph

LAPFF attends Marks & Spencer AGM
The Telegraph, Herald Scotland, Euronews

Climate change collaborative engagement with Rio Tinto
Responsible Investor

LAPFF maintains pressure on executive pay
Professional Pensions

Investors want better tax disclosure from extractive companies
aiCIO

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

Four years after tabling a resolution at the **Marks & Spencer** annual meeting seeking an independent chair, LAPFF returned to the M&S AGM this year to express its support for the board, the leadership of Robert Swannell and the governance changes the company has made. LAPFF is aware of the pressures the company is under to turn around its clothing business and upgrade its IT and logistics infrastructure, but believes that taking a long-term view of the company's strategy is most prudent.

The Forum also continues to follow the phone hacking scandal. During the quarter, **News Corporation** shareholders approved a break-up of the company. The television and entertainment business is now owned by the surviving entity which was renamed **21st Century Fox**, and the publishing and newspaper business is owned by a new entity going by the name of News Corporation. Rupert Murdoch remains Chair and CEO of 21st Century Fox, and the Chairman of News Corporation. The original resolution filed at News Corp to appoint an independent Chair, which is supported by LAPFF, will be on the ballot at the October annual meeting of 21st Century Fox, the surviving entity.

Finally, LAPFF wrote to the Lead Director of **JP Morgan** welcoming the more robust powers granted to him, but re-iterating our request that the Company appoint an independent Chair.

PROMOTING GOOD GOVERNANCE

Global Focus List

In our governance engagement, LAPFF followed up with several companies we corresponded with during the proxy season. In a meeting with **Imagination Technologies** LAPFF expressed concerns about executive pay, board diversity, director nominations, and poll voting. The company has grown significantly in recent years and is in the process of revising its governance to keep pace with this change.

LAPFF approached **Bellway** plc regarding its director nomination process and the decision to appoint the CEO as Chair while delaying the vote on his re-election until 2014. LAPFF also discussed its views on Board diversity in the meeting and was encouraged by the company's recruitment process and the number of women on its recruitment short-list.

Aiming for A Investor Group

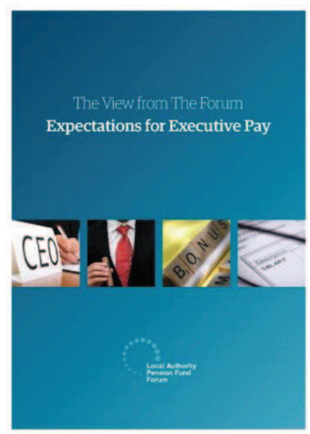
'It is our collective fiduciary duty to engage in transformational change, through amplifying long-term investor voices on climate change.'

Financial Reporting & Audit

Following the publication of the Bompas QC opinion on International Financial Reporting Standards (IFRS) last quarter, LAPFF continued to campaign for improvements to the financial accounting standards. Bompas highlighted serious issues regarding IFRS that have implications for director duties.

LAPFF wrote a follow up letter to each of the banks seeking their views on the Bompas opinion. Each bank responded to our letter indicating they were aware of the opinion and were currently considering the report of the **Parliamentary Commission on Banking Standards**. They also indicated they were waiting for more guidance from the Bank of England, the Financial Conduct Authority and the Prudential Regulation Authority before formulating a further response.

Executive Pay



Following on the successful launch of LAPFF's new Expectations for Executive Pay, we held meetings with Afren and Burberry to discuss each company's approach to executive pay. **Afren** recently lost its remuneration vote by a wide margin confirming shareholders' ongoing concerns about pay at the company. LAPFF had last met with Afren in 2012 to discuss pay. In the meeting this quarter LAPFF sought an explanation of the poor vote results from the new remuneration committee chair and expressed concerns about the pay structure, performance conditions, and discretionary bonuses. While the company is in the process of reforming its pay, this is a company LAPFF will continue to watch.

A meeting has been arranged with **Burberry** due to concerns about the company's adjusted profit measures and the impact this had on pay in the year. LAPFF also has questions about the board, and the plans for appointing new independent non-executive directors.

MANAGING ENVIRONMENTAL RISK

Climate Change

As part of the '*Aiming for A'* coalition with other investors, LAPFF is advocating that major UK-listed utility and extractive companies make carbon management an integral part of the business strategy. Companies are encouraged to aim for inclusion in CDP's Climate Performance Leadership Index (CPLI) by achieving an 'A' rating.

At a meeting with the Chairman of **National Grid**, LAPFF supported progress on governance, strategy and target-setting, as well as initiatives contributing to emission reductions. The company has subsequently raised its CDP rating from a ‘C’ to a ‘B’. The rating for **Rio Tinto** which the Forum engaged with in the last quarter, also improved from a ‘C’ in 2012 to a ‘B’ in 2013.

A meeting with representatives from **Royal Dutch Shell**, included discussion of action the company can take relating to its Scope 3 emissions (those related to commercial activities) which are much larger than their direct emissions. The company remained a ‘B’ in the 2013 scorings which were revealed in September. Taking into account feedback from a range of company meetings, the group is encouraging CDP to develop sector frameworks, to more closely reflect the strategic challenges unique to the energy, materials and utilities sectors.

In September, LAPFF joined other investors representing almost $3 trillion in assets under management writing to the world’s 50 largest energy and power companies on carbon asset risk. Companies were asked to disclose information on capital expenditure plans and the risks associated with development and use of reserves in light of the emerging stranded assets debate.

TARGETING SOCIAL ISSUES

Employment Standards

The RANA Plaza factory collapse in Bangladesh has had a significant impact on how companies think about factory safety. Following our meeting with Asscociated British Foods last quarter, LAPFF wrote to **Sainsbury’s**, **Tesco**, **Next**, and **N Brown Group** to ask how those companies have responded to the increased scrutiny on Bangladesh.

Although **Sainsbury’s** did not have suppliers in the RANA Plaza, it was clear from our meeting with the company that they are not resting on their laurels and have put in place a number of initiatives to address building safety concerns. **Next** had a similar response.

More than 4 million people work in the garment industry in Bangladesh. It is the second largest apparel exporter next to China.

LAPFF also met with the Chair of **Lonmin** this quarter to get an update on the company’s response to the Marikana mine incident in August 2012. We were pleased to hear Lonmin has reached a settlement with the Association of Mining and Construction Workers. It has also put in place a strategy to implement the five point plan to address working conditions and community relations which was first announced at its January 2013 annual meeting.

Finally, on the back of recent media reports that several UK construction firms were involved in blacklisting of union workers that reported health and safety concerns, LAPFF wrote to **Kier Group** to seek the companies’ views. Kier Group replied, stating that its joint venture BFK had agreed a statement with Unite on the issue.

CONSULTATIONS & PUBLIC POLICY

ENGAGING WITH POLICY-MAKERS

The Forum exchanged letters with the **Financial Reporting Council (FRC)** regarding the Bompas QC opinion on IFRS. LAPFF has done further research on earlier FRC Opinions regarding the issue of true and fair view. Our research shows that the Bompas Opinion does not disagree with Mr Moore's 2008 Opinion for the FRC on the law. Mr Bompas' concern with the Moore Opinion is that he cannot extract a true and fair view (or fair presentation) requirement from IAS 1, nor is there an ability to override an IFRS in order to achieve it.

There are issues around the 1993 Opinion of Mary Arden QC. An academic paper from 1993 written by a former ASB and IASB board member, states that Arden QC had confirmed that what true and fair view ***meant*** was changeable according to the views of accountants. However, neither that Opinion, nor those before or after it, all from the same chambers, says anything of the sort. The opinions could not be more explicit that what true and fair view means is the same as it did when it first went into legislation in 1947. The opinions state that the content to achieve it is dynamic and can change, but not the meaning. The 1983 Hoffman/Arden Opinion states that true and fair view is the standard required for the accounts to comply with company law irrespective of any codification of accounting methods also put into statute. The function of company law, and the accounts for it, is shareholder accountability including capital maintenance for shareholder and creditor protection (solvency and lawful distributions included).

In June 1993 David Tweedie is quoted in a Financial Times article saying that the 1993 Opinion had changed the law, giving him power to take standards in a different direction. It has been the false impression, created by accountants, around a legal opinion that itself is correct on the law that has been used to set standards, and a Framework (for both the ASB and the IASB) that positively deviates from company law, including masking insolvency, a situation entirely at odds with the law.

On other issues, LAPFF sent a letter to the **UK Competition Commission** to advocate in favour of mandatory audit retendering and raising concerns about the concerns about market concentration in the audit industry. The Forum also joined other investors in writing both to the **US Securities and Exchange Commission** and **Natural Resources Canada** to urge the adoption of a consistent global standard for all significant tax and royalty payments made by extractive companies across their global operations.

In 2011, the Forum supported the US **Environmental Protection Agency's (EPA)** authority to regulate carbon emissions. Via its membership of the Investor Network on Climate Risk (INCR) LAPFF co-signed a letter to President Obama this quarter to support carbon pollution standards for electric power plants, the biggest source of carbon emissions in the US. The EPA has now proposed new performance standards for gas and coal-fired electricity generation stations.

The LAPFF Chair also met with the **Green Investment Bank** who wished to discuss the substantial carbon savings to be had from investments such as off-shore wind, waste and energy efficiency projects which provide the right level of financial returns.

CONSULTATION RESPONSES

LAPFF submitted a consultation response to the **International Integrated Reporting Council** (IIRC) on its draft reporting standards. In our response, we welcomed efforts by the IIRC and advocated that any future reporting standard should provide concise communication on strategy, governance, performance and prospects in the context of short, medium and long-term value creation.

As it continued to push for improved regulations on corporate governance, LAPFF responded to a consultation by the **Department for Business Innovation and Skills** (BIS) consultation on transparency of UK company ownership and increasing trust in UK businesses.

All consultation responses submitted by LAPFF can be viewed online at: http://www.lapfforum.org/consultations.

NETWORKS & EVENTS

Representatives of LAPFF regularly attend conferences and events on behalf of members. A list of recent events is listed below.

- **Marks & Spencer annual meeting**
- **30% Club Global Launch** – hosted by EY
- **Responsible Tax seminar** – hosted by UK SIF
- **Sustainable Investing best practice lecture**
- **Analysis of reporting trends in the FTSE 100** – hosted by Black Sun
- **Zero Carbon Britain** – hosted by the All Party Parliamentary Group on Climate Change
- **Portfolio Carbon** – hosted by UNEP FI

COMPANY PROGRESS REPORT

Company	Topics	Outcome
Afren	Remuneration, Board Composition	Change in Process
Bellway	Board Composition, Governance	Substantial Improvement
Burberry	Remuneration, Board Composition	Dialogue
HSBC	Finance & Accounting	Dialogue
Imagination Technologies	Board Composition, Remuneration	Change in Process
J Sainsbury	Employment Standards, Social Risk	Substantial Improvement
JP Morgan	Board Composition	Awaiting Response
Kier Group	Employment Standards	Dialogue
Legal & General	Remuneration	Dialogue
Lloyds	Finance & Accounting	Dialogue
Lonmin	Employment Standards, Social Risk	Change in Process
Marks & Spencer	Board Composition, Governance	Substantial Improvement
N Brown Group	Employment Standards, Social Risk	Awaiting Response
National Grid	Climate Change	Change in Process
Next plc	Employment Standards, Social Risk	Dialogue
Royal Dutch Shell	Climate Change	Dialogue
Standard Chartered	Finance & Accounting	Dialogue
Tesco	Employment Standards, Social Risk	Awaiting Response

The Local Authority Pension Fund Forum was established in 1991 and is a voluntary association of local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which its members invest. The Forum's members currently have combined assets of over £115 billion.

Report prepared by PIRC Ltd. for the Local Authority Pension Fund Forum

www.lapfforum.org

- Avon Pension Fund
- Barking and Dagenham LB
- Bedfordshire Pension Fund
- Camden LB
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon LB
- Cumbria Pension Scheme
- Derbyshire CC
- Devon CC
- Dorset County Pension Fund
- Dyfed Pension Fund
- Ealing LB
- East Riding of Yorkshire Council
- Enfield
- Falkirk Council
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney LB
- Haringey LB
- Harrow LB
- Hounslow LB
- Islington LB
- Lancashire County Pension Fund
- Lewisham LB
- Lincolnshire CC
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- NILGOSC
- Nottinghamshire CC
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- South Yorkshire Integrated Transport Authority
- South Yorkshire Pensions Authority
- Southwark LB
- Staffordshire Pension Fund
- Surrey CC
- Teesside Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Waltham Forest LB
- Warwickshire Pension Fund
- West Midlands Pension Fund
- West Midlands PTA Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire CC

Pension Fund Committee
Meeting to be held on 29 November 2013

Electoral Division affected: None

Statement of Investment Principles
(Appendix 'A' refers)

Contact for further information:
Andrew Fox, (01772 535916), County Treasurer's Directorate
Andrew.fox@lancashire.gov.uk

Executive Summary

To comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the Pension Fund's Statement of Investment Principles (SIP) must be reviewed and, if necessary, revised from time to time (and within 6 months of any material change).

The Statement of Investment Principles describes the high-level principles governing the investment decision-making and management of the Pension Fund and the policy that has been developed to ensure their implementation.

This latest review has been prompted by the Secretary of State for Communities and Local Government issuing a Statutory Instrument which increases the maximum proportion of a local government pension fund which can be invested in contributions to partnerships from 15% to 30%. These Regulations came into force on 1 April 2013.

The Fund's SIP document in the attached Appendix 'A' has been revised to incorporate the greater investment flexibility provided.

Recommendation

The Committee is asked to approve the updated Statement of Investment Principles, as set out at Appendix 'A'.

Background and Advice

The SIP describes the high-level principles governing the investment decision-making and management of the Pension Fund and the policy that has been developed to ensure their implementation. It has been prepared, in line with guidance received from the Secretary of State for Communities and Local Government, with reference to the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel publication, 'Principles for Investment

Lancashire County Council

Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012'.

The only substantive revision to the SIP as set out to members is the proposal to increase the maximum proportion of a local government pension fund which can be invested in contributions to partnerships to 30%. This can be found in the table on page 6 of the SIP at Appendix 'A'.

The 2009 Regulations set out prescribed limits on different and divergent investment products to ensure that local authority pension funds spread risks across a number of different types of investment. The prescribed limit on investing in partnerships was previously set at 5% for a single partnership and in total no more than 15% of capital value of the Fund, so as to enable these funds to take advantage of certain unregulated investment opportunities. Lancashire County Pension Fund has previously adopted the former maximum limit of 15%.

One of the unintended consequences of the 2009 regulations was that it prevented local authority pension funds had not been in a position to further diversify their investments into vehicles established to take advantage of potential returns from investments in infrastructure. The 2013 amendment is in essence the Government's solution to this by increasing the proportion of funds that local authority pension funds can invest in partnerships from a maximum of 15% of the fund to 30%. The revised limit provides the Fund with additional flexibility and has been incorporated into the Fund's revised SIP which is attached at Appendix 'A'. It is important to note that this does not impact upon the Fund's investment strategy, but merely enables the Fund greater flexibility when reviewing the strategy and considering the allocation to investment categories.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The Statement of Investment Principles must be reviewed periodically in order to comply with statutory regulation.

List of Background Papers

Paper	Date	Contact/Directorate/Tel
Statutory Instrument 2013 No.410 – Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013.	1 April 2013	Andrew Fox/ County Treasurer's Directorate/ x35916
Statutory Instrument 2009 No.3093 – Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.	1 December 2009	Andrew Fox/ County Treasurer's Directorate/ x35916

Reason for inclusion in Part II, if appropriate

N/A

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
- 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. To oversee the performance of the investment managers appointed by the Fund and to report on the Fund's performance.

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) Regulations 2009</u>

The 2009 regulations laid down the limits shown in Column 1 and Column 2 below, having consolidated the previous 1998, 2003, and 2005 Regulations. The limits in Column 2 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 previously reviewed the 2009 Regulations limits and have adopted the increased limits for any single insurance contract and also for all contributions to partnerships.

The 2013 amendment to the 2009 Regulations increases the maximum proportion of a local government pension fund which can be invested in contributions to partnerships from 15% to 30%.

	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%	30%
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:

<u>Principle 1: Effective Decision Making</u>
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.

<u>Principle 2: Clear Objectives</u>
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.

<u>Principle 3: Risk and liabilities</u>
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.

<u>Principle 4: Performance assessment</u>
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.

<u>Principle 5: Responsible ownership</u>
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.

<u>Principle 6: Transparency and reporting</u>
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 29 November 2013

Electoral Division affected: All

External Audit
Lancashire County Pension Fund Audit Findings Report 2012/13
(Appendix 'A')

Contact for further information:
Karen Murray, 0161 234 6364, Director, Grant Thornton
karen.l.murray@uk.gt.com

Executive Summary

The Audit Findings Report at Appendix 'A', sets out the findings of the external auditor following their audit of the Pension fund Accounts for 2012/13. This report was presented to the Council's Audit Committee on 30 September 2013. The external auditor provided an unqualified audit opinion on the pension fund accounts following the meeting on 30 September 2013.

Recommendation

The Committee is asked to note the External Audit report following their audit of the County Pension Fund Accounts for 2012/13.

Background and Advice

Attached at Appendix 'A' is the external auditor's Audit findings Report following their audit of the accounts for Lancashire County Pension Fund for 2012/13. This includes reporting the outcome of their work against the main audit risks highlighted to the Pension Committee at its June 2013 meeting:

- the appointment of 5 new fund managers and transfer of investments to them to use in new global equities portfolios;
- increasing complexity of the internally managed portfolio;
- widening of the company vehicle used to make infrastructure investments;
- work undertaken to investigate and resolve the unexplained imbalance on the pension fund bank reconciliation last year; and
- the three key elements of the fund accounts being investments, contributions and benefits payable.

Fiona Blatcher, Audit Manager, will attend the meeting to present the report and answer any questions.

Lancashire County Council

Consultations

The report has been agreed with the County Treasurer.

Implications

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

Paper	Date	Contact/Directorate/Tel
N/A		

Appendix 'A'

The Audit Findings for Lancashire County Pension Fund

Year ended 31 March 2013

August 2013

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of Lancashire County Pension Fund's ('the Fund') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the fund during the year and that they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change the planned approach as communicated to you in our audit plan in June 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- resolution of outstanding queries
- obtaining and reviewing the management letter of representation;
- updating our post balance sheet events review, to the date of signing the audit opinion; and
- our final review procedures.

Key audit and financial reporting issues

Financial statements opinion

We expect to provide an unqualified opinion on the financial statements.

We have not identified any material adjustments affecting the Fund's draft financial position, which showed net assets of £5,011m.

The key messages arising from our audit of the Fund's financial statements are:

- the draft financial statements were provided at the start of our audit work and high quality working papers were made available;
- officers were available throughout our audit fieldwork to provide additional supporting information in a timely manner and our audit queries were responded to promptly;
- previous issues reported about the potential miss-classification of entries between the Council and the Pension Fund have now been resolved;
- a number of amendments have been made to the draft financial statements to provide clearer and more complete disclosures. In particular these now better reflect the more complex portfolio of investments managed by the fund.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Executive summary

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has identified some minor IT access control weaknesses and delays in obtaining signed agreements from new admitted bodies. Further details are provided within section 2.

The way forward

Matters arising from the financial statements audit have been discussed with the Treasurer to the Pension Fund and officers, and where appropriate the accounts have been amended.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during the course of our audit.

Grant Thornton UK LLP
16 September 2013

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Pensions Committee on 07 June 2013 and the Audit and Governance Committee on 25 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you.

Audit opinion

We anticipate that we will provide the Fund with an unqualified opinion on the financial statements. Our anticipated audit opinion on the financial statements is set out in Appendix A. We have also included our anticipated opinion on the annual report at Appendix B.

Letter of Representation

We have provided the Fund with a suggested letter of representation. We are not seeking any specific representations. This is included at Appendix C.

IAS 19 assurances

We have completed our work to support the IAS19 assurances required by a number of scheduled bodies to the pension scheme and have not identified any issues as a result.

Follow up of previous recommendations

We have reviewed the work of your predecessor auditor in planning our audit programme, including a review of previous recommendations. This involved resolving the previously existing issues around the possible miss-classification of transactions between the County Council and the Fund. Our follow up work is complete and there are no matters that we wish to bring to your attention.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition In our plan we did rebutt this presumption due to the nature of the Fund's revenue, together with the strong separation of duties created by the independent custodian and investment managers.	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk that management over-ride of controls is present in all entities	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries have not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	Investments not valid Valuation of investments is mis-stated. Evidence of existence and ownership may not be available. Incorrect or insufficient disclosure.	• obtained independent, direct confirmation of balances from Investment Managers, and Custodian. • Obtain independent confirmation of valuation of property investments. • 3-way reconciliation between records of the fund managers, the custodian, and the Fund • Sample testing of valuations, in particular hard-to-value investments • Testing of sales / purchases in material classes of investments back to independent confirmations from custodians and fund managers. • Reviewed the latest controls assurance reports for each fund manager and custodian • Reviewed the detailed investment disclosures for compliance with code requirements and agreement to underlying records.	Our audit work has not identified any investments held by the Fund that are not valid, or where the fair value measurement is not correct. Our audit work supports the valuations of investments where estimation techniques and judgement have been applied. Investment liabilities of £1.9m had been incorrectly netted out on the face of the Fund Account within the investment assets figure. Officers have corrected for this. A small number of other amendments have been made to investment disclosures to improve clarity. (See page 14 for more detail).
Benefit Payments	Benefits improperly computed/claims liability understated	• Sample testing of pension payments, lump sums, and refunds • Analytical procedures rationalising pensions paid with changes in pensioner numbers & annual pension increases applicable to 12/13 • Reconciliation of movements in membership statistics to transactions in the accounting records	Our audit work did not identify any evidence that benefit payments have been improperly computed, or the claims liability understated.

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Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct	• Review design of controls regarding receipt of contributions at the Fund, and testing to ensure these controls are operating effectively. • Analytical procedures rationalising contributions received to changes in member data and payroll data.	Our audit work has not identified any evidence that contributions been recorded incorrectly.

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Internal Control

Review of Information Technology (IT) Controls

As part of our planned programme of work, our information systems specialist team undertook a high level review of the general IT control environment at the Administering authority. This was undertaken as part of the review of the internal controls system and included a follow up of the issues that had been raised by the previous auditor, the Audit Commission. Some improvements have been made in this area, although the following are areas where the existing IT arrangements can be further developed :

Network access: Network log-on passwords are still allowed to be simple (they can be all-letter, i.e. a word). This issue was raised in the previous auditors' 2011-12 assessment. Although management have agreed to introduce stronger network passwords, implementation has been slower than planned.

Monitoring network access permissions: Arrangements for removing leavers' network accounts were previously weak. Improvements have been made during 2012-13 by using HR reports to identify leavers so that accounts can be deleted as they arise. However, redundant accounts for staff who left before this change was made, may remain on the system. A process for monitoring which network accounts have been unused for a lengthy period and disabling or deleting them has been proposed but is not yet in place.

These areas apply to the whole of the IT controls environment for the administering authority and are not specific to the operation of the Fund. An action plan has been agreed which includes resolution of these issues by June 2014.

Review of Other Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

In addition to the IT control issues reported above we identified an issue around delays in obtaining signed agreements from admitted bodies new to the pension fund. During 2012/13 there were 18 new admitted bodies to the pensions fund. The Pension fund has been receiving contributions on their behalf and paying pensioners during this period. However as at the end of August 2013, nine signed admission agreements from the relevant bodies had still not been received. These are all relatively small bodies and the financial risks to the fund are therefore not material. However the delay in obtaining signed agreements does put the pension fund at some risk.. The Treasurer has agreed to consider this together with the benefits administration team to determine the best course of action to reduce these risks.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Contribution Income: normal contributions for both employee and employers is accounted for on an accruals basis • Transfers to and from the scheme: Transfers are recognised when they are received / paid. • Investment Income: The Fund adopts several different recognition approaches dependent on the types of investment as disclosed within the statements.	• The revenue recognition policies of the Fund are appropriate and in line with the relevant accounting framework • The application of the revenue recognition policies at the Fund is not considered complex, and our testing has not identified any inappropriate revenue recognition	● Green
Judgements and estimates	• Key estimates and judgements include : – investment valuation for unquoted, hard to value investments – pension fund actuarial valuations and settlements	• The valuation of the Fund's investment portfolio has been substantively tested to gain assurance that it is not materially misstated • We have confirmed that the work of the actuary is in line with professional standards an regulation, and that they are a reliable source of estimation relating to the pension fund liabilities.	● Green
Other accounting policies	• The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting	• We have reviewed the Fund's policies against the requirements of the Code of Practice on Local Authority Accounting and do not have any comments to make.	● Green

Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

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Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £m	Account balance	Impact on the financial statements
1	Misclassification	£1.9 (£1.9)	Investment assets Investment liabilities	This was an error on the face of the fund account. The investment assets had been show net of liabilities. The value should have been shown gross with a corresponding investment liability reflected. The misclassification has no impact on the retained net assets carried forward. The investment liabilities had been accounted for separately and disclosed separately within the detailed disclosure notes.
2	Misclassification	(£3.1) (£3.1)	Investment income Investment management expenses	The Code requires rents from investment properties to be disclosed net of expenses but these had been shown gross. The previous years' comparators have also been amended.
3	Disclosure	N/A	Investment assets	A small number of amendments have been agreed to provide a clearer disclosure of investments to reflect the more diverse portfolios which now exist. This has also resulted in a re-analysis of investments between levels 1, 2 and 3 in note 14 of the accounts.
4	Disclosure	N/A	Various	A small number of other amendments have been agreed to ensure completeness of disclosures. This included additional analysis of benefits payable, further disclosure of the relationship between the net assets and the policy for future promised benefits and more complete disclosures of the related party transactions between the administering authority and the fund.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Committee and were not informed of any significant matters in relation to fraud affecting the pension fund. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Fund.
4.	**Disclosures**	• IAS 24 requires the inclusion of an extended disclosure note about the compensation of key management personnel. The CIPFA code includes a specific dispensation from this requirement, instead following the regulatory disclosure requirements around remuneration of members and staff. The fund has chosen to follow the CIPFA example pension fund accounts which refer to this dispensation in the Pension Fund disclosure notes, (note 28), and cross references the reader to the Council's main financial statements where such regulatory disclosures are made. • In our view, such a disclosure is not appropriate since the regulatory disclosures in the Council's main accounts include senior management personnel who are not involved in the management of the pension fund and will exclude some who are. Additionally, in the context of the separately published Pension Fund Annual Report., such cross referencing is not helpful. In our view the Fund should either make the full IAS24 disclosures within the pension fund accounts, or make the regulatory disclosures set out in the Code specific to those key management personnel involved in the Pension Fund. However we recognise that the position taken by the Fund is not inconsistent with the Code or CIPFA's guidance (in the form of the example pension fund accounts provided by them).
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

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Section 3: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services. The actual fee is consistent with the revised scale fee approved by the Audit Commission.

Fees

	Per Audit plan £	Actual fees £
Fund audit	41,505	41,194
Total audit fees	**41,505**	**41,194**

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- a member of our team has a family member who works within the Pension Fund's benefits administration team. To avoid any potential conflicts, this member of our team does not undertake any work on the benefits payable elements of the accounts and is not responsible for the planning or supervision of such work.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Section 4: Communication of audit matters

Communication of audit matters to those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected unmodified auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Proposed audit opinion for the financial statements

We anticipate we will provide Lancashire County Pension Fund with an unqualified audit report

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Lancashire County Pension Fund for the year ended 31 March 2013 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 2012/13.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Treasurer to the Pension Fund and auditor

As explained more fully in the Statement of the Responsibilities of the Treasurer to the Pension Fund, the Treasurer to the Pension Fund 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. Our 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 us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund 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 Treasurer to the Pension Fund and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on the pension fund financial statements

In our 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 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013 and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Karen Murray
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

September 2013

Appendix B: Proposed audit opinion for the annual report

We anticipate we will provide Lancashire County Pension Fund with an unqualified audit report for inclusion in the annual report

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Lancashire County Pension Fund for the year ended 31 March 2013 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 2012/13.
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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Treasurer to the Pension Fund and auditor

As explained more fully in the Statement of the Responsibilities of the Treasurer to the Pension Fund, the Treasurer to the Pension Fund is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our 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 us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund 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 Treasurer to the Pension Fund; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

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

Matters on which we report by exception

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

Opinion on the pension fund financial statements
In our 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 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Karen Murray
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

XX September 2013

Appendix C: Letter of Representation

Karen Murray
Director
Grant Thornton UK LLP
4 Hardman Square
Spinningfields
MANCHESTER, M3 3EB

xx September 2013

Dear Karen

Lancashire County Pension Fund Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with your audit of the financial statements of Lancashire County Pension Fund for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code).

Financial Statements

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

We have not adjusted the misstatements brought to our attention on the audit differences and adjustments summary, attached to this letter, as they are [**immaterial to the Fund's accounts at the year-end / for the reasons noted on the schedule / other reasons**]. The financial statements are free of material misstatements, including omissions. (will not be needed if aren't any)

We believe that the Pension Scheme's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Pension Scheme's needs. We believe that no further disclosures relating to the Pension Scheme's ability to continue as a going concern need to be made in the financial statements.

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Pension Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgment based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

Information Provided

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- unrestricted access to persons from whom you determine it necessary to obtain audit evidence.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

We have disclosed to you our knowledge of fraud or suspected fraud affecting the Fund involving:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

We are not aware of any instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

There have been no communications with The Pensions Regulator or other regulatory bodies during the fund year or subsequently concerning matters of non-compliance with any legal duty.

We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

Yours faithfully

Gill Kilpatrick
Treasurer

Clare Pritchard
Chair of Audit and Governance Committee

grant-thornton.co.uk