

## Lancashire County Council

### Pension Fund Committee

Friday, 27th March, 2015 at 10.45 am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston

### Agenda

#### Part I (Open to Press and Public)

<b>No.</b>	<b>Item</b>
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<b>1.</b>	<b>Apologies</b>
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<b>2.</b>	<b>Disclosure of Pecuniary and Non-Pecuniary Interests</b>
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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.

<b>3.</b>	<b>Minutes of the Meeting held on 28 November 2014</b>	(Pages 1 - 8)
	To be confirmed, and signed by the chair.	

<b>4.</b>	<b>Exclusion of Press and Public</b>
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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)

<b>5.</b>	<b>Investment Performance Report</b>	(Pages 9 - 28)
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(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972.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).

**6. Investment Panel Report** (Pages 29 - 54)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972.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

**7. Project Comet** (Pages 55 - 60)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972.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

**8. Creation of an Asset and Liability Management Partnership with the London Pension Fund Authority** (Pages 61 - 74)

(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)**

**9. Lancashire County Pension Fund - Strategic Plan 2014/15 - 2016/17** (Pages 75 - 96)

**10. Pension Fund Budget Forecast 2015/16** (Pages 97 - 104)

**11. Update of the Governance Policy Statement and Statement of Investment Principles** (Pages 105 - 154)

**12. Lancashire County Pension Fund Risk Register** (Pages 155 - 188)

**13. Responsible Investment** (Pages 189 - 266)

**14. Update on the Establishment of the Lancashire Local Pension Board** (Pages 267 - 290)

**15. External Audit Lancashire County Pension Fund Annual Audit Plan 2014/15** (Pages 291 - 308)

**16. Transaction of Urgent Business** (Pages 309 - 310)

**17. Feedback on External Pension Fund Training Events Attended by Members** (Pages 311 - 312)

**18. 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.

**19. Date of Next Meeting**

The next meeting of the Committee will be held on Friday 5 June 2015 at 10.00 a.m at County Hall, Preston.

I Young  
County Secretary and Solicitor

County Hall  
Preston



# Agenda Item 3

## Lancashire County Council

### Pension Fund Committee

**Minutes of the Meeting held on Friday, 28th November, 2014 at 10.45 am in Cabinet Room 'C' - County Hall, Preston**

#### **Present:**

County Councillor Terry Burns (Chair)

#### **County Councillors**

D Borrow	M Otter
M Brindle	N Penney
G Dowding	A Schofield
J Gibson	K Sedgewick
J Oakes	D Westley
R Newman-Thompson	

#### **Co-opted members**

Bob Harvey, (Trade Union representative)  
Councillor Paul Leadbetter, (Lancashire Leaders' Group representative)  
Councillor Edward Pope, (Lancashire Leaders' Group representative)  
Councillor Ron Whittle, (Blackburn with Darwen Borough Council representative)

County Councillors R Newman-Thompson and N Penney replaced County Councillors L Beavers and M Parkinson respectively at this meeting.

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

#### **Announcement:**

It was reported that the Lancashire County Pension Fund had been recognised at the recent Investment & Pension Europe Awards 2014 held in Vienna. The Committee welcomed the news that the Fund had been highly commended in the 'In house Investment Team' category, as well as being shortlisted in the 'Best Public Pension Fund' category.

#### **1. Apologies**

Apologies were received from County Councillor B Yates and Councillor M Smith.

## **2. Disclosure of Pecuniary and Non-Pecuniary Interests**

None.

## **3. Minutes of the Meeting held on 5 September 2014**

The Minutes of the meeting held on 5 September 2014 were presented.

**Resolved:** That the Minutes of the meeting held on 5 September 2014 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 2014, focussing on the key areas of:

- the funding position;
- cash flow;
- fund investment performance;
- management performance;
- investment allocations; and
- risk management of the Fund including liability, 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 meeting held on 4 September 2014. The Committee's attention was specifically drawn to the following key areas:

- The Investment Context in which the Fund was operating;
- Update on the Property tender process; and
- Liability Risk Management including detailed worked examples and scenario testing.

**Resolved:** That the report be noted.

## **7. Property Management Procurement**

(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 appointment of the Fund's National and Local Property Investment manager which had been approved under the Urgent Business Procedure.

**Resolved:** That the report be noted.

## **8. Collaboration with other Funds**

(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 further report on the potential scope for collaborative working with the London Pension Fund Authority (LPFA).

The Committee at its meeting on 5 September 2014 authorised officers to hold discussions with the LPFA and report back to this meeting. It was reported that discussions had progressed well and a shared view of a concept that could achieve the degree of collaboration both funds would seek but maintaining autonomy around specific key areas and decision making processes was emerging.

It was now proposed to undertake further detailed work to produce proposals for the creation of an Asset and Liability Management Partnership which would in effect create a single pool of commonly invested assets sitting between the two funds.

It was confirmed that the LPFA had considered and approved a similar report.

**Resolved:**

1. That the progress of discussions with the London Pension Fund Authority on potential collaborative working arrangements be welcomed.
2. That specific proposals for the creation of an Asset and Liability Management Partnership be developed for consideration at a future 'special' meeting of the Committee.

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

## **9. Transaction of Urgent Business - Response to Government Consultations**

Details of the Committee's responses to the following Government consultations were presented:

- Consultation on the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014  
Better Governance and Improved Accountability in the Local Government Pension Scheme
- Local Government Pension Scheme  
Draft Guidance on the creation and operation of Local Pension Boards in England and Wales

It was noted that the responses had been approved under the County Council's Urgent Business Procedure as the Government's closing dates were prior to the next scheduled meeting of the Committee.

**Resolved:** That the report be noted.

## **10. Establishment of the Lancashire Pension Board**

The Committee considered a report on the proposed establishment of the Lancashire Pension Board as required by the Local Government Pension Scheme (Amendment) Regulations 2014.

The report set out:

- the functions and position of the Pension Board in the Fund's Governance structure;
- the proposed composition of the Board and the appointment process including the appointment of an independent chair;
- proposals for the remuneration of Board members;
- the Board's terms of reference;
- the implications of the creation of the Board for the Fund's existing governance arrangements including the proposed disestablishment of the Pension Fund Administration Sub-Committee and consequential



- amendments to the Pension Fund Committee's terms of reference (Appendix 'B'); and
- the outcome of consultations on the proposals including the views of officers thereon.

It was noted that the first meeting of the new Board had to be held before July 2015 with the membership of the Board in place by April 2015. Subject to the views of the Committee, it was proposed to request the Full Council to approve the arrangements, as set out in the report, on 18 December 2014. This would enable the recruitment timetable to commence in January 2015.

**Resolved:**

1. That the proposals for the establishment of the Lancashire Pension Board, as set out in the report, be endorsed and recommended to the Full Council for adoption.
2. That the Full Council be requested to approve the disestablishment of the Pension Fund Administration Sub Committee, and the proposed revised terms of reference for the Pension Fund Committee, as set out at Appendix 'B'.

**11. Impact of County Council Transformation Programme on the arrangements for managing the Lancashire County Pension Fund**

The Committee considered a report on the impact of the County Council's transformation programme on the arrangements for managing the Lancashire County Pension Fund.

It was noted that the opportunity had been taken as part of the transformation programme to strengthen the arrangements for delivering the Council's responsibilities as administering authority for one of the largest pension funds within the Local Government Pension Scheme.

A separate organisational unit for the Fund had been established to come into effect on 1 April 2015. The new unit would remove the potential for any conflicts of interest between the Fund and the County Council as its 'sponsor'. The unit would report direct to the Chief Executive and all aspects of the work of the Pension Fund would be brought together under a single manager (Director) whose time would be fully dedicated to the Fund in a way that had not been possible until now. The Committee welcomed the announcement that George Graham had been appointed as the new Director of the Lancashire County Pension Fund.

**Resolved:** That the report be noted.

**12. Report of the Appointments Sub-Committee**

The Committee considered a report on the appointment of an Independent Adviser to succeed Mr Mills.

The Appointments Sub-Committee had conducted interviews on 24 October 2014 and had unanimously agreed to appoint Ms Aoifinn Devitt for an initial term of two years as from 1 March 2015.

**Resolved:** That the appointment of Ms Aoifinn Devitt as an Independent Adviser to the Fund for an initial term of two years as from 1 March 2015 be noted.

### **13. 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 July to 30 September 2014. The report also set out details of potential class actions in relation to companies in which the Lancashire County Pension Fund currently owned shares or had previously owned shares.

It was noted that the Fund had voted on 318 occasions during this period and had opposed or abstained in 39% of votes.

**Resolved:** That the report be noted.

### **14. UK Stewardship Code compliance**

The Committee considered a report on the annual review of the Fund's statement of compliance with the UK Stewardship Code.

The proposed Stewardship Code Compliance Statement for the Fund for 2014 was presented at Appendix 'B'. It was noted that the adoption of the statement and identified actions would ensure the Fund's compliance with the Code.

**Resolved:** That the Stewardship Code Compliance Statement for 2014, as set out at Appendix 'B', be approved.

### **15. Report of the Socially Responsible Investment Working Group**

The Committee considered the report of the Socially Responsible Investment working group which had been set up to consider any issues and make recommendations to the Committee on the social and environmental impacts of the Fund's investment strategy and activity.

The working group had met on three occasions and a wide range of issues relating to Socially Responsible Investment/Environmental, Social, and Governance (ESG) areas were discussed. These focussed on requirements arising from the Committee's fiduciary duty to beneficiaries and recent studies in this area, as well as examining the activities currently undertaken by the Fund in this area, and proposals for further activity.

The working group had drawn up an action plan to progress the recommended actions in relation to the fiduciary duty, existing investment activities, governance and policy matters, and analysis and monitoring of carbon footprints and risks/ESG issues across the Fund's portfolio. Details of the proposed action plan were presented at Appendix 'B'.

**Resolved:**

1. That the report of the Socially Responsible Investment working group be welcomed.
2. That the working group's action plan and recommendations, as set out at Appendix 'B', be agreed and adopted by the Fund.

**16. Interim Administration Report**

The Committee considered the interim administration performance report which had been produced following the introduction and implementation of the new Local Government Pension Scheme 2014 on 1 April 2014.

The report set out performance against standards and targets as defined in a Service Level Agreement with Your Pension Service. The report indicated that service delivery had been maintained throughout the period of change.

**Resolved:** That the interim administration report, as set out at Appendix 'A', be noted.

**17. Feedback on External Pension Fund Training Events Attended by Members**

The Committee received feedback from those members who had attended external pension fund training events, as follows:

- 18 September 2014 - CIPFA Pensions Network "Introduction to the Local Government Pension Scheme". The event was attended by County Councillors Lorraine Beavers and Keith Sedgewick; and
- 1 October 2014 – 33 Consulting Elected Member Educational Event. The event was attended by County Councillors David Borrow and Barrie Yates.

The members confirmed that both events were informative and provided a broad and detailed insight into the local government pension scheme, as well as the many issues facing local authority pension funds. The events were recommended to other members of the Committee.

**Resolved:** That the feedback provided by members of the committee in relation to recently attended external pension fund training events be noted.

**18. External Audit Findings Report - Lancashire Pension Fund - 2013/14**

The Committee considered the Audit Findings Report which set out the findings of the external auditor following their audit of the Pension Fund Accounts for 2013/14.

It was noted that the report had been presented to the Council's Audit Committee on 29 September 2014 and that the external auditor had provided an unqualified audit opinion on the pension fund accounts following that meeting.

**Resolved:** That the external Audit report following the audit of the County Pension Fund Accounts for 2013/14 be noted.

**19. Urgent Business**

None.

**20. Date of Next Meeting**

It was noted that the next meeting of the Committee would be held at 10.00 a.m. on Friday 27 March 2015.

I Young  
County Secretary and Solicitor

County Hall  
Preston

# Agenda Item 5

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

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# Agenda Item 6

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# Agenda Item 7

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# Agenda Item 8

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## Pension Fund Committee

Meeting to be held on 27 March 2015

Electoral Division affected: None
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## Lancashire County Pension Fund – Strategic Plan 2014/15 – 2016/17

(Appendix 'A' refers)

Contact for further information:

George Graham, County Treasurer's Directorate, (01772) 538102.

[george.graham@lancashire.gov.uk](mailto:george.graham@lancashire.gov.uk)

### Executive Summary

One of the areas for development identified in the Fund's Annual Governance Statement last year was the need to define more clearly the overall objectives and strategic planning framework for the Fund.

Given the dependence of the Fund on the three yearly actuarial valuation cycle as a driver for much of its activity it is proposed to place a three year strategic plan at the centre of this planning framework and articulate a series of specific objectives under the four dimensions of the management of the Fund:

- Governance
- Asset and Liability Management
- Administration
- Communication

This three year plan will be supported by annual business plans for each of the services responsible for supporting the work of the Fund.

The developmental focus in the draft plan attached at Appendix A is:

- The continuing implementation of the various elements of the LGPS reform agenda, including the drive for increased collaboration, alongside the embedding of a range of new processes developed already,
- The refinement of the Investment Strategy to address the results of the 2013 Valuation and become more liability aware and address issues of socially responsible investment as appropriate, as well as preparing the Fund for the 2016 valuation;
- Improving engagement with employers and scheme members;
- Better understanding the risks to the Fund posed by the relative financial strength and funding level of individual employers.

### Recommendation

The Committee is recommended to approve the draft Lancashire County Pension Fund Strategic Plan – 2014/15 – 2016/17, as set out in Appendix 'A'.

## Background and Advice

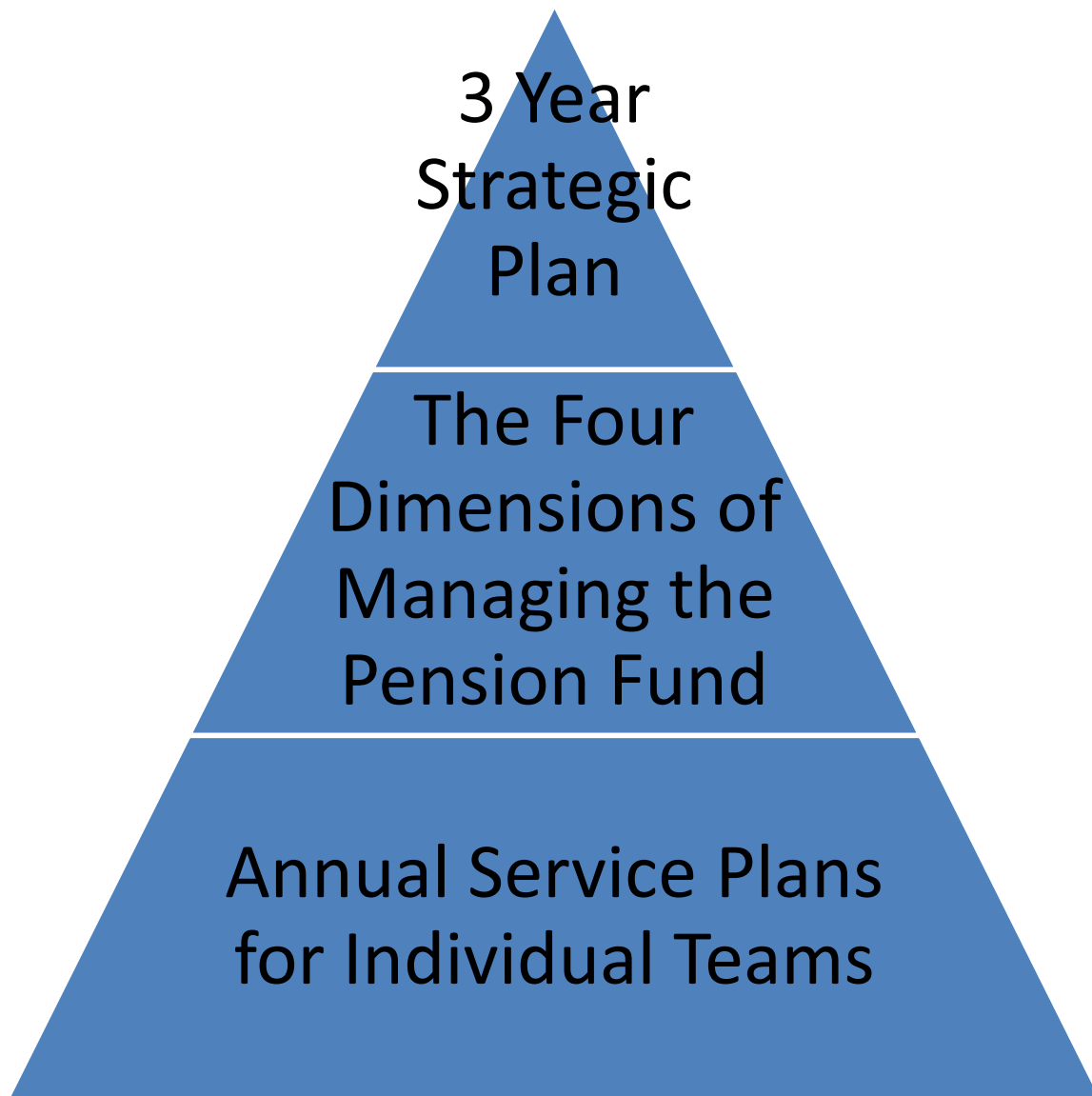
Any significant business in order to operate effectively needs a clear strategic planning framework which is focussed on the achievement of a range of specific longer term objectives. This is as true of pension funds within LGPS as any other large entity. The Fund's Annual Governance Statement which was considered in June 2014 noted the need for improvements to the strategic planning framework for the Fund as an area for development in the coming year.

The fact that this is identified as an area for development does not mean that what currently exists does not work simply that it can be done better. The main weakness identified in the current arrangements is that they are disjointed with the overall strategic approach not being brought together in one place and the service plans of the individual teams supporting the operation of the Fund sitting in isolation. The other area where improvement could usefully be made is the timescale over which strategic planning focuses. Given the three yearly actuarial valuation cycle drives so much of the Fund's business a three year strategic cycle supported by annual service plans which already form part of the County Council's performance management framework would seem to be sensible.

From the point of view of the Fund there are four areas of activity where focus is required, and these should be recognised in any effective strategic planning framework:

- Governance – Ensuring the effective operation of the framework of control and the understanding and addressing of the risks to which the Fund is exposed.
- Asset and Liability Management – The design and delivery of investment strategies aimed at meeting specific investment objectives, whether in terms of growing the asset base or offsetting movements in liabilities.
- Administration – Processes for maintaining member contribution records and for the accurate and timely calculation and payment of benefits.
- Communication – Processes for communicating both with scheme members and employers and promoting the benefits of participation in the scheme.

The framework generated through focussing on these four dimensions of the operation of the Fund can be expressed diagrammatically as shown below.



This framework provides a filter through which the activities of the individual teams can be coordinated and through which the objectives of the Fund can be expressed in a form which is more accessible to stakeholders.

A draft 3 Year Strategic Plan using this framework is set out at Appendix 'A' for approval. The key areas of activity identified reflect the discussions which the Committee has already had in relation to future work:

- The continuing implementation of the various elements of the LGPS reform agenda, including the drive for increased collaboration, alongside the embedding of a range of new processes developed already,
- The refinement of the Investment Strategy to address the results of the 2013 Valuation and become more liability aware and address issues of responsible investment as appropriate;
- Improving engagement with employers and scheme members;
- Better understanding the risks to the Fund posed by the relative financial strength and funding level of individual employers in preparation for the 2015 valuation.

## **Consultations**

The work identified in the Strategic Plan at Appendix 'A' either flows from processes on which consultation with Fund Stakeholders has already taken place, where work is in reaction to statutory changes or where consultation on specific pieces of work is separately required. Consequently other than internal discussions no specific consultation has been undertaken in relation to the Strategic Plan.

The plan will be communicated to stakeholders through the internet, and will be signposted in a new Employer Newsletter, which will begin publication early in the new financial year.

## **Implications:**

### **Risk management**

Activity within the Strategic Plan takes some of its focus from the issues identified in the Risk Register. In addition a coherent strategic planning framework is in itself an important means of mitigating a range of strategic risks through the maintenance of appropriate focus on agreed key objectives.

### **Financial**

The activities identified within the Strategic Plan can be carried out within the existing relevant budgets.

### **Human Resources**

The maintenance of appropriate levels of knowledge and skills amongst both officers and elected members is a key factor within the delivery of the Strategic Plan.

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

Paper	Date	Contact/Directorate/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A



# Lancashire County Pension Fund

**Strategic Plan 2015/16 –  
2017/18**

Lancashire County Council as  
administering authority of  
**Lancashire County Pension Fund**



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## Foreword

The Lancashire County Pension Fund is the means of pension saving and the provider of retirement security for around 150,000 people employed by around 270 organisations across the County. With assets approaching £6bn invested to provide retirement security for our members we are by any measure a big business.

Like any business we need to set ourselves clear objectives and plan our work to achieve them. As much of what we do is driven by the cycle of actuarial valuations of the Fund we do this over a three year period.

This Strategic Plan sets out what we plan to do to achieve our objectives in four areas over the coming three years. This plan will be reviewed by the Pension Fund Committee each year and progress will be reported within the Fund's Annual Report.

The coming three years will present the Fund with a range of significant challenges, this plan is part of our approach to ensuring we are able to meet those challenges effectively and continue to provide retirement security for our members.

We welcome feedback on the work of the Fund, and if you would like to make contact details are provided at the end of this plan.



County Councillor Terry Burns  
Chair of the Pension Fund Committee



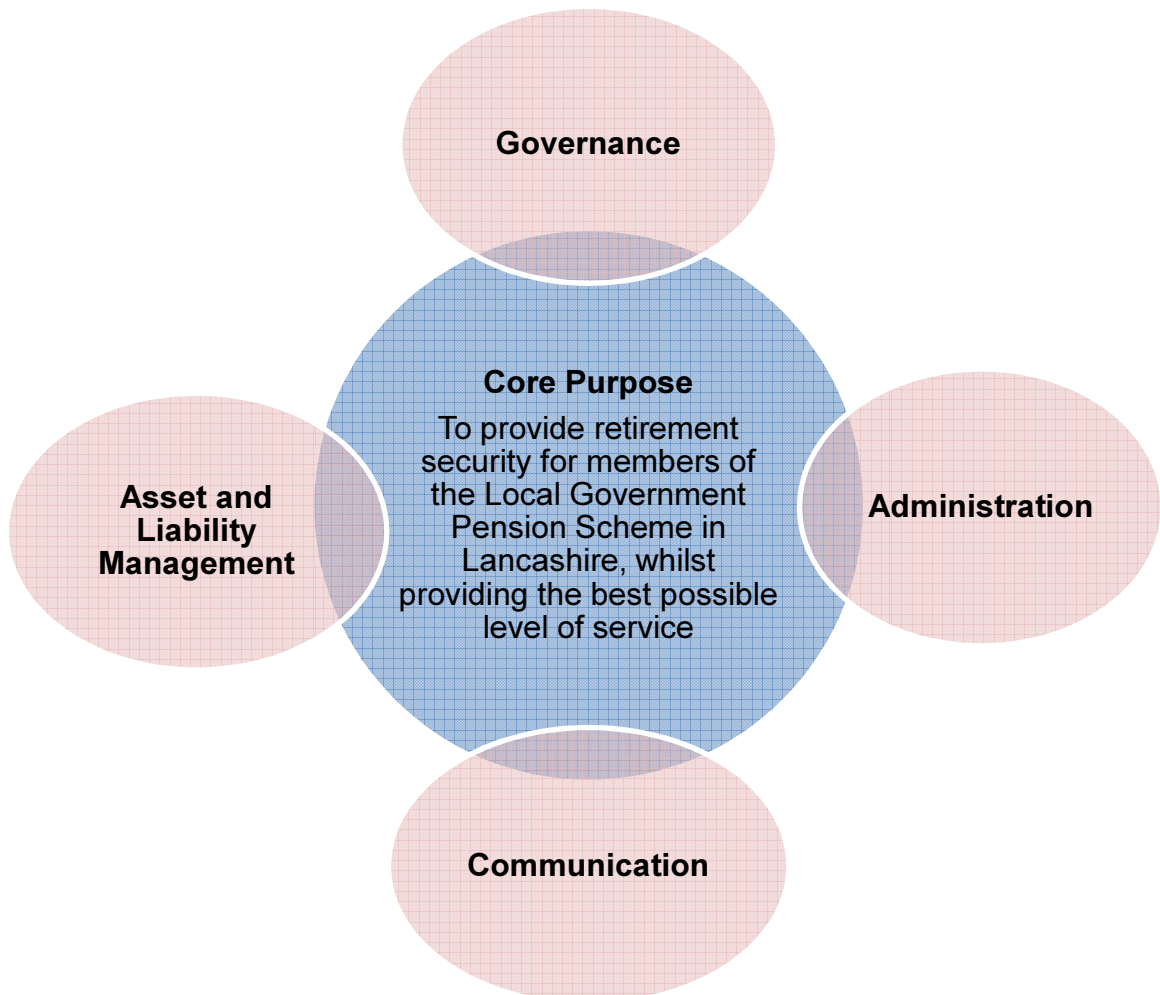
George Graham  
Director - Lancashire County Pension Fund

## What Are We Here For?

The core purpose of the Lancashire County Pension Fund, or more simply the reason we are here is to provide retirement security for members of the Local Government Pension Scheme in Lancashire, whilst providing the best possible level of service.

## How Things Fit Together – Our Planning Framework

Our planning framework is based on doing the things that help us deliver our core purpose. These things fall into four groups, or dimensions, which are shown in the diagram below:



The following sections of this plan set out the objectives we are aiming to achieve within each of these dimensions and the things that we are going to do over the next three years in order to achieve those objectives.

## Governance

### Lead officer – Andrew Fox Head of Policy and Compliance

Governance is the overall set of processes we use to run the Pension Fund. It forms a key part of a number of the other areas of focus within this plan but is also crucial in its own right.

Our objectives in this area are:

- To be open and accountable to our stakeholders for our decisions, ensuring they are robust and evidence based;
- To ensure that the Pension Fund is effectively managed and its services are delivered by highly motivated people who have the appropriate knowledge and expertise, and with access to appropriate systems;
- To deliver value for money, excellent customer service and compliance with regulatory requirements and industry standards where appropriate.

Over the next three years we are aiming to undertake the following actions in this area:

Action	How will this be achieved?	How will success be measured?	Timescale
Implement the new governance requirements including creating and supporting the Local Pension Board	<ul style="list-style-type: none"> <li>• Assessment of new legislation and regulatory requirements;</li> <li>• Creation of appropriate structures;</li> <li>• LPB members elected and Chair appointed;</li> <li>• LPB meetings to commence by 31 July 2015;</li> <li>• Comprehensive and ongoing training of PFC and LPB members.</li> </ul>	<ul style="list-style-type: none"> <li>• Independent review of Fund governance;</li> <li>• LPB in place, undertaking relevant work plan;</li> <li>• Positive assessment of PFC skills, knowledge, and effectiveness.</li> </ul>	<p>LPB in place by 1 April 2015</p> <p>Governance review by 31 December 2015</p> <p>Confirmation of new structures by 31 March 2016</p> <p>Ongoing member training</p>

Action	How will this be achieved?	How will success be measured?	Timescale
Put in place an effective workforce planning and development approach to provide increased capacity to be innovative and the ability to support individuals to realise their potential	<ul style="list-style-type: none"> <li>• LCPF workforce development policy created;</li> <li>• Skills audit and requirements assessed;</li> <li>• Training needs assessment;</li> <li>• Coaching and mentoring provision;</li> <li>• Succession planning arrangements;</li> <li>• On the job training and formal training where required.</li> </ul>	<ul style="list-style-type: none"> <li>• Workforce development policy in place and communicated to all stakeholders.</li> <li>• Integration with PDR requirements;</li> <li>• TNA undertaken for each officer;</li> <li>• Training plans in place with a variety of methods employed;</li> <li>• Career ladder in place;</li> <li>• Mentoring sessions being held where appropriate.</li> </ul>	<p>Workforce policy and career ladder by 30 September 2015</p> <p>TNA and training plans by 31 March 2016</p> <p>Mentoring established and operating by 31 March 2016</p>
Review the effectiveness of Fund governance	<ul style="list-style-type: none"> <li>• Assessment of decision-making processes</li> <li>• Policy and process review;</li> <li>• Links to compliance monitoring processes;</li> </ul>	<ul style="list-style-type: none"> <li>• Independent review including external audit and LPB;</li> <li>• Agreement and approval of revised processes;</li> <li>• Governance element incorporated into compliance monitoring.</li> </ul>	<p>Governance review by 30 September 2015</p> <p>PFC approval by 30 November 2015</p> <p>Compliance monitoring programme in place by 1 April 2015</p>
Continue to explore the potential opportunities arising from collaboration with other Funds within both Local Government Pension Scheme, and wider Pension Fund community	<ul style="list-style-type: none"> <li>• Take legal advice to create appropriate structure which is scalable;</li> <li>• Progress London Pension Fund Authority (LPFA) collaboration as first step on this journey.</li> <li>• Identify areas where collaboration may be beneficial.</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of appropriate vehicles and governance for pooling and collaboration;</li> <li>• Demonstration of appropriate cost/benefit analysis;</li> <li>• Ability for scaling to other interested parties.</li> </ul>	<p>Decision on LPFA collaboration by 31st July 2015</p> <p>Depending upon above, creation of appropriate vehicle by 31 March 2016</p>
Continue to develop and implement an effective compliance and monitoring programme	<ul style="list-style-type: none"> <li>• Finalisation of Compliance Manual;</li> <li>• Implementation of compliance monitoring programme including monthly, quarterly, and annual tests</li> <li>• Development of PFC reporting regime.</li> </ul>	<ul style="list-style-type: none"> <li>• Agreed Compliance Manual distributed to stakeholders;</li> <li>• Compliance monitoring programme in place and assurance reported/ actions planned.</li> </ul>	<p>Manual agreed by 31 March 2015</p> <p>Monitoring programme from 1 April 2015</p> <p>First assurance report to PFC June 2015</p>
<b>Action</b>	<b>How will this be achieved?</b>	<b>How will success be measured?</b>	<b>Timescale</b>

<p>Enhance current risk management processes</p>	<ul style="list-style-type: none"> <li>• Ongoing assessment of existing and new risks;</li> <li>• Improved horizon scanning;</li> <li>• Linking of risk register to compliance programme;</li> <li>• Development of trend analysis.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing identification and updating of risk register;</li> <li>• Regular strategic planning and longer term perspective;</li> <li>• Transparency of risks and monitoring;</li> <li>• Enhanced reporting of risk reporting and internal control assurance.</li> </ul>	<p>Risk approach to be enhanced on an ongoing basis throughout 2015/16</p>
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## Asset and Liability Management

### Lead officer – Mike Jensen Chief Investment Officer

Asset management is the process of achieving returns on the contributions to the Fund made by members and employers so ensuring that the money required to pay pensions is available when required. Liability management is the process by which the impact of changes in the value of the obligation to pay future pensions on the Fund is mitigated.

Our objectives in this area are:

- To ensure that resources are available to meet the Fund's liabilities through achieving investment performance at least in line with actuarial assumptions.
- To achieve full funding (i.e. no funding deficit) over a period no longer than the current recovery period.
- To achieve, as far as possible, stable employer contribution rates;
- To manage employers' liabilities effectively having due regard to the strength of each employer's covenant by the consideration of employer specific funding objectives.
- To maintain liquidity to meet projected net cash flow outgoings.
- To minimise irrecoverable debt on the termination of employer participation.
- To be a good asset owner.

Over the next three years we are aiming to undertake the following actions in this area:

Action	How will this be achieved?	How will success be measured?	Timescale
Implement the recommendations of the Member Working Group on Responsible Investment	<ul style="list-style-type: none"> <li>• Adherence to the UN Principles of Responsible Investment</li> <li>• Measurement of the quality of commitment to good governance of invested companies against a benchmark</li> <li>• Measurement of the environmental impact of the</li> </ul>	<ul style="list-style-type: none"> <li>• Sign off by the UNPRI organisation</li> <li>• Reporting of the benchmarking results to PFC and Fund stakeholders</li> <li>• Reporting of the benchmarking results to PFC and Fund stakeholders</li> <li>• Member and officer attendance at LAPFF meetings in</li> </ul>	<ul style="list-style-type: none"> <li>• Initially by May 2015 and annually thereafter</li> <li>• September 2015 as part of the Fund's Annual Report, then annually</li> <li>• September 2015 as part of the Fund's Annual</li> </ul>



	<p>Fund's investments.</p> <ul style="list-style-type: none"> <li>Actively engage with the Local Authority Pension Fund Forum to further the Fund's Responsible Investment Objectives.</li> </ul>	<p>order to influence the Forum's agenda</p>	<p>Report, then annually</p> <ul style="list-style-type: none"> <li>Regular attendance from June 2015.</li> </ul>
<p>Develop a more structured approach to assessing the risks to the Fund posed by individual employers and identify appropriate asset allocations to reduce the risk to the Fund.</p>	<ul style="list-style-type: none"> <li>Undertake formal covenant reviews for each employer in the Fund.</li> <li>Review and assess the potential risks from the results.</li> <li>Identify appropriate asset allocations for different risk categories of employer to feed into 2016 post valuation Investment Strategy update.</li> </ul>	<ul style="list-style-type: none"> <li>Stratification of the whole employer base according to the risk posed to the Fund.</li> <li>Allocation of each strata of employer to a specific asset mix.</li> </ul>	<ul style="list-style-type: none"> <li>Covenant reviews completed by May 2016.</li> <li>Revised asset allocations agreed alongside the valuation process by February 2017.</li> </ul>
<p>Completion of the 2016 Actuarial Valuation and identification of changes, if any, required in the Investment Strategy</p>	<ul style="list-style-type: none"> <li>Provision of data to the Actuary at individual member level.</li> <li>Agreement of key assumptions with the Actuary by the PFC</li> <li>Engagement with employers on</li> </ul>	<ul style="list-style-type: none"> <li>Maintenance of stable contribution rates.</li> <li>Actuary's assessment of the quality of the data provided.</li> <li>Adoption of revised Investment Strategy by PFC</li> </ul>	<ul style="list-style-type: none"> <li>Provision of data from April 2016.</li> <li>Agreement of assumptions by PFC tbd in line with Actuary's timetable.</li> <li>Feedback of results from September 2016.</li> <li>Revised</li> </ul>

	<p>an ongoing basis throughout the process, but particularly as results become available.</p> <ul style="list-style-type: none"> <li>• Review of Investment Strategy in light of results.</li> </ul>		<p>Investment Strategy to PFC Feb / March 2017.</p> <ul style="list-style-type: none"> <li>• Implementation of revised Rates and Adjustments Certificate from April 2017.</li> </ul>
<p>Continue to explore the potential opportunities arising from collaboration with other Funds within both Local Government Pension Scheme, and wider Pension Fund community</p>	<ul style="list-style-type: none"> <li>• Finalise discussions with the LPFA on the benefits of pooling investments.</li> <li>• Identify other potential opportunities either to share expertise with other funds or to make appropriate investments alongside each other.</li> </ul>	<ul style="list-style-type: none"> <li>• Decision on the ALM Partnership with LPFA.</li> <li>• Opportunities identified and taken through to conclusion and then reported to PFC by the Investment Panel.</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership Decision July 2015.</li> <li>• Other opportunities and investments ongoing.</li> </ul>
<p>Review and update of the 5 asset class investment strategies in order to ensure that they remain relevant to both the needs of the Fund and deliverable within market constraints.</p>	<ul style="list-style-type: none"> <li>• Formal review of progress against and the continuing relevance of each strategy by the Investment Panel.</li> <li>• Commissioning of revised strategies by the Investment Panel.</li> <li>• Consideration and approval of revised strategies by PFC.</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of proposals for change by PFC.</li> <li>• Achievement of target returns (and levels of volatility) by investments selected under the strategies.</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure Strategy for formal approval June 2015.</li> <li>• Equity and Private Equity to go to PFC during 2015/16</li> <li>• Property and Credit Strategies to go to PFC during 2016/17.</li> <li>• Infrastructure to go to PFC following review during 2017/18.</li> </ul>
<p>Development</p>	<ul style="list-style-type: none"> <li>• Agreement by</li> </ul>	<ul style="list-style-type: none"> <li>• Adoption of agreed</li> </ul>	<ul style="list-style-type: none"> <li>• Strategy</li> </ul>

<p>and implementation of a Liability Management Strategy</p>	<p>Investment Panel and PFC on the degree to which the Fund should seek to manage its liabilities.</p> <ul style="list-style-type: none"> <li>• Adoption and implementation of approved strategy, including the appointment of any fund managers required.</li> </ul>	<p>strategy by PFC.</p> <ul style="list-style-type: none"> <li>• Impact on the scale of the Fund's risk exposure specifically to:                             <ul style="list-style-type: none"> <li>○ Long term interest rates</li> <li>○ Inflation</li> </ul> </li> </ul>	<p>agreed by the end of the 2015 calendar year.</p> <ul style="list-style-type: none"> <li>• Implementation during 2016/17.</li> <li>• Initial review at end of 2017/18.</li> </ul>
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## Administration

### Lead officer – Diane Lister Head of Your Pension Service

Administration is the process through which the information required to maintain members' contribution records, collect contributions due and calculate and pay their benefits in an accurate and timely way is undertaken.

Our objectives in this area are:

- To deliver a high quality, cost-effective, user-friendly and informative service to all members, potential members and employers at the point where it is needed;
- To ensure that benefits are paid and contributions collected accurately and on time;
- To demonstrate compliance with all relevant regulatory requirements;
- To ensure that data is handled securely and used only for authorised purposes.

Over the next three years we are aiming to undertake the following actions in this area:

Action	How will this be achieved?	How will success be measured?	Timescale
Review and ensure compliance with the new TPR Code of Practice for Public Sector Pension Schemes	Undertake gap analysis  Act on results	Via a public statement of compliance. Target 100% compliance with the relevant regulations.  No reported breaches of law	31 March 2016
Develop and implement a member and employer self-service strategies	Introduce email/online processes in all areas of casework  Develop website and employer e-solutions  Develop self-service functionality within the Altair system	Demonstrable transference of transactional activity to the employer and to the member. Set targets to measure % shift	31 March 2017

Action	How will this be achieved?	How will success be measured?	Timescale
Consider collaborative opportunities and work towards building capacity for the future	Work in partnership with likeminded Authorities Attract new business	Organisational structure and capacity in place New business secured	31 December 2016
Review employer compliance with Pension Administration Strategy Statement	Implement monitoring process. Measure and report results to PFC	% Employer compliance	31 December 2015
Undertake systematic analysis of appeals	Implement case review process	Year on year reduction in 1 <sup>st</sup> and 2 <sup>nd</sup> stage appeals	1 April 2017
Review basic financial control processes surrounding pension fund administration and pensioner payroll.	Undertake gap analysis Act on results	Full Assurance from internal and external auditors.	1 April 2016

## Communication

### Lead officer – Diane Lister Head of Your Pension Service

Communication is the process by which we ensure that Fund members and employers are aware of their benefits and of their responsibilities; and of the overall performance of the Fund. It is also the process by which we promote the benefits of the Fund.

Our objectives in this area are:

- To provide good pension information, promoting pensions in the workplace and to actively promote the Scheme to prospective members and their employers.
- To increase transparency; building trust, confidence and engagement in pension saving as the norm, ensuring that investment issues are communicated appropriately to the Fund's stakeholders.
- To communicate in a friendly and direct way to all our stakeholders, treating them all equally, and aiming to achieve a full appreciation of the benefits of being a member of the Fund
- To ensure that our communications are simple, relevant and have impact;
- To deliver information in a way that suits all stakeholders, increasingly taking advantage of advances in technology.
- To treat information security with the utmost importance.

Over the next three years we are aiming to undertake the following actions in this area:

Action	How will this be achieved?	How will success be measured?	Timescale
Develop a Pension Fund website	Design and implement new website for the Fund's information as opposed to pensions administration processes	Increased engagement in funding and investment issues e.g. through the number of website visitors	December 2015

<b>Action</b>	<b>How will this be achieved?</b>	<b>How will success be measured?</b>	<b>Timescale</b>
Develop and implement a Member engagement strategy	<p>Promote the use of online and email communication and information sharing, making online self-service the norm and the website the first point of contact for members.</p> <p>Take a multimedia approach to communication and engagement in recognition that different styles and methods of communication suit different stakeholders</p>	<p>Demonstrable increase in online self-service activity.</p> <p>Increase in web contact/reduction in telephone contact</p> <p>Increase in customer satisfaction</p>	December 2017
Undertake systematic analysis of customer feedback	<p>Implement formal process for review of complaints and compliments</p> <p>Set targets for customer satisfaction and measure</p>	<p>Year on year reduction in complaints/increase in compliments</p> <p>Targets achieved</p>	March 2017

## Glossary

PFC – The Pension Fund Committee the body of elected councillors and other representatives of employers and scheme members responsible for making the key decisions about the management of the Fund.

LPB – The Local Pension Board, a body of 4 employers and 4 scheme members together with an Independent Chair who are responsible for overseeing the work of the County Council as Administering Authority for the Fund and making recommendations for improvement.

TPR – The Pensions Regulator who from April 2015 is responsible for ensuring that all public sector pension schemes adhere to proper standards of governance and service quality.



## Contacts for further information

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## **Pension Fund Committee**

Meeting to be held on 27 March 2015

Electoral Division affected: None
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## **Pension Fund Budget Forecast 2015/16**

(Appendix 'A' refers)

Contact for further information:

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### **Executive Summary**

While the Pension Fund Committee has, rightly, concentrated in recent years on ensuring steps are taken to implement the investment strategy which aims to achieve improved returns and the effectiveness of the administration service, it is also right to concentrate on both the costs and overall financial position of the Fund going forward.

To facilitate this a budget forecast for the Fund for 2015/16 has been prepared. Given the inherent difficulty in estimating incoming contributions, actual investment returns and benefits this is not a formal budget. However, it is important that forecasts of this sort are produced and considered in order for members to be fully aware of the context in which the Fund's strategies are being constructed.

### **Recommendation**

The Pension Fund Committee is requested to note the budget forecast for the Fund for 2015/16.

### **Background and Advice**

In recent years the Pension Fund Committee has concentrated its attention on improving the monitoring of the overall performance of the Fund and ensuring that the Investment Strategy is being effectively implemented. These processes are intended to have a beneficial impact on the overall financial position of the Fund and therefore the next stage in developing the Committee's work in the performance management area is to look at the impact of these activities on the overall financial position of the Fund.

It is also important for the Committee to examine the costs of running the Fund and ensure that downward pressure continues to be exerted on costs.

To assist with this a Budget Forecast for the Fund for 2015/16 has been produced and is attached at Appendix 'A'. It is important to note that this is not a formal budget, there is no constitutional requirement for the Committee to approve a budget, and it

is extremely difficult to estimate both the levels of incoming contributions and the levels of investment income and fund management costs as all of these can be significantly impacted by external factors. However, this does give members an informed estimate to consider when assessing the overall financial position of the Fund.

The explanatory notes attached to Appendix 'A' provide more details of specific aspects of the budget and changes from the costs faced by the Fund in previous years. A comparison is provided with the current and previous years, although the comparison with the current year is distorted by the impact of the transfer of assets associated with the "nationalisation" of the Probation Service's pension arrangements. The format of the forecast is based on the new format for the Fund Account which provides for a greater degree of transparency around fees and the costs of running the Fund.

The forecast makes no assumption about potential financial benefits flowing from the partnership arrangement with the London Pension Fund Authority, although it is anticipated that the arrangement will result in some savings. Specific items of note include:

- The first year costs of operating the new Local Pension Board estimated at £50,000, with the set up costs having been met in 2014/15.
- The introduction of a levy to pay for the work of the new national scheme advisory board of £56,000
- A reduction in the unit price for the Pensions Administration Service of £0.42 per member. The current forward budget for the service is based on delivering further reductions in future years.
- An increase in the scale of early retirements as the major employers within the Fund continue to reduce the scale of their workforce, although in cash terms the impact of these retirements is effectively offset by the "strain" payments due at the point of retirement.

In overall terms this forecast indicates an increase in the net income available for new investment, a trend that continues when projections are taken further forward.

Work will be undertaken over the coming year to develop a measure of the total cost of running the Fund which can be targeted by the Committee in order to ensure ongoing downward pressure on costs. This work will need to reflect work being undertaken nationally on the development of a range of "fund health" indicators.

This is a consequence of the nature of the investments the fund is making within the credit and infrastructure strategies in particular which are intended to generate ongoing income streams in order to protect the fund as a whole against the risks that occur when dealings with members have a negative impact on fund cash flow.

## **Consultations**

N/a

## **Implications:**

This item has the following implications, as indicated:

## **Risk management**

Gaining a greater understanding of the forecast cash flows affecting the Fund will allow the Committee to gain a greater understanding of the financial risks created by the ongoing change in the balance of membership of the Fund and therefore allow the development of appropriate strategies to mitigate these risks.

## **Local Government (Access to Information) Act 1985**

### **List of Background Papers**

Paper	Date	Contact/Directorate/Tel
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Reason for inclusion in Part II, if appropriate

N/A



**Lancashire County Pension Fund**  
**Revenue Account Forecast**

**Appendix A**

Year Ended 31 March	<u>Actuals 13/14</u>		<u>Forecast Outturn 14/15</u>		<u>Forecast 15/16</u>	
	£m	£m	£m	£m	£m	£m
<b>Income</b>						
Contributions Receivable						
From Employers						
Lancashire County Council	69.121		59.977		60.397	
District Councils	46.537		29.919		28.786	
Scheduled Bodies	31.012		24.516		24.500	
Admitted Bodies	13.330		7.749		7.703	
Deficit Contributions			46.833		45.212	
Pension Strain / augmented pension			12.544		8.897	
		160.000		181.539		175.496
From Employees						
Lancashire County Council	22.164		25.596		25.596	
District Councils	14.597		14.641		14.641	
Scheduled Bodies	12.211		12.984		12.984	
Admitted Bodies	5.026		3.689		3.688	
		53.997		56.910		56.908
Transfers In						
Lancashire County Council	2.048		1.609		1.828	
District Councils	2.202		1.976		2.089	
Scheduled Bodies	1.596		1.103		1.350	
Admitted Bodies	1.229		0.880		1.055	
Miscellaneous	0.000		0.565		0.282	
Net Transfers re AVC's	0.075		0.126		0.101	
		7.151		6.259		6.705

<b>Year Ended 31 March</b>	<b><u>Actuals 13/14</u></b>		<b><u>Forecast Outturn 14/15</u></b>		<b><u>Forecast 15/16</u></b>	
<b>Income</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Investment Income						
Fixed Interest UK & O/S	34.746		6.875		15.361	
Equities UK & O/S	33.850		46.022		37.560	
Index Linked UK & O/S	1.637		0.060		0.000	
Property Rent	23.498		25.210		33.050	
Pooled Investment Vehicles	12.114		15.106		23.100	
Cash Instruments	-2.172		-2.172		6.983	
Interest	3.164		2.214		2.214	
Other	2.354		2.318		3.325	
Miscellaneous Income incl Accruals	-3.880		-3.458		-3.487	
		105.311		92.175		118.107
<b>TOTAL INCOME</b>		<b>326.460</b>		<b>336.883</b>		<b>357.216</b>

Note totals may not agree due to rounding



<b>Year Ended 31 March</b>	<b>Actuals 13/14</b>		<b>Forecast Outturn 14/15</b>		<b>Forecast 15/16</b>	
<b>Expenditure</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Pensions						
Retirement Pensions	168.012		174.868		178.966	
Widows Pensions	15.378		15.758		15.947	
Children's Pensions	0.515		0.591		0.598	
		183.905		191.216		195.511
Lump Sum Benefits						
Retirement Grants	33.278		47.233		40.256	
Death Grants	3.960		4.714		4.337	
		37.238		51.948		44.593
Transfers Paid to Other Schemes						
Lancashire County Council	4.073		2.558		3.315	
District Councils	4.343		3.790		4.066	
Scheduled Bodies	3.167		2.535		2.851	
Probation Transfer	0.000		89.653		0.000	
Admitted Bodies	3.720		1.507		2.613	
		15.303		100.043		12.846
Refund of Contributions		0.010		0.127		0.069
Contributions Equivalent Premium		0.003		-0.016		-0.006
Administrative expenses		4.502		3.538		3.424
Investment management expenses		11.293		12.616		13.045
Oversight and Governance		Included in figures above		1.329		1.836
<b>TOTAL EXPENDITURE</b>		<b>252.254</b>		<b>360.802</b>		<b>271.317</b>
<b>MONEY AVAILABLE FOR INVESTMENT</b>		<b>74.205</b>		<b>-23.919</b>		<b>85.899</b>
Add back Probation Transfer				89.653		
<b>Underlying money available for investment</b>				<b>65.734</b>		

Note totals may not agree due to rounding

## Pension Fund Financial Forecast – Explanatory Notes

1. Contributions to the Fund by employers are assumed to increase in line with the requirements set out in the 2013 Valuation Report. This particularly impacts on the deficit contributions.
2. Pension Strain and augmentation values assume a peak of early retirements at the end of 2014/15 with a somewhat reduced number during 2015/16. This is based on available intelligence from large fund employers but is very much driven by individual employer decisions.
3. Employee contributions assume no measurable increase in the total pensionable pay bill. While pay increases may occur this is assumed to be at least offset by the impact of workforce reductions across the Fund's membership.
4. Transfers into the Fund are expected to continue at the average level of previous years.
5. Investment income reflects known income profiles together with an assumption of dividend and other similar income based on maintaining the average over previous years. There are no assumptions about capital growth built into this element of the forecast.
6. In general benefits are forecast to increase in line with assumed CPI inflation adjusted for average turnover in the number of scheme beneficiaries.
7. Lump sum payments are forecast based on the same assumptions as used for pension strain together with the average level of natural retirements.
8. With the exception of the exceptional transfer out in relation to Probation the average of previous years is assumed for transfers out of the Fund.
9. Administrative expenses include the bulk of the costs incurred by the County Council in running the scheme. This includes the costs of Your Pension Service which are charged on the basis of a per member charge of £21.08, which is a reduction from previous years. In addition this element includes non-staff costs and overheads in relation to other staff undertaking work for the Fund.
10. Investment Management Expenses includes fees paid to fund managers and assumes some growth in assets under management in line with the targets set for the individual managers. It also includes the cost of the internal Investment Team.
11. Oversight and Governance reflects professional fees for example legal, audit, advisory and performance monitoring, costs of running the new Pension Board and the other staffing costs. Staff working on the Fund are charged on the basis of direct employment costs.

## **Pension Fund Committee**

Meeting to be held on 27 March 2015

Electoral Division affected: None
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### **Update of the Governance Policy Statement and Statement of Investment Principles**

(Appendices 'A' and 'B' refers)

Contact for further information:

George Graham, (01772) 538102, County Treasurer's Directorate

[george.graham@lancashire.gov.uk](mailto:george.graham@lancashire.gov.uk)

#### **Executive Summary**

Funds within the Local Government Pension Scheme are required to produce and keep updated a Governance Policy Statement, essentially a form of constitutional document that sets out the responsibilities and delegated authorities of those parties involved in the running of the Fund.

Given the various changes to the organisational structure of the County Council which impact on the Fund and the changes to the terms of reference of the Committee in the light of the creation of the Local Pension Board it is appropriate to update the Policy Statement and the document at Appendix A, sets out a revised statement for approval.

In addition following the agreement of the report of the Member Working Group at the last meeting of the Committee it is necessary to update the Statement of Investment Principles at the earliest opportunity to incorporate the recommendations of the Working Group in relation to the Fund's approach to this area of activity.

#### **Recommendation**

The Committee is recommended to approve the updated Governance Policy Statement and Statement of Investment Principles set out at Appendices 'A' and 'B'.

#### **Background and Advice**

##### **Governance Policy Statement**

The statutory framework within which the Fund operates requires the production of a Governance Policy Statement setting out the overall responsibilities and arrangements for decision making within the Fund. This policy statement needs to be regularly reviewed and updated when changes occur.

The revised statement at Appendix 'A' has been updated to reflect:

- The changes to the County Council's management structure from 1 April 2015, including the creation of the role of Director of the Fund and the re-designation of other roles.
- The changes to the terms of reference of this committee, the functions to be exercised by the Director under the committee's Scheme of Delegation to officers and the abolition of the Administration Sub Committee agreed by the Council at its meeting in December.
- The establishment of the Local Pension Board.

The remainder of the Statement is unchanged, but it will be subject to further review should the partnership arrangements with the London Pension Fund Authority proceed.

### **Statement of Investment Principles**

At its last meeting the Committee agreed the report of the Member Working Group on Responsible Investment which contained recommendations around making clearer the Fund's approach to this area within the Statement of Investment Principles. It is a requirement that amendments to this Statement should be approved by the Committee as soon as practical after adoption and therefore a revised version of the Statement is presented for approval at Appendix 'B'.

Further amendments to this statement will be required in the light of the development of the overall investment strategy and these will be reported to the Committee as they arise.

### **Consultations**

N/a

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

A clear and transparent set of constitutional arrangements is part of an effective risk management approach.

### **Legal**

The regular review of this Policy Statement and updating it to reflect changes in the wider organisation ensures compliance with the relevant regulations.

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

Paper

Date

Contact/Directorate/Tel

Reason for inclusion in Part II, if appropriate

N/A



# Lancashire County Pension Fund

**Governance Policy Statement –  
Updated March 2015**

Lancashire County Council as  
administering authority of  
Lancashire County Pension Fund



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# Lancashire County Pension Fund

## Governance Policy Statement (Updated as at March 2015)

### Introduction

1. This is the Governance Policy Statement of Lancashire County Pension Fund, administered by Lancashire County Council, the administering authority. All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement under regulation 55 of the LGPS Regulations 2013.
2. This statement has been prepared by the administering authority in consultation with appropriate interested persons.

### Purpose of the Governance Policy Statement

3. The regulations regarding governance policy statements require an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain, publish and keep under review a written statement setting out:
  - (a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
  - (b) if the authority does so—
    - (i) the terms, structure and operational procedures of the delegation,
    - (ii) the frequency of any committee or sub-committee meetings,
    - (iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
  - (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
  - (d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4)

## Governance of the Lancashire County Pension Fund

4. Under the cabinet structure in local government, management of the pension fund is a non-executive function and this is reflected in the council's constitution. The Pension Fund Committee reports directly to Full Council. The Director – Lancashire County Pension Fund is designated as the officer responsible for the management of the Pension Fund.

## The Pension Fund Committee (non-executive committee)

### Composition and role

1. The Pension Fund Committee ("the Committee") comprises fourteen County Councillors and seven voting co-optees representing the following organisations:
  - (a) One co-optee representing the Further and Higher Education sector in Lancashire;
  - (b) One co-optee from Blackburn with Darwen Council;
  - (c) One co-optee from Blackpool Council;
  - (d) Two co-optees representing Trade Unions; and
  - (e) Two co-optees representing the Lancashire borough and city councils.
2. The role of the Committee is to:
  - (a) Fulfil the role of Scheme Manager, as set out in regulations, of the Lancashire County Pension Fund ("the Fund");
  - (b) establish policies in relation to investment management, which shall include meeting with the Investment Panel to consider future Investment policy for the Fund;
  - (c) monitor and review investment activity and the performance of the Fund; and
  - (d) present an annual report to the Full Council on the state of the Fund and on the investment activities during the preceding year.
3. Meetings of the Committee shall be open to the public, but the public may be excluded where information of an exempt or confidential nature is being discussed – see Access to Information Procedure Rules set out at Appendix 'H' to the County Council's Constitution.

## Terms of Reference

### General

1. To exercise Lancashire County Council's responsibility for the management of the Lancashire County Pension Fund, including the administration of benefits and strategic management of Fund assets and liabilities.
2. To determine which pension related functions and responsibilities should be exercised under the Council's Scheme of Delegation to Officers.
3. To review governance arrangements and the efficient and effective use of external advisors to ensure good decision-making.
4. To appoint a minimum of two suitable persons to an Investment Panel through a sub committee convened for that purpose.
5. To meet at least quarterly, or otherwise as necessary, with the Investment Panel in attendance
6. To approve the overall appropriate and necessary training requirements for members of the Committee.

### Policy and Strategic Planning

7. To approve the following key policy documents:
  - (a) A rolling 3 Year Strategic Plan;
  - (b) Statement of Investment Principles (to include policy on the management of cash balances),
  - (c) Governance Policy Statement
  - (d) Governance Compliance Statement.
  - (e) Pension Fund Annual Report, including the Annual Administration Report.
  - (f) The Funding Strategy Statement to include the Fund's policy in respect of:
    - (i) the Funding Target;
    - (ii) the collection of employee contributions;
    - (iii) the collection of employer contributions;
    - (iv) the collection of additional employer contributions; and
    - (v) Admissions and Terminations.

- (g) Pensions Administration strategy statement;
- (h) Communication Policy statement;
- (i) Internal Dispute Resolution Procedure;
- (j) Death Grant Procedure;
- (k) Bulk Transfer Payment Policy;
- (l) Commutation policy (small pensions);
- (m) Transfer policy; and
- (n) Abatement policy

## **Monitoring Performance**

- 8. To receive periodic reports from the Director – Lancashire County Pension Fund to ensure that best practice is being adopted and value for money being delivered in relation to
  - (a) The performance of the Fund's investments;
  - (b) The performance of the Fund's administration service Investment
- 9. To have overall responsibility for investment policy.
- 10. To approve and review on a regular basis an overall Investment Strategy and subsidiary Strategies for such asset classes as the Investment Panel consider appropriate. To submit an annual report to the Full Council on the performance and state of the Fund and on the investment activities during the year.
- 11. To approve the policies and procedures for any internally managed Fund investments.

## **Procurement**

- 12. To approve the procurement process, tender award criteria and evaluation methodology in advance of any tender being invited for the appointment of external advisers and other external assistance in relation to the management of the Fund, to include:
  - (a) external Investment Managers to discharge functions to be determined by the Committee relating to the management of the Fund's investments;
  - (b) external property agents and advisors;
  - (c) an external corporate governance adviser;
  - (d) an external Fund custodian;

- (e) external performance measurement advisers;
- (f) the Fund Actuary; and
- (g) the Fund's AVC Provider.

## **Investment Panel**

### **Composition and role**

1. The Investment Panel ("the Panel") will provide expert professional advice to the Pension Fund Committee in relation to investment activities, including the following categories of investment:
  - (a) fixed interest securities managed by Investment Managers;
  - (b) UK equities managed by the Investment Managers;
  - (c) overseas equities and bonds managed by Investment Managers;
  - (d) local investment in the acquisition and development of property in accordance with the investment strategy approved by the Pension Fund Committee;
  - (e) UK and overseas unquoted investments via venture capital funds and other local arrangements;
  - (f) acquisition of land and premises and the development of such land and improvements, refurbishment and modernisation of such premises;
  - (g) indirect pooled property investments;
  - (h) designated index linked funds;
  - (i) investments managed internally and not by Investment Managers; and
  - (j) any other monies to be invested other than in the above categories; provided that in all cases the investment activity is consistent with the investment strategy approved by the Pension Fund Committee.

2. The Panel will:
  - (a) review the Fund's long term investment strategy and where necessary make recommendations to the Pension Fund Committee;
  - (b) monitor the performance of the Fund's Investment Managers; and
  - (c) report on the performance of the Fund and where necessary make recommendations to the Pension Fund Committee.
3. The Panel does not exercise any delegated powers but instead will provide advice to the Director Lancashire County Pensions Fund who will either exercise his/her delegated powers or make recommendations to the Pension Fund Committee taking into account the advice and views from the Panel.
4. The membership of the Panel comprises:
  - (a) The Director Lancashire County Pension Fund (as Chair);
  - (b) Not less than two independent advisers appointed in accordance with arrangements determined by the Pension Fund Committee;
  - (c) The officer of the County Council fulfilling the role of Chief Investment Officer for the Fund; and
  - (d) An officer of the County Council identified by the Director Lancashire County Pension Fund to oversee investment compliance activities.
5. The Panel will meet at least quarterly, or otherwise as necessary.
6. The Panel may operate through sub groups to undertake particular tasks, but will formulate recommendations to the Treasurer to the Fund and or the Pensions Fund Committee through meetings of the full Panel.

## Terms of Reference

1. To provide advice to the Director Lancashire County Pension Fund regarding:
  - (a) Recommendations to the Pension Fund Committee in relation to the Investment Strategy for the Fund;
  - (b) The performance management of Investment Managers;
  - (c) The broad composition of the Fund's investment portfolio, management style and types of investment;

- (d) 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 Director Lancashire County Pension Fund to seek the approval of the Pension Fund Committee to commence the procurement of any required external support;
- (e) The selection and appointment of any required external support (subject to the role of the Pension Fund Committee), their terms of office and remit;
- (f) The allocation of ranges and thresholds within which the Investment Managers should operate;
- (g) Review of the Statement of Investment Principles and compliance with investment arrangements;
- (h) Recommendations on the detailed management of the investment portfolios to respond to requests from investment managers to vary certain aspects of their mandates;
- (i) The performance management of an internally managed investments; and
- (j) The securing of specialist advice within allocated budgets.

## Delegation

Under the Scheme of Delegation to Officers, Council and Committee Functions are delegated as follows: -

### **Director Lancashire County Pension Fund** Pensions Fund

As the officer responsible for the management of the Lancashire County Pension Fund:

1. Subject to the prior agreement of the two independent advisers on the Investment Panel to allocate monies for investment in the following categories of investment:
  - (a) categories fixed interest securities managed by Investment Managers;
  - (b) UK equities managed by Investment Managers;
  - (c) overseas equities and bonds managed by Investment Managers;
  - (d) local investment in the acquisition and development of property in accordance with the investment strategy approved by the Pension Fund Committee;
  - (e) UK and overseas unquoted investments via venture capital funds and other local arrangements;

- (f) acquisition of land and premises and the development of such land and improvements, refurbishment and modernisation of such premises;
  - (g) indirect pooled property investments;
  - (h) designated index linked funds;
  - (i) investments not to be managed by Investment Managers; and
  - (j) other monies to be invested other than the above categories. Provided that in all cases the investment activity is consistent with the investment strategy approved by the Pension Fund Committee.
2. To report to each meeting of the Pension Fund Committee:
- (a) the investments authorised by the Director Lancashire County Pension Fund in accordance with paragraph 1 above since the previous meeting of the Pension Fund Committee, including the recommendations made by the Investment Panel in relation to each investment ;and
  - (b) any investments that were considered by the Investment Panel but were not actioned by the Director Lancashire County Pension Fund together with the reasons for this.
3. To set the appropriate funding target for the Fund.
4. To place any monies not allocated to investments on short term deposit in accordance with arrangements approved by the Pension Fund Committee.
5. In consultation with the Investment Panel, to monitor and review the performance of investments made by Investment Managers and to report to each meeting of the Pension Fund Committee on the exercise of this delegation.
6. To be responsible for the management of the Fund's property portfolio in accordance with the policy guidelines of the Pension Fund Committee and subject to the Procurement rules and Financial Regulations of the County Council, comprising:-
- (a) the negotiation and acceptance of terms for the acquisition, development and redevelopment and disposal of land and buildings;
  - (b) the acquisition and disposal of incidental property vehicles;
  - (c) the negotiation and acceptance of terms for the granting, renewing, reviewing, varying or assignment of leases, under leases, tenancies, licences and any other interest in Fund property;
  - (d) the preparation and implementation of schemes of works of modernisation, improvement, maintenance and repair to Fund property together with the invitation and acceptance of tenders and the authorisation of expenditure on such works;



- (e) the appointment and supervision of managing agents and professional advisors necessary for the effective management of the Fund's property portfolio, within budget provision;
  - (f) the collection of all rents, the setting of management and collection of service charges, insurance premiums and any other monies arising out of the Fund's property portfolio, together with the approval of any in-house systems established to achieve this; and
  - (g) The placing of insurance cover for the Fund's property portfolio to such value and for such risks as shall be considered appropriate.
7. To execute documentation relating to the implementation of a new investment mandate or existing investment mandates, including the renewal of property leases.
8. To arrange and authorise the provision of appropriate and necessary training for members of the Pension Fund Committee including the attendance at conferences and other similar pension fund related events by members of the Pension Fund Committee.
9. To accept for admission into the Lancashire County Pension Fund employees of authorities and bodies as prescribed in Regulations including transferee and community admissions which are considered as 'exceptional circumstances', subject to an approved Admission Agreement, and subject to any necessary indemnities as appropriate.
10. To prepare and submit the following to Pension Fund Committee:
- (a) A rolling 3 Year Strategic Plan;
  - (b) Statement of Investment Principles (to include policy on the management of cash balances) ,
  - (c) Governance Policy Statement
  - (d) Governance Compliance Statement.
  - (e) Pension Fund Annual Report, including the Annual Administration Report.
  - (f) The Funding Strategy Statement to include the Fund's policy in respect of:
    - (i) the Funding Target;
    - (ii) the collection of employee contributions;
    - (iii) the collection of employer contributions;
    - (iv) the collection of additional employer contributions; and
    - (v) Admissions and Terminations.
  - (g) Pensions Administration strategy statement;
  - (h) Communication Policy statement;

- (i) Internal Dispute Resolution Procedure;
  - (j) Death Grant Procedure;
  - (k) Bulk Transfer Payment Policy;
  - (l) Commutation policy (small pensions);
  - (m) Transfer policy; and
  - (n) Abatement policy
11. To carry out the administrative functions of the administering authority relating to the Local Government Pension Scheme, under the terms of a Service Level Agreement.
  12. The payment of death grants in accordance with the agreed Death Grant Procedures.
  13. To deal with stage 2 appeals under the Internal Dispute Resolution Procedure.
  14. To appoint any required external support (subject to the role of the Pension Fund Committee and the Investment Panel), their terms of office and remit

### **Director Financial Resources**

#### **Pension Fund**

As the officer designated under s.151 of the Local Government Act 1972 to be responsible for the proper administration of the financial affairs of the County Council, for this purpose including the Lancashire County Pension Fund.

1. To maintain all necessary accounts and records in relation to the Fund save as otherwise discharged in accordance with arrangements determined by the Pension Fund Committee

### **Further Authorisations**

The Director Lancashire County Pension Fund and the Director Financial Resources may allocate or re-allocate responsibility for exercising powers (delegated to them by the Committee) to other officers on their behalf in the interests of effective corporate management as he/she thinks fit. Records of all such authorisations must be retained and a copy sent to Democratic Services for retention. The 'other' officer(s) to whom a power has been re-allocated cannot further delegate that power to another officer;

## Compliance with Good Practice in Engagement and Representation

The Myners' first principle states that decisions should only be taken by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Training sessions have been held for the Pension Fund Committee, usually immediately before or after Committee meetings. The sessions cover all aspects of funding, investments, Scheme management and administration and are facilitated by an appropriate Officer, Investment Manager or Fund Actuary. In addition members are encouraged to attend appropriate external courses and conferences and report back to the Committee their learning from these events.

Under section 102 of the Local Government Act 1972, it is for the appointing council to decide upon the number of members of a committee and their terms of office. They may include committee members who are not members of the appointing council and such members may be given voting rights by virtue of section 13 of the Local Government and Housing Act 1989.

On this basis, it is open to pension committees to include representatives from district councils, scheme members and other lay representatives, with or without voting rights, provided that they are eligible to be committee members (eligibility rules are set out in section 15 of the Local Government and Housing Act 1989). Membership of the Lancashire Pension Fund Committee is set out on page 2 of this statement DCLG is committed to ensure that all LGPS committees operate consistently at best practice standards. Therefore, in addition to the regulatory requirement to produce this Governance Policy Statement, the LGPS regulations 1997 were further amended on 30 June 2007 to require administering authorities to report the extent of compliance to a set of best practice principles to be published by DCLG, and where an authority has chosen not to comply, to state the reasons why. The Fund's statement is set out at Appendix I.

Lancashire County Council is committed to the widest inclusion of all stakeholders in respect of consultation and communication outside of the formal governance arrangements. The arrangements include;

### With Employing Authorities

The ratio of contributors from the various employing authorities in the Lancashire County Pension Fund may be analysed as follows

Scheduled bodies 93%

Admitted Bodies 7%

Lancashire County Council hosts an annual Employer Forum targeted at the Chief Officers of all employing authorities. At this forum Chief Officers are briefed on current funding, fund performance and actuarial matters including the latest valuation. Any other topical pension fund matters are also raised at this forum. In December of actuarial valuation years, a forum is held between the Fund Actuary and the Fund Employers to discuss the outcome of the actuarial valuation and the reasons for proposed contribution changes and how they will be applied.

All employing authorities are kept abreast of events, such as proposed changes in the regulations and their implications, and they are encouraged to get in touch if they have questions.

In addition to the briefings outlined above, Lancashire County Council holds an annual Practitioners Conference. The opportunity is taken at these meetings to brief attendees on the investment side of the scheme as well as practical administration issues. Communication is covered in detail in the Fund's Communication Strategy Statement. Lancashire County Council also provide an employer training service to ensure that Fund employers, particularly payroll and HR staff are aware and conversant with their obligations as employing authorities and have a sound understanding of LGPS regulation and administration.

### **With Employees**

Lancashire County Council provides all members of the scheme with an annual Pensions Newsletter, which includes a summary of the annual report and financial summary of the scheme. Lancashire County Council's intranet and internet web site includes the following fund documents;

- Full annual report
- Statement of Investment Principles
- Funding Strategy Statement

In addition various documents are available on Lancashire County Council's intranet and internet site including, the LGPS Guide, latest news updates, and other information relating to the Scheme and Fund. Lancashire County Council maintains a working relationship with the unions. The County Council's Joint Negotiating and Consultative Forum may discuss pension issues at its meetings, and invites Pensions and/or HR representatives to discuss current issues. Trades Unions are consultees of the Government in their own right in the same way as employers and LGPS Administering Authorities. In addition to the above the LGPS Administration Regulations 2008 includes regulation 65, which sets out the provision for Administering Authorities to prepare a written statement of 'its Pensions Administration Strategy'.

## Pension Board of the Lancashire County Pension Fund

### Terms of Reference and Delegated Authorities

#### 1. Role of the Local Pension Board

The role of the Lancashire Pension Board as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to –

- (a) To assist Lancashire County Council as Administering Authority in its role as Scheme Manager; –
  - (i) to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
  - (ii) to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
  - (iii) in such other matters as the LGPS regulations may specify
- (b) To secure the effective and efficient governance and administration of the LGPS for the Lancashire County Pension Fund
- (c) To provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.

The Pension Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board will also help ensure that the Lancashire County Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively, but not less than four times in any year.

## 2. Membership and Appointment Process

The Pension Board shall consist of 9 members and be constituted as follows:

- (a) 4 employer representatives, of whom;
  - (i) 2 shall be nominated by Lancashire County Council, where these are councillors or officers they shall meet the requirements of the relevant regulations in relation to avoidance of conflict with the County Council's role as Administering Authority;
  - (ii) 1 shall be nominated by the Unitary, City, and Borough Councils and the Police and Fire bodies which are employers within the Lancashire County Pension Fund;
  - (iii) 1 shall be nominated by all other employers within the Fund.
- (b) 4 scheme member representatives of whom;
  - (i) 2 shall represent and be drawn from active members of the Lancashire County Pension Fund;
  - (ii) 1 shall represent and be drawn from pensioner members of the Lancashire County Pension Fund;
  - (iii) 1 shall represent and be drawn from deferred members of the Lancashire County Pension Fund.
- (c) 1 independent member selected by the Scheme Manager, who shall not be a member of the Lancashire County Pension Fund and who shall be appointed as Chair of the Board. Such appointment will only be made following an openly advertised competition for the role.

Members in all categories will only be appointed to the Board by the Scheme Manager if they meet the skill and knowledge requirements set out in the relevant regulations and guidance, and as set out in section 7, below.

Members of the Board in categories a) iii., and b) i., ii., and iii., shall only be appointed after all employers or members of the Fund in those categories have been invited to put forward nominations. Where there is more than one nomination in any category then any nominee who meets the relevant knowledge and skills requirement will be included on a ballot of all members or employers in the relevant category. The winner in such a ballot will be the candidate with the greatest number of votes under the "first past the post" method.

Members of the Board will serve for a term of four years. Other than as a result of retirement at the expiry of this period the term of office will come to an end:

- (a) For employer representatives who are councillors if they cease to hold office as a councillor;

- (b) For employer representatives who are not councillors when they cease to be employed by the employing body where they were employed on appointment;
- (c) For scheme member representatives if they cease to be a member of the relevant member group.

Each Board member should endeavour to attend all Board meetings during the year and is required to attend at least 3 meetings each year. Given the nature of the Board as a supervisory body and the need for appropriate knowledge and skills and the clear avoidance of conflicts of interest substitute members are not permitted.

In the event of consistent non-attendance by any Board member, then the tenure of that membership should be reviewed by the other Board members in liaison with the Scheme Manager.

Other than by ceasing to be eligible as set out above, a Board member may only be removed from office during a term of appointment by the unanimous agreement of all of the other members. The removal of the independent member requires the consent of the Scheme Manager.

### 3. Quorum

The Board shall not be quorate unless the Chair and at least 2 employer representatives and 2 scheme member representatives are present.

### 4. Conflicts of Interest

The policy for identifying conflicts of interest is set out in a separate policy document.

### 5. Board Review Process

The Board will undertake each year a formal review process to assess how well it and its members are performing with a view to seeking continuous improvement in the Board's performance.

### 6. Advisers to the Board

The Board may be supported in its role and responsibilities through the appointment of advisers, in addition to the Scheme Manager's officers and the Fund's various advisers and shall, subject to any applicable regulation and legislation from time to time in force, consult with such advisers to the Board and on such terms as it shall see fit to help better perform its duties.

- 7. The Board shall ensure that the performances of the advisers so appointed are reviewed on a regular basis.

### 8. Knowledge and Skills

A member of the Pension Board must be conversant with –

- (a) The legislation and associated guidance of the Local Government Pension Scheme (LGPS).
- (b) Any document recording policy about the administration of the LGPS which is for the time being adopted by the Lancashire County Pension Fund.

A member of the Pension Board must have knowledge and understanding of –

- (a) The law relating to pensions, and
- (b) Any other matters which are prescribed in regulations.

It is for individual Pension Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Pension Board.

In line with this requirement Pension Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Pension Board members are therefore required to maintain a written record of relevant training and development.

Pension Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.

Pension Board members will comply with the Scheme Manager's training policy.

## 9. Board Meetings – Notice Minutes and Reporting

The Scheme Manager shall give notice to all Pension Board members of every meeting of the Pension Board, and shall ensure that all papers are published on the Lancashire County Pension Fund Website at least 5 working days prior to each meeting. These may at the discretion of the Scheme Manager be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

The Scheme Manager shall ensure that a formal record of Pension Board proceedings is maintained. Subsequent to each meeting the Chair will be asked to approve the minutes for publication as a draft and circulation to all members of the Board.

The Pension Board shall on an annual basis produce a report on both the nature and effect of its activities for consideration by the Administering Authority. The contents of this annual report will be subject to consideration and agreement at a meeting of the Board, but should include, inter alia:

- (a) Details of the attendance of members of the Board at meetings,



- (b) Details of the training and development activities provided for members of the board and attendance at such activities;
- (c) Details of any recommendations made by the Board to the Scheme Manager and the Scheme Manager's response to those recommendations;
- (d) Details of the costs incurred in the operation of the Board

The Board in considering items of business at its ordinary meetings shall in relation to each item consider whether it wishes to make a recommendation to the Scheme Manager, to which the Scheme Manager shall respond at the subsequent meeting.

#### 10. Remit of the Board

The Pension Board must assist the Scheme Manager with such other matters as the scheme regulations may specify. It is for scheme regulations and the Scheme

Manager to determine precisely what the Pension Board's role entails. This role involves but is not limited to oversight and comment on:

- (a) Performance standards;
- (b) Customer service standards;
- (c) Data quality and record keeping;
- (d) Relative and absolute costs of running the fund;
- (e) Learning from appeals and complaints;
- (f) The application of specific policies within the fund, and
- (g) The steps required to address any deficit within the fund.

#### 11. Standards of Conduct

The role of Pension Board members requires the highest standards of conduct and therefore the "seven principles of public life" will be applied to all Pension Board members and embodied in their code of conduct.

These principles are –

- (a) Selflessness
- (b) Integrity
- (c) Objectivity

- (d) Accountability
- (e) Openness
- (f) Honesty
- (g) Leadership

## 12. Decision making

Each member of the Pension Board will have an individual voting right but it is expected the Pension Board will as far as possible reach a consensus. The Chair of the Pension Board will not have a final deciding vote.

## 13. Publication of Pension Board information

Scheme members and other interested parties will want to know that the Lancashire County Pension Fund is being efficiently and effectively managed. They will also want to be confident that the Pension Board is properly constituted, trained and competent in order to comply with scheme regulations, the governance and administration of the scheme and requirements of the Pension Regulator.

Up to date information will be posted on the Lancashire County Pension Fund website showing

- (a) The names, contact details and other relevant information about the Pension Board members
- (b) How the scheme members are represented on the Pension Board
- (c) The responsibilities of the Pension Board as a whole
- (d) The full terms of reference and policies of the Pension Board and how they operate
- (e) Details of the Pension Board appointment process
- (f) Any specific roles and responsibilities of individual Pension Board members.

The Scheme Manager will also consider requests for additional information to be published or made available to individual scheme members to encourage scheme member engagement and promote a culture of openness and transparency.

## 14. Accountability

The Pension Board will be collectively and individually accountable to the Scheme Manager.

## 15. Expense Reimbursement and Remuneration

All members of the Board shall, on the production of relevant receipts be reimbursed for travel and subsistence expenses they have actually and necessarily incurred in the conduct of their duties as a member of the Board, including attendance at relevant training and development activities.

Members of the Board shall be reimbursed a mileage allowance for use of their own car at the rate proscribed by the Inland Revenue from time to time as adopted by Lancashire County Council.

Where members of the Board are in employment their employer will be able to reclaim from the Lancashire County Pension Fund a sum equivalent to salary, employers' national insurance contributions and employers' pension contributions, in respect of time spent by the individual in fulfilling their duties as a member of the Board, including attendance at relevant training and development activities.

The Chair of the Board shall receive a fixed annual allowance set initially (2015) at £10,000 pa (in addition to travel and subsistence expenses) to be inflated in April each year by the retail price index for the previous September.

### (a) Reporting Breaches

Any breach brought to the attention of the Pension Board, whether potential or actual, shall be dealt with in accordance with the procedure set out in a separate policy document.

### (b) Definitions

The undernoted terms shall have the following meaning when used in this document:

“Pension Board” or “Board”	Means the local Pension Board for the Lancashire County Council as administering authority for the Lancashire County Pension Fund as required under the Public Service Pensions Act 2013
“Scheme Manager”	Means the Pension Fund Committee as administering authority of the Lancashire County Pension Fund.
“Chair”	The individual responsible for chairing meetings of the Board and guiding its debates.
“LGPS”	The Local Government Pension Scheme as constituted by the Local Government Pension Scheme Regulations 2013, the Local

Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

“Scheme”

Means the Local Government Pension Scheme as defined under “LGPS”

### **Review**

This document is reviewed following any material changes to the administering authority’s governance policy and was last reviewed on 2 March 2015.

**Lancashire County Pension Fund Governance Compliance Statement:**

Principle		Compliance
A. Structure	<p>(a) the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council</p> <p>(b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee (1)</p> <p>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p>(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p>	<p>√</p> <p>X</p> <p>Not applicable</p> <p>Not applicable</p>
B. Representation	<p>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1)</p> <p>These include:</p> <p>(i) employing authorities (including non-scheme employers, e.g. admitted bodies)</p> <p>(ii) scheme members (including deferred and pensioner scheme members)</p> <p>(iii) independent professional observers (2)</p> <p>(iv) expert advisers (on an ad hoc basis)</p>	<p>*</p> <p>*</p>
C. Selection and Role of Lay Members	<p>(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. (It is the role of the administering authority to make places available for lay members and for the groups to nominate the representatives. The lay members are not there to represent their own local, political or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all time.)</p>	<p>√</p>
D. Voting	<p>(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees</p>	<p>√</p>

Principle		Compliance
F. Meetings Frequency	(a) that an administering authority's main committee or committees meet at least quarterly. (b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. (c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	√  Not applicable  Not applicable
G. Access	(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	√
H. Scope	(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	√
I. Publicity	(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	√

## Notes

(1) The reasons for partial compliance in respect of Structure are as follows. Unitary Councils District Councils and Further and Higher Education employers, are represented. Other admitted bodies only represent 7% of contributors to the fund and are therefore not represented. However, all employers receive a full annual report and are alerted to important events. Although employee representatives, i.e. Trade Unions, do not formally represent deferred and pensioner scheme members, it is accepted that representation is available to deferred and pensioners members via this route where necessary and/or appropriate. In addition the interests of all scheme members and employers are specifically represented in the composition of the Local Pension Board.

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

# Lancashire County Pension Fund

## Statement of Investment Principles

Approved by Pension Fund Committee  
on 27 March 2015

Lancashire County Council  
as administering authority of  
**Lancashire County Pension  
Fund**





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# Lancashire County Pension Fund

## Statement of Investment Principles

### 1. 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.

### 2. 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](http://www.yourpensionservice.org.uk) or on request from the Fund, but in summary, responsibilities are allocated as follows:

### 3. 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.

#### 4. 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.

#### 5. 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 registered with the UK FCA or equivalent organisation. 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 Funds) Regulations 2009, with regard to the requirement to review the investments made by the Fund Managers. The Treasurer reports to 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 their Pension Fund investment and accounting responsibilities and provide the following services:

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

## 6. Investment Objectives

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 reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 1.6% p.a.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, 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.

## 7. 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.

## 8. Balance between Different Types of Investment

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

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

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.



The broad target ranges of the overall investment strategy set out above are supplemented by specific strategies relating to individual asset classes. Pension Fund Committee has approved the following sub-strategies:

- Credit and Fixed Income – approved on 22 March 2013;
- Private Equity – approved on 6 September 2013;
- Property – approved on 6 September 2013.

### CREDIT AND FIXED INCOME STRATEGY – BROAD ALLOCATIONS

The table below sets out proposed strategic allocation ranges to the various categories of investment which make up the credit and fixed income universe.

The ranges set out are in line with the Investment Strategy range of 20% to 40% for Lower Volatility Strategies (defined as including but not exclusively, Fixed Income, PFI, Credit strategies, Infrastructure, Currency, Commodities, Absolute Return, Cash, funds and index, Local development/PPP type allocations).

The broad allocations below imply that at a minimum, 20% of the fund allocation will be to credit and fixed income (compared to a current exposure to such strategies of 26.1% of the Fund), leaving up to 20% available for investment in other lower volatility strategies. Flexibility remains within the allocations below for the entire lower volatility allocation to be invested in credit should it be considered appropriate.

Credit investment allocation	% of Fund
Long Dated Secured Lending – Real Estate, Infrastructure and Asset Finance	5%-10%
Senior Secured Loans and Direct Lending to SMEs	5%-10%
Emerging Market Local Currency Debt	5%-10%
Impaired Credit and Regulatory Driven	5%-10%
Balanced / Club Credit Opportunities Funds (may incorporate the above allocations)	0%-20%
Investment Grade Bonds, Gilts and Cash (safe haven / interim holdings only)	0%-20%

## PRIVATE EQUITY STRATEGY

Private equity is an illiquid investment, for which this increased illiquidity is compensated by the potential for superior returns (i.e. an illiquidity premium).

The new strategy proposes allocating more capital to fewer funds, thereby reducing diversification. However, these investments may be shared across a wider range of managers, but it is not considered that the portfolio risk will be materially higher.

Co-investing in individual deals alongside a fund manager risks negative selection bias, whereby the fund managers offer co-investments in the less attractive opportunities. This risk appears modest and is offset by the fee reduction.

Changes in the strategy are expected to be gradual over a number of years, such that there will be no sudden changes in the portfolio.

### ***PE Strategy Limits (by Fund Type and Geography)***

Strategy limits reflect the market and also give the LCPF fund manager the opportunity to be over/ under weight the market:

	Assume Pension Fund Value (£m) 5,000	% of PE Allocation		% of Pension Fund		Example for £5bn Pension Fund (£m)	
		Min	Max	Min	Max	Min	Max
	<b>Fund Type</b>		100%		7.5%		375
1	Buyouts (LBOs)	70%	100%	5.25%	7.50%	263	375
2	Venture Capital (VC)	0%	10%	0%	0.8%	0	38
3	Other PE Sub-Classes	0%	20%	0%	1.5%	0	75
3.1	Max in Any Single Sub-Class	0%	10%	0%	0.8%	0	38
	<b>Geography</b>						
	Europe (incl. U.K.)	50%	75%	3.8%	5.6%	188	281
	Non-Europe	25%	50%	1.9%	3.8%	94	188
	Developed Markets	90%	100%	6.8%	7.5%	84	188
	Emerging Markets	0%	10%	0%	0.8%	0	38

*"Emerging Markets" are as defined by MSCI or FTSE listed indices*

### ***Concentration Limits (by Fund Structure)***

Limits are set on the concentration by fund structure with the aim of ensuring a minimum level of diversification, but discouraging over diversification:

## Statement of Investment Principles

Commitment Limits per <u>individual</u> PE Fund (as a % of annual PE commitment target)	Target	Min.	Max	Total PE Portfolio Limit (% of NAV)
Primary Fund	15%	7%	25%	100%
Co-Investment Fund	15%	7%	25%	40% incl Direct
Primary Fund of Fund	20%	10%	30%	50%
Secondary Fund	20%	10%	40%	50%

<u>Direct</u> Co-Investments by LCPF in individual companies (as % of the original fund's investment)		20%	100%	40% incl Co-Investment Funds
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The central expectation is to commit to 4-6 funds per year, mostly primary, allowing for larger commitments to more diversified funds of funds. In addition to initial commitments to funds, direct co-investments are allowed in individual companies that are held by LCPF's funds.

## PROPERTY INVESTMENT STRATEGY

The aim of the Property Investment Strategy is to deliver solid, reliable property returns to the Fund through a diversified portfolio of investments. It aims not only to reduce volatility by seeking exposures across property sectors and geographies but also offer the prospect of higher returns through appropriate diversification and specialist/opportunity investment.

It is proposed that the aim of the property portfolio should be to deliver an absolute return to the Fund rather than track a particular property benchmark. Such an approach promotes long term value decision-making over shorter term drivers to meet a particular index benchmark performance. However, the volatility of returns means that evaluation of performance against an absolute return benchmark is most meaningful when undertaken over longer periods of time.

For performance reporting purposes, it is proposed that an absolute benchmark of 8% per year is used, the same as for the infra-structure investment allocation. In judging the results of individual constituents of the property portfolio, especially in the shorter term, then specialist property benchmarks may be used.

As the absolute benchmark reporting will only become meaningful after a number of years, it is proposed the performance of the property portfolio is also measured against the existing broad IPD UK property index. This performance measure will also measure the value of adding diversity into the property portfolio beyond the existing direct UK portfolio.

The portfolio construction will be influenced not only by the net returns available, but also by the correlation and volatility of returns across sectors and geographies. The value leakage between gross and net returns needs to be taken into account because it varies significantly depending on the investment route chosen.

It is proposed that the mainstay of the property allocation should be to a core property portfolio with additional investments seeking some diversification and higher returns. Where core strategies might have an Internal Rate of Return (IRR) of 6-8% per annum, the specialist income/opportunity strategies would be expected to return IRRs of 8-12% per annum:

		<b>Banded ranges</b>		<b>Example £m</b>
Value of Fund				5000
Percentage allocation to property				15%
Total Property Allocation				<u>750</u>
<b>Diversified Portfolio</b>	<b>Core</b>	<b>Range</b>	<b>70% to 80%</b>	525 to 600
<b>Specialist Portfolio</b>	<b>/ Opportunity</b>	<b>Range</b>	<b>20% to 30%</b>	150 to 225

This combination of core and specialist holdings offers the prospect of at least achieving the 8% per annum absolute return benchmark proposed if not exceeding it.

Investment Limits imposed under the Local Government Pension Scheme (Management and Investment of Fund's) Regulations 2009

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 increased 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%

	Column (1) Limits under regulation 14 (2)	Column (2) Limits under regulation 14 (3)
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.

### 9. Policy on Risk

The consideration of investment risk forms part of the Pension Fund's overall risk register, which is presented to Pension Fund Committee on a bi-annual basis. The key risks and associated mitigations are replicated in the Funding Strategy Statement.

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.

### 10. 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%. Historically, the Private Equity benchmark has been the FTSE All Share. Going forward, an absolute return target may be more appropriate, and the Fund's independent advisers have suggested a target in the range 8-12% per annum, with a natural mid-point of 10%.
- ◆ The Infrastructure managers are expected to outperform an 8% absolute benchmark on a rolling three year basis.
- ◆ The credit and fixed income funds have individual targets and benchmarks relating to their specific sub-class within the overall asset allocation.
- ◆ The UK direct property manager is expected to outperform the IPD All Property Index Benchmark return on a rolling three year basis. Overall, and as set out in the property strategy above, the core property strategy targets an Internal Rate of Return (IRR) of 6-8% per annum, whilst the specialist income/ opportunity strategies would be expected to return IRRs of 8-12% per annum.

### 11. 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](http://www.yourpensionservice.org.uk)).

## **12. 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.

## **13. Corporate Governance and Responsible Investment**

### **Corporate Governance**

The Fund recognises its responsibility as an institutional investor to support and encourage good corporate governance practices in the companies in which it invests. The Fund considers that good corporate governance can contribute to business prosperity by encouraging accountability between boards, shareholders and other stakeholders. Good corporate governance also plays a major role in encouraging corporate responsibility to shareholders, employees and wider society.

### **The Fund's approach to Corporate Governance**

The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests, and challenging companies who do not meet the standards or reasonable expectations set by their peers.

In order to fulfil this responsibility, the Fund communicates with companies and exercises the rights (including the voting rights) attaching to investments in support of its corporate governance policies. The Fund's voting rights are an asset and will be used to further the long-term interests of the Fund's beneficiaries. As a general principle, votes will be used to protect shareholder rights, to minimise risk to companies from corporate governance failure, to enhance long-term value and to encourage corporate social responsibility.

The Fund may utilise some or all of the following tools: writing to company management; special meetings with companies; questions and discussions with companies at routine meetings and AGMs; joining in or supporting campaigning or pressure groups; issuing public statements/ briefings; and proxy voting.



## Responsible Investment

Responsible Investment is an investment approach in which investors recognise the importance of the long-term health and stability of the market as a whole; seeking to incorporate material extra-financial factors alongside other financial performance and strategic assessments within investment decisions; and utilise ownership rights and responsibilities attached to assets to protect and enhance shareholder value over the long term – primarily through voting and engagement. The objective of responsible investment is decreasing investor risk and improving risk-adjusted returns.

Examples of potentially material risks to be considered as part of the Fund's voting and engagement activity are set out below:

### *Governance risks:*

- Board independence – Non-Executive Directors play a vital role in overseeing the executive management and safeguarding the interests of shareholders;
- Succession planning – An ineffective policy can have implications for a company's performance, including uncertainty over its sustainability;
- Board diversity – Research suggests that shareholders, companies and boards are not best served by an overly homogenous board prone to group think;
- Auditors – The independence of auditors plays a crucial role in protecting shareholders.

### *Environmental risks:*

- High intensity industries will incur additional financial costs from carbon regulations in different jurisdictions. Changes in climate will affect company supply chains and fixed assets;
- Energy use – Through effective management of energy use, companies are able to reduce energy costs as well as build security of supply;
- Natural resources – Demand for raw materials is ever increasing, this has implications including increasing regulation around sourcing and use of resources;
- Water – A growing global population is leading to rising consumption – this in turn increases costs and creates tensions or conflicts.

### *Social risks:*

- Human rights – Companies operating in companies with poor human rights records may face significant challenges, such as legal challenges or reputational damage;
- Employment – Research indicates that well managed employee relations improve worker productivity and effectiveness in turn benefitting shareholders;
- Health and safety – Companies with poor health and safety records may face prosecutions, fines and in extreme cases, the withdrawal of licences to operate;
- Supply chain – Companies are increasingly reliant on a large, global workforce, exposing them to increased risks of disruptions.

Implementing a responsible investment policy helps a pension fund to adhere to the UK Stewardship Code. The Fund's current position relating to the UK Stewardship Code can be found in a separate statement on its website.

Lack of good governance interferes with a company's ability to function effectively and is a threat to the Fund's financial interest in that company.

### **The Fund's approach to responsible investment**

The Fund's approach to responsible investment divides into four areas of activity.

#### *a) Voting Globally*

The first approach, voting, is certainly not a 'boxticking' exercise, as the Fund regularly votes against resolutions. The Fund, through a proactive voting policy, in partnership with PIRC, votes its share rights constructively based upon a comprehensive analysis of company voting issues.

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.

#### *b) Engagement through Partnerships*

The Fund's second approach involves working in partnership with like-minded bodies. The Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join other investors with similar concerns. It does this through:

- Local Authority Pension Fund Forum (LAPFF);
- Voting on shareholder resolutions;
- Joining appropriate lobbying activities.

In terms of its engagement approach with other investors, it is most significant through LAPFF. This Forum 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 among the companies in which they invest. See the LAPFF website for further details: [www.lapffforum.org](http://www.lapffforum.org)

#### *c) Shareholder Litigation*

The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund, in partnership with two US law firms and other shareholders, submits class actions globally where possible and where appropriate.

#### *d) Active Investing*

The fourth and most challenging activity for the Fund in this particular field is actively seeking investments with ESG characteristics, provided these meet the Fund's requirements of strong returns combined with best practice in ESG and/or corporate governance. Such investments include alternative energy, clean energy, shared ownership housing.

The Fund will continue to develop its approach in promoting effective corporate governance and socially responsible investment wherever possible, including

working towards certain recognised standards in order to increase transparency and accountability.

## 14. Principles of Investment Practice

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

### Principle 1: Effective Decision Making

**Fully compliant:** The decision making process is fully outlined in the Governance Policy Statement, Governance Compliance Statement and Statement of Investment Principles.

### Principle 2: Clear Objectives

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

### Principle 3: Risk and liabilities

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

### Principle 4: Performance assessment

**Fully compliant:** Investment performance reports are produced by the Custodian monthly for consideration by the Investment Panel and the Pension Fund Committee. In addition, StateStreet WM produces quarterly benchmarking information for the Pension Fund to compare performance with other LGPS schemes.

### Principle 5: Responsible ownership

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

### Principle 6: Transparency and reporting

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

The Fund provides all of its Members with regular information bulletins. The Annual Report and the Fund's statutory statements are made available to all the Fund's employers and members through the web site [www.yourpensionservice.org.uk](http://www.yourpensionservice.org.uk).

## Pension Fund Committee

Meeting to be held on 27 March 2015

Electoral Division affected: None
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## Lancashire County Pension Fund Risk Register

(Appendix 'A' refers)

Contact for further information:

Andrew Fox, (01772 535916), County Treasurer's Directorate

[Andrew.fox@lancashire.gov.uk](mailto:Andrew.fox@lancashire.gov.uk)

### Executive Summary

Lancashire County Council as administering authority of the Lancashire County Pension Fund has responsibility for ensuring that there is effective risk management in place in relation to the operations of the Fund. This requirement is reflected in both the investment regulations and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Lancashire County Pension Fund Risk Register was last reviewed by the Committee on 5 September 2014. It has previously been indicated that updates to the risk register would be provided to the Committee at six monthly intervals.

Accordingly, the risk register has been reviewed by risk owners in order for any new risks to be identified, and for details of existing risks to be confirmed or amended in order to ensure that, where possible, appropriate controls are in place.

Details of the areas currently designated as 'high' risk are separately identified. As are those risks which are deemed to have changed since the last review.

### Recommendation

The Committee is asked to review the updated Risk Register shown at Appendix 'A', make any suggestions for amendments and approve the updated Risk Register.

### Background and Advice

Risk management is the practice of identifying, analysing and controlling in the most effective manner all threats to the achievement of the strategic objectives and operational activities of the organisation.

It is not a process for avoiding or eliminating risk although that may be a consequence of the risk mitigation measure deployed. A certain level of risk is inevitable in achieving objectives, particularly in an operation such as the Pension Fund which is exposed to a wide range of investment related risks but it must be controlled.

The Risk Register identifies the following category of risk:

- Investment and funding risk;
- Employer risk;
- Skill and resource risk;
- Governance and compliance risk;
- Reputational risk; and
- Administration risk.

Each of the risks, in the areas above, have been reviewed again by the allocated owners in terms of its impact on the Fund as a whole, on the fund employers, and on the reputation of the Pension Fund Committee and Lancashire County Council as administering authority. Assessment has also been given to the likelihood of the risk.

The impact and likelihood has then been scored on a scale of one to four (one being low risk, four being high risk) in order to assess whether the overall risk level is low, medium or high. The risk owners then assessed whether there are any mitigating factors in place which could reduce the level of risk, the risk score was then adjusted accordingly.

Accordingly, the risk register was updated and can be found at Appendix A. The review identified two new risks, these are shown in the register with the indicator 'New', and relate to:

- A003 – Inadequate financial controls / loss of funds through fraud – 'Low';
- A004 – Failure to keep abreast of regulatory changes or comply with Pensions Regulator Code 14 – 'Medium/ Low'.

During the review it was concluded that the level of risk relating to the liabilities of the Fund had increased due to the limited progress made introducing a liability strategy, further work is currently being undertaken in this area. In contrast the risks around the introduction of the Pension Board and transition to the new Investment Strategy were felt to have reduced given the work that has been undertaken in these areas since the last review.

The following risks are currently designated as 'high':

- I001 – Asset / liability mismatch;
- I004 – Falling share prices and therefore asset value;
- I006 – Liability Risk: Discount Rate;
- I007 – Liability Risk: Inflation Rate;
- I009 – Liability Risk: Longevity;
- I011 – Liability Risk: Diversification;
- I012 – Liability Risk: LGPS Regulations;
- I019 – Changes to LGPS Investment Regulations;
- S001 – Key Person Risk.

The risk register will continue to be reviewed on a regular basis.

**Consultations**

N/A

**Implications:**

This item has the following implications, as indicated:

**Risk management**

The Pension Fund Committee is the body charged with exercising the County Council's responsibilities as administering authority of the Pension Fund, and accordingly takes the responsibility for ensuring that there is effective risk management over those operations.

The register included as Appendix 'A' seeks to assess specific risks relating to Lancashire County Pension Fund and introduce a measure of consistency into the risk assessment process.

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

Paper	Date	Contact/Directorate/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A





**LANCASHIRE COUNTY PENSION FUND**  
**RISK REGISTER**  
**MARCH 2015**

**1. Objectives of the Risk Register**

These are to:

- Identify key risks to the achievement of the Fund’s objectives and to the Fund's day to day operations;
- Consider the risks identified;
- Assess the significance of the risks.

**2. Risk assessment**

Identified risks are assessed separately and for each risk the following is determined:

- The likelihood and impact of the risk materialising without any mitigating controls being applied – 'the gross risk'.
- The likelihood and impact of the risk materialising with mitigating controls being applied – 'the residual risk'.
- Risks are evaluated on a sliding scale of 1 – 4 with the highest value being the most likely to occur/ most severe impact.
- The product of the likelihood and impact scores is the risk score:

Likelihood	4	4 – medium/ low	8- medium/ high	12 - high	16 – high
	3	3 – medium/ low	6 – medium/ high	9 – medium/ high	12 – high
	2	2 – low	4 – medium/ low	6 – medium/ high	8 – medium/ high
	1	1 – low	2 - low	3 – medium/ low	4 – medium/ low
		1	2	3	4
	Impact				

- The register below seeks to assess specific risks and introduce a measure of consistency into the risk assessment process. The risk scores relating to residual risks can then be prioritised.
- Planned actions, timescales, review dates, and change in risk since the last review are noted for each risk, alongside the 'risk owner' responsible for managing it.
- Change in risk is denoted by arrows to represent increased risk, decreased risk or risk level remains the same.
- The thick black line indicates a proposed 'risk appetite' or tolerable level, to indicate an aspiration for acceptable risks to be less than 'medium/ high'.

### 3. Objectives of the Pension Fund

These are to:

- enable employer contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, whilst achieving and maintaining fund solvency, which should be assessed in light of the risk profile of the fund and the risk appetite of the administering authority and employers alike;
- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due; and
- seek returns on investment within reasonable risk parameters.

### 4. Investment objectives of the Pension Fund




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

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




NEW

Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
I001	Investment and funding risk	Asset / liability mismatch	Assets insufficient to fund liabilities	Inability to make benefit payments, meaning cash injections required from employers	4	4	16	H	Increasing focus on liability management, new investment strategy, diversified portfolio	4	4	16	H	Liability paper presented to Investment Panel without success further work on-going with Panel	On-going	Sep-15	↑	Chief Investment Officer
I002	Investment and funding risk	Inflation risk	Increases in commodity prices push up the level of inflation	Inflation increases pension payments but assets do not grow at required level	4	2	8	M/H	Hold some index linked assets	4	2	8	M/H	Inclusion of assets which counter inflation. Monitor inflation position.	On-going	Sep-15	↑	Chief Investment Officer
I003	Investment and funding risk	Concentration of assets	Over reliance of assets in one particular area	A significant allocation in a particular type asset will lead to an over exposure in that area and therefore vulnerability to significant changes.	3	2	6	M/H	New investment strategy is moving away from a large investment in equities. Amount of the fund in particular assets in governed by the pension fund regulations. Monthly monitoring of asset allocations by Investment Panel.	3	1	3	M/L	Implementation of new investment strategy but 50% of fund still in equities.	On-going	Dec-15	↕	Chief Investment Officer
I004	Investment and funding risk	Falling share prices and therefore asset value	Actions of companies in who the pension fund invests (fraud, poor corporate governance)	Falling share prices and therefore a decrease in the assets held by the fund.	4	4	16	H	Investment portfolio is diverse in order to minimise such risks. Member of LAPFF and PIRC to promote engagement.	4	3	12	H	Continual monitoring and membership of LAPFF / PIRC. Equity strategy combining defensive and growth holdings. Panel considering hedging	On-going	Sep-15	↕	Chief Investment Officer

NEW

Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
I005	Investment and funding risk	Under performance by fund managers	Fund managers not meeting required returns	Returns achieved lower than those anticipated in funding strategy leading to a greater funding gap	2	3	6	M/H	Mixture of active and passive managers, monitoring of investment manager performance, new investment strategy moving to a greater reliance on the internal team.	2	2	4	M/L	Implementation of new investment strategy. Panel considering hedging strategy.	On-going	Dec-15		Chief Investment Officer
I006	Investment and funding risk	Liability risk:  Discount rate	Market conditions between valuation dates produces a lower discount rate than expected by the actuary	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	4	4	16	H	Increasing focus on liability management, new investment strategy, diversified portfolio	4	4	16	H	On-going, liability paper presented to Investment Panel without agreement so far but further work on-going. Some risks have materialised, forward rates declining and liabilities increasing	On-going	Sep-15		Chief Investment Officer
I007	Investment and funding risk	Liability risk:  Inflation rate	Assumed inflation rate within liability valuation applied to future pension increases and salary rises is lower than actual rate	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	4	4	16	H	Increasing focus on liability management, new investment strategy, diversified portfolio	4	4	16	H	On-going, liability paper presented to Investment Panel without agreement so far but further work on-going. Some risks have materialised, forward rates declining and liabilities increasing	On-going	Sep-15		Chief Investment Officer

NEW





Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
1008	Investment and funding risk	Liability risk:  Salary increase	Salary increases higher than expected (and maybe linked to inflation expectations)	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	4	1	4	M/ L	Provision for employers to top-up contributions to offset the increasing liabilities.	3	1	3	L	On-going, liabilities management is increasing in focus. Large increases in public sector salaries are not expected in the current austerity climate.	On-going	Mar-16		Chief Investment Officer
1009	Investment and funding risk	Liability risk:  Longevity	The assumptions of future life expectancy and improvements in life expectancy may be lower than actual. Members may live longer and benefits may be paid for longer	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	4	4	16	H		4	4	16	H	On-going, liability paper presented to Investment Panel without agreement so far but further work on-going. Some risks have materialised, forward rates declining and liabilities increasing	On-going	Sep-15		Chief Investment Officer
1010	Investment and funding risk	Liability risk:  Early retirement/ ill-health retirement	Members retiring earlier than normal retirement age with no reduction in benefit will require employers to make greater contributions	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	4	2	8	M/ H	Provision for employers to top-up contributions to offset the increasing liabilities.	3	2	6	M/ H	Provision for employers to top-up contributions to offset the increasing liabilities.	On-going	Dec-15		Head of Your Pension Service

NEW																		
Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
I011	Investment and funding risk	Liability risk: Diversification	Diversification of asset portfolio less than expected	Assets move in unpredictable directions, potentially increasing the funding gap between assets and liabilities	4	4	16	H	Increasing focus on liability management, new investment strategy, diversified portfolio	4	3	12	H	On-going, liability paper presented to Investment Panel without agreement so far but further work on-going. Some risks have materialised, forward rates declining and liabilities increasing	On-going	Sep-15	↕	Chief Investment Officer
I012	Investment and funding risk	Liability risk: LGPS regulations	Pension benefits are governed by statute, and any changes will impact on the fund's liabilities causing them to either increase or decrease	Liabilities are affected by statutory changes to LGPS	4	4	16	H	Increasing focus on liability management, new investment strategy, diversified portfolio. Lobbying of Government.	4	3	12	H	On-going, new scheme announced but further changes are possible.	On-going	Sep-15	↕	Chief Investment Officer
I013	Investment and funding risk	Custody risk	Custodian does not adequately meet the requirements of their contract	Problems with custodian leading to missed dividends or corporate actions.	2	2	4	M/L	Subscribe to services of Thomas Murray as custodian monitor, producing reports on operational review, fee analysis, FX review. Quarterly meetings with custodian and TM.	2	1	2	L	Continued monitoring of custodian services and formal quarterly meetings. Exploration of NT user group.	On-going	Dec-15	↕	Head of Policy and Compliance
I014	Investment and funding risk	Investment returns below peer groups	Investment managers do not meet the required returns	Reputational risk, increasing gap between assets and liabilities	2	2	4	M/L	Regular monitoring and review	2	1	2	L	Increasing emphasis on internal management of funds	On-going	Dec-15	↕	Chief Investment Officer

NEW																		
Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
I015	Investment and funding risk	Missed investment opportunities	Lack of awareness or slow decision making	Missed investment opportunities could result in reduced returns for the fund	2	3	6	M/H	Maintain a good relationship with investment managers. Internal team has been strengthened with new analyst team. Awareness of timetables and protocols	2	1	2	L	Monitoring of investment deadlines in relation to internal deadlines and workloads. Current arrangements working well	On-going	Apr-16	↕	Investment Management Team
I016	Investment and funding risk	Mismatch of funding plan and investment strategy	Incorrect assumptions made regarding assets and liabilities	Incorrect contribution rates could be set	3	4	12	H	Funding strategy and investment strategy to be linked to triennial reviews	3	3	9	M/H	Contribution rates reviewed following the results of recent triennial review	On-going	Dec-15	↑	Chief Investment Officer
I017	Investment and funding risk	Insufficient cash available to meet requirements	Poor management of liquidity	If liquidity is not managed, assets may need to be sold quickly meaning the best price is not achieved	2	3	6	M/H	Implement effective cash management strategies	2	2	4	M/L	Cash position is monitoring on a regular basis by the accounting team. Weekly meetings are held with Investment management Team so cash requirements are known.	On-going	Dec-15	↕	Head of Corporate Finance
I018	Investment and funding risk	Transition risk of the new investment strategy	Unforeseen events	Incurring unexpected costs while moving the assets and investment drag	2	1	2	L	Transition is essentially complete now.	2	1	2	L	Transition bench is in place and can be drawn on for further transition work.	On-going	Mar-16	↓	Deputy Chief Investment Officer






NEW

Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
I019	Investment and funding risk	Changes to LGPS Investment Regulations	Possibility of mandatory use of passive investment equity strategy and collective investment vehicles.	Unintended change to LCPF investment strategy which could affect performance and deficit reduction.	4	3	12	H	No mitigation possible	4	3	12	H	Immediate changes not expected. Fund working with LPFA on a collaboration project.	On-going	Sep-15		Chief investment Officer
E001	Employer Risk	Inability of an employer to meet its contribution requirements due to legislative or actuarial changes.	Increased level of contributions required from employer	Overall fund faces increasing liabilities	2	3	6	M/H	Monitor risk picture of the employers, particularly with reference to the size of their liability	2	3	6	M/H	Review financial standing of the employers in the scheme with reference to the size of their liabilities. Differential asset allocations	On-going	On-going review		Director of Pension Fund
E002	Employer Risk	Employer ceasing to exist	Employer closes	If there is insufficient funding, bond of guarantee in place any shortfall will be attributed to the whole fund, thereby increasing the level of liabilities	2	3	6	M/H	Monitor employers risk profiles and ensure bonds are sufficient	2	2	4	M/L	Review financial standing of the employers in the scheme with reference to the size of their liabilities, anticipate employers with potential financial difficulties and discuss with them potential future options	On-going	On-going review		Director of Pension Fund
S001	Skill and Resource risk	Key person risk	Someone leaving the organisation and only a limited market from which to seek their replacement	Knowledge gap which it may be difficult to fill	4	3	12	H	Maintain a system of staff cover; succession planning and development	4	3	12	H	Internal restructure on-going and collaboration with LPFA, increasing approaches by headhunters	On-going	Sep-15		Chief Investment Officer




NEW																		
Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
S002	Skill and Resource risk	Lack of expertise / resources of officers involved in the Pension Fund	Insufficient training or continuous development	Either inappropriate staffing or insufficient resources in a particular area meaning that the fund cannot be managed or administered properly and mistakes are made.	3	3	9	M/H	Regular performance appraisals and training plans in place. On the job training.	3	3	9	M/H	Attendance at regular conferences and courses. On the job training.	On-going	Dec-15	↕	Chief Investment Officer
S003	Skill and Resource risk	Insufficient knowledge of pension fund committee members	Insufficient training or continuous development	Inappropriate decisions taken at committee meetings or inability to make decisions through lack of understanding	4	2	8	M/H	Implement training for new members. Have an on-going training requirement for members and officers to ensure knowledge remains up to date. Mixture of in-house and external sessions. Officer expert advice.	3	2	6	M/H	Enhancement of training programme for members and officers on ongoing basis including assessment of training needs. Liaison with training providers, and in conjunction with training needs of Local Pension Board members.	On-going	Dec-15	↕	Financial Policy Officer
S004	Skill and Resource risk	Insufficient external expertise	Failure to employ specialist advisers when their skills are required	Under performance of fund	3	2	6	M/H	Employ specialists where appropriate from consultancy bench and develop in-house expertise	3	1	3	M/L	Increasing moves to develop internal expertise. Refresh consultant bench to ensure breadth of expertise, procurement to commence Oct 14	On-going	Sep-15	↕	Chief Investment Officer

NEW





Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
S005	Skill and Resource risk	Inappropriate decision making	Production of poor or inappropriate performance management information	Incorrect decisions being taken due to the reliance on this information	4	2	8	M/H	Use of independent Custodian. Implement regular monitoring in an agreed format. Regular monitoring of performance information and on-line access to NT Passport system.	4	1	4	M/L	Decision making protocols documented are in place to ensure each decision is adequately considered and approved.	On-going	Sep-15		Chief Investment Officer
G001	Governance and compliance risk	Non compliance with LGPS regulations	Lack of technical expertise / staffing to research any regulation changes	Non compliance with legislation change could result in penalties or sanctions leading to financial loss	3	3	9	M/H	Monitor legislative changes, engage in consultations, attend pension update briefings / courses. Use of consultants for specific projects where appropriate.	3	2	6	M/H	Attendance at conference and regular review of work practices. Establishment of specific consultant 'lot' relating to governance.	On-going	Sep-15		Head of Policy and Compliance
G002	Governance and compliance risk	Non compliance with investment policies	Lack of understanding of investment policies	Non compliance with investment policies could increase the risk profile of the fund.	3	3	9	M/H	Periodic monitoring of investment types against regulations. Individual investments checked in advance of commitment as part of internal Due diligence.	3	2	6	M/H	Compliance monitoring programme, incorporating monthly, quarterly, and annual tests to commence from April 2015 and assurance results reported accordingly.	On-going	Sep-15		Compliance Officer



NEW																		
Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
G003	Governance and compliance risk	Production of incorrect financial statements	Production of misleading information and misleading stakeholders	Misunderstanding or wrong decisions	2	2	4	M/L	Review and sign off process in place.	2	1	2	L	Implementation of closure timetable, which includes regular management reviews of progress and figures	On-going	Dec-15		Head of Corporate Finance
G004	Governance and compliance risk	Failure to adhere to Officer and Member Codes of Conduct	Officers or members fail to declare a personal or pecuniary interest and/or the receipt of gifts and hospitality	Inappropriate decisions being taken which are not in the best interests of the fund	2	2	4	M/L	Training on what constitutes a conflict and ensuring register of interests/ gift and hospitality entries are made where appropriate.	2	1	2	L	Officers and Pension Fund Committee members encouraged to make all appropriate declarations on the respective registers and at meetings	On-going	Dec-15		Democratic Services Manager
G005	Governance and compliance risk	Failure to minute meetings correctly	Important decisions are not documented and then there is no record of them when evidence of the decision is required.	Unable to prove that a decision has been taken	2	2	4	M/L	All meetings to be minuted and agreed by members	2	1	2	L	All meetings containing key investment decisions are minuted by Democratic Services	On-going	Dec-15		Democratic Services Manager


NEW

Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
G006	Governance and compliance risk	Failure to implement an proper monitoring system	Performance of the fund cannot be monitored over time	Incorrect decisions are taken	3	2	6	M/H	Performance reports provided on monthly and quarterly basis by independent custodian. Use of web-based Passport and Fundamentals modules. Performance of the fund is monitored on a monthly basis and reported to Investment Panel and to the Pension Fund Committee at its meetings. New Analyst team drilling down and reconciling custodian and manager/ fund performance.	3	1	3	M/L	Enhancement of performance information to include policy attribution, geographical and sector contributions.	On-going	Dec-15		Head of Policy and Compliance
G007	Governance and compliance risk	Information loss (intellectual property and confidential information)	Sensitive information could be lost damaging the reputation of the fund and putting the fund members at risk	Damaged reputation / litigation risk	3	2	6	M/H	Ensure confidential information is secure	3	1	3	M/L	Information asset audit undertaken and any resulting actions carried out. Confidential information is held in secure filing cabinets or Deed Room. Clear desk policy.	On-going	Mar-16		Head of Policy and Compliance/ Chief Investment Officer
G008	Governance and compliance risk	Information governance	Loss of information which means that the fund is unable to operate	Unable to undertake day to day functions	3	2	6	M/H	Back up of ICT network. Use of Northern Trust web-based Passport system.	3	1	3	M/L	Back up of ICT network and continued use of NT Passport.	On-going	Mar-16		Head of Investment Compliance

NEW

Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
G009	Governance and compliance risk	Non-existent assets	The risk that assets purchased by the pension fund do not exist, or fund managers are not bona fide.	Misrepresentation of assets held. Reputational damage.	4	2	8	M/H	Due diligence undertaken as part of investment review process either by Fund officers or investment consultants.	4	1	4	M/L	Robust policy of meeting managers in situ in advance of commitment. Physical inspection of assets by Fund.	On-going, paper going to Panel suggesting tighter on-going due diligence	Sep-15		Chief Investment Officer
G010	Governance and compliance risk	Regulation change - LGPS fund governance	Requirement for Pension Board to established by April 2015.	Non compliance with legislation change could result in penalties and poor governance	3	3	9	M/H	Implementation of Pension Board is now well under way and will be finalised by April	2	1	2	L	Consultants in place. Recruitment to Pension Board under way.	31-Mar-15	Sep-15		Director of Pension Fund
R001	Reputational risk	Actions damage the perception of the fund	Reputation of the fund will be damaged which may impact on participation rates and investment strategies		3	2	6	M/H	Good governance, open communication. Use of PIRC/ LAPFF to engage with shareholder companies to encourage good governance. UNPRI asset owner signatory.	3	2	6	M/H	Employ good corporate governance systems within the organisation. Enhanced asset verification. Stronger and formalised RI policy.	On-going	Sep-15		Chief Investment Officer/Financial Policy Officer
A001	Administration risk	Failure to process and pay pension payments and lump sums on time	Unavailability of IT / staff, or errors; employers' data not supplied in accordance with admin strategy	Incorrect or late payment, demand on chasing resource.	4	2	8	M/H	Testing of system including audit. Business continuity arrangements. Published Pensions Admin Strategy	2	2	4	M/L	Ensure disaster recovery plan in place; increased focus on employer performance monitoring and introduction of sanctions if required	On-going	Sep-15		Head of Your Pension Service




NEW																		
Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
A002	Administration risk	Failure to collect contributions from employers and employees	Unavailability of IT / staff, or errors or poor communication	Maintenance of IT, staff cover and training	3	2	6	M/H	Robust back-up systems in place	2	1	2	L	Robust back-up systems in place	On-going	Dec-15		Head of Your Pension Service
A003	Administration risk	Inadequate Financial Controls / loss of funds through fraud	Key Financial Processes not documented; absence of formal reconciliation regime; absence of adequate controls	Payment errors or losses to Fund	4	3	12	H	Existing financial control regime inc. separation of duties and internal/external audit	3	1	3	L	Gap analysis / review of efficiency. Increased focus on internal compliance monitoring.	On-going	Sep-15	New	Head of Your Pension Service
A004	Administration risk	Failure to keep abreast of regulatory changes or comply with Pensions Regulator Code 14.	Lack of 'horizon scanning' or technical capacity; inability to comply with Code 14.	Non compliance with regulations or best practice.	4	2	8	M/H	Dedicated technical resource; regulatory changes fed through organisations / systems and QA in place. Systems in place to measure Code 14 compliance.	2	2	4	M/L	Development of performance measures and compliance with nationally set KPI's	On-going	Sep-15	New	Head of Your Pension Service
A005	Administration risk	Failure to hold personal data securely	Poor procedures for data transfer, data retention and back up	Data is lost or compromised	4	2	8	M/H	Internal ICT controls. Information governance awareness.	4	1	4	M/L	Further work to improve the security of data interchange with employers through improvements in technology	On-going	Sep-15		Head of Your Pension Service

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Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
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A006	Administration risk	Failure to keep records up to date	Poor, late or non-existent notification of monthly date from employers.  Failure of employers to understand Scheme regulatory requirements. Lack of YPS resource.	Incorrect records held and therefore incorrect pensions paid	4	4	16	H	Documented internal controls. Robust training. Regular monitoring.  Employer training and support. Conferences and on-line employer guide. Data cleansing routines in place.	2	2	4	M/L	Tightening up of employer performance monitoring and application of sanctions specified in PASS.	On-going	Sep-15		Head of Your Pension Service






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Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
I001	Investment and funding risk	Asset / liability mismatch	Assets insufficient to fund liabilities	Inability to make benefit payments, meaning cash injections required from employers	4	4	16	H	Increasing focus on liability management, new investment strategy, diversified portfolio	4	4	16	H	Liability paper presented to Investment Panel without success further work on-going with Panel	On-going	Sep-15	↑	Chief Investment Officer
I002	Investment and funding risk	Inflation risk	Increases in commodity prices push up the level of inflation	Inflation increases pension payments but assets do not grow at required level	4	2	8	M/H	Hold some index linked assets	4	2	8	M/H	Inclusion of assets which counter inflation. Monitor inflation position.	On-going	Sep-15	↑	Chief Investment Officer
I003	Investment and funding risk	Concentration of assets	Over reliance of assets in one particular area	A significant allocation in a particular type asset will lead to an over exposure in that area and therefore vulnerability to significant changes.	3	2	6	M/H	New investment strategy is moving away from a large investment in equities. Amount of the fund in particular assets in governed by the pension fund regulations. Monthly monitoring of asset allocations by Investment Panel.	3	1	3	M/L	Implementation of new investment strategy but 50% of fund still in equities.	On-going	Dec-15	↕	Chief Investment Officer
I004	Investment and funding risk	Falling share prices and therefore asset value	Actions of companies in who the pension fund invests (fraud, poor corporate governance)	Falling share prices and therefore a decrease in the assets held by the fund.	4	4	16	H	Investment portfolio is diverse in order to minimise such risks. Member of LAPFF and PIRC to promote engagement.	4	3	12	H	Continual monitoring and membership of LAPFF / PIRC. Equity strategy combining defensive and growth holdings. Panel considering hedging	On-going	Sep-15	↕	Chief Investment Officer

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Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
I005	Investment and funding risk	Under performance by fund managers	Fund managers not meeting required returns	Returns achieved lower than those anticipated in funding strategy leading to a greater funding gap	2	3	6	M/H	Mixture of active and passive managers, monitoring of investment manager performance, new investment strategy moving to a greater reliance on the internal team.	2	2	4	M/L	Implementation of new investment strategy. Panel considering hedging strategy.	On-going	Dec-15		Chief Investment Officer
I006	Investment and funding risk	Liability risk:  Discount rate	Market conditions between valuation dates produces a lower discount rate than expected by the actuary	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	4	4	16	H	Increasing focus on liability management, new investment strategy, diversified portfolio	4	4	16	H	On-going, liability paper presented to Investment Panel without agreement so far but further work on-going. Some risks have materialised, forward rates declining and liabilities increasing	On-going	Sep-15		Chief Investment Officer
I007	Investment and funding risk	Liability risk:  Inflation rate	Assumed inflation rate within liability valuation applied to future pension increases and salary rises is lower than actual rate	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	4	4	16	H	Increasing focus on liability management, new investment strategy, diversified portfolio	4	4	16	H	On-going, liability paper presented to Investment Panel without agreement so far but further work on-going. Some risks have materialised, forward rates declining and liabilities increasing	On-going	Sep-15		Chief Investment Officer

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Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
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I008	Investment and funding risk	Liability risk:  Salary increase	Salary increases higher than expected (and maybe linked to inflation expectations)	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	4	1	4	M/ L	Provision for employers to top-up contributions to offset the increasing liabilities.	3	1	3	L	On-going, liabilities management is increasing in focus. Large increases in public sector salaries are not expected in the current austerity climate.	On-going	Mar-16		Chief Investment Officer
I009	Investment and funding risk	Liability risk:  Longevity	The assumptions of future life expectancy and improvements in life expectancy may be lower than actual. Members may live longer and benefits may be paid for longer	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	4	4	16	H		4	4	16	H	On-going, liability paper presented to Investment Panel without agreement so far but further work on-going. Some risks have materialised, forward rates declining and liabilities increasing	On-going	Sep-15		Chief Investment Officer
I010	Investment and funding risk	Liability risk:  Early retirement/ ill-health retirement	Members retiring earlier than normal retirement age with no reduction in benefit will require employers to make greater contributions	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	4	2	8	M/ H	Provision for employers to top-up contributions to offset the increasing liabilities.	3	2	6	M/ H	Provision for employers to top-up contributions to offset the increasing liabilities.	On-going	Dec-15		Head of Your Pension Service

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Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
I011	Investment and funding risk	Liability risk:  Diversification	Diversification of asset portfolio less than expected	Assets move in unpredictable directions, potentially increasing the funding gap between assets and liabilities	4	4	16	H	Increasing focus on liability management, new investment strategy, diversified portfolio	4	3	12	H	On-going, liability paper presented to Investment Panel without agreement so far but further work on-going. Some risks have materialised, forward rates declining and liabilities increasing	On-going	Sep-15	↕	Chief Investment Officer
I012	Investment and funding risk	Liability risk:  LGPS regulations	Pension benefits are governed by statute, and any changes will impact on the fund's liabilities causing them to either increase or decrease	Liabilities are affected by statutory changes to LGPS	4	4	16	H	Increasing focus on liability management, new investment strategy, diversified portfolio. Lobbying of Government.	4	3	12	H	On-going, new scheme announced but further changes are possible.	On-going	Sep-15	↕	Chief Investment Officer
I013	Investment and funding risk	Custody risk	Custodian does not adequately meet the requirements of their contract	Problems with custodian leading to missed dividends or corporate actions.	2	2	4	M/L	Subscribe to services of Thomas Murray as custodian monitor, producing reports on operational review, fee analysis, FX review. Quarterly meetings with custodian and TM.	2	1	2	L	Continued monitoring of custodian services and formal quarterly meetings. Exploration of NT user group.	On-going	Dec-15	↕	Head of Policy and Compliance
I014	Investment and funding risk	Investment returns below peer groups	Investment managers do not meet the required returns	Reputational risk, increasing gap between assets and liabilities	2	2	4	M/L	Regular monitoring and review	2	1	2	L	Increasing emphasis on internal management of funds	On-going	Dec-15	↕	Chief Investment Officer

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					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
I015	Investment and funding risk	Missed investment opportunities	Lack of awareness or slow decision making	Missed investment opportunities could result in reduced returns for the fund	2	3	6	M/H	Maintain a good relationship with investment managers. Internal team has been strengthened with new analyst team. Awareness of timetables and protocols	2	1	2	L	Monitoring of investment deadlines in relation to internal deadlines and workloads. Current arrangements working well	On-going	Apr-16	↕	Investment Management Team
I016	Investment and funding risk	Mismatch of funding plan and investment strategy	Incorrect assumptions made regarding assets and liabilities	Incorrect contribution rates could be set	3	4	12	H	Funding strategy and investment strategy to be linked to triennial reviews	3	3	9	M/H	Contribution rates reviewed following the results of recent triennial review	On-going	Dec-15	↑	Chief Investment Officer
I017	Investment and funding risk	Insufficient cash available to meet requirements	Poor management of liquidity	If liquidity is not managed, assets may need to be sold quickly meaning the best price is not achieved	2	3	6	M/H	Implement effective cash management strategies	2	2	4	M/L	Cash position is monitoring on a regular basis by the accounting team. Weekly meetings are held with Investment management Team so cash requirements are known.	On-going	Dec-15	↕	Head of Corporate Finance
I018	Investment and funding risk	Transition risk of the new investment strategy	Unforeseen events	Incurring unexpected costs while moving the assets and investment drag	2	1	2	L	Transition is essentially complete now.	2	1	2	L	Transition bench is in place and can be drawn on for further transition work.	On-going	Mar-16	↓	Deputy Chief Investment Officer

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Ref	Area	Risk	Cause	Impact	Gross Risk				Mitigation in place	Residual Risk				Planned Action	Date for completion	Review Date	Change in risk score since last report	Owner
					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
I019	Investment and funding risk	Changes to LGPS Investment Regulations	Possibility of mandatory use of passive investment equity strategy and collective investment vehicles.	Unintended change to LCPF investment strategy which could affect performance and deficit reduction.	4	3	12	H	No mitigation possible	4	3	12	H	Immediate changes not expected. Fund working with LPFA on a collaboration project.	On-going	Sep-15		Chief investment Officer
E001	Employer Risk	Inability of an employer to meet its contribution requirements due to legislative or actuarial changes.	Increased level of contributions required from employer	Overall fund faces increasing liabilities	2	3	6	M/H	Monitor risk picture of the employers, particularly with reference to the size of their liability	2	3	6	M/H	Review financial standing of the employers in the scheme with reference to the size of their liabilities. Differential asset allocations	On-going	On-going review		Director of Pension Fund
E002	Employer Risk	Employer ceasing to exist	Employer closes	If there is insufficient funding, bond of guarantee in place any shortfall will be attributed to the whole fund, thereby increasing the level of liabilities	2	3	6	M/H	Monitor employers risk profiles and ensure bonds are sufficient	2	2	4	M/L	Review financial standing of the employers in the scheme with reference to the size of their liabilities, anticipate employers with potential financial difficulties and discuss with them potential future options	On-going	On-going review		Director of Pension Fund
S001	Skill and Resource risk	Key person risk	Someone leaving the organisation and only a limited market from which to seek their replacement	Knowledge gap which it may be difficult to fill	4	3	12	H	Maintain a system of staff cover; succession planning and development	4	3	12	H	Internal restructure on-going and collaboration with LPFA, increasing approaches by headhunters	On-going	Sep-15		Chief Investment Officer

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					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
S002	Skill and Resource risk	Lack of expertise / resources of officers involved in the Pension Fund	Insufficient training or continuous development	Either inappropriate staffing or insufficient resources in a particular area meaning that the fund cannot be managed or administered properly and mistakes are made.	3	3	9	M/H	Regular performance appraisals and training plans in place. On the job training.	3	3	9	M/H	Attendance at regular conferences and courses. On the job training.	On-going	Dec-15	↕	Chief Investment Officer
S003	Skill and Resource risk	Insufficient knowledge of pension fund committee members	Insufficient training or continuous development	Inappropriate decisions taken at committee meetings or inability to make decisions through lack of understanding	4	2	8	M/H	Implement training for new members. Have an on-going training requirement for members and officers to ensure knowledge remains up to date. Mixture of in-house and external sessions. Officer expert advice.	3	2	6	M/H	Enhancement of training programme for members and officers on ongoing basis including assessment of training needs. Liaison with training providers, and in conjunction with training needs of Local Pension Board members.	On-going	Dec-15	↕	Financial Policy Officer
S004	Skill and Resource risk	Insufficient external expertise	Failure to employ specialist advisers when their skills are required	Under performance of fund	3	2	6	M/H	Employ specialists where appropriate from consultancy bench and develop in-house expertise	3	1	3	M/L	Increasing moves to develop internal expertise. Refresh consultant bench to ensure breadth of expertise, procurement to commence Oct 14	On-going	Sep-15	↕	Chief Investment Officer

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					Impact	Likelihood	Score	Risk Level		Impact	Likelihood	Score	Risk Level					
S005	Skill and Resource risk	Inappropriate decision making	Production of poor or inappropriate performance management information	Incorrect decisions being taken due to the reliance on this information	4	2	8	M/H	Use of independent Custodian. Implement regular monitoring in an agreed format. Regular monitoring of performance information and on-line access to NT Passport system.	4	1	4	M/L	Decision making protocols documented are in place to ensure each decision is adequately considered and approved.	On-going	Sep-15		Chief Investment Officer
G001	Governance and compliance risk	Non compliance with LGPS regulations	Lack of technical expertise / staffing to research any regulation changes	Non compliance with legislation change could result in penalties or sanctions leading to financial loss	3	3	9	M/H	Monitor legislative changes, engage in consultations, attend pension update briefings / courses. Use of consultants for specific projects where appropriate.	3	2	6	M/H	Attendance at conference and regular review of work practices. Establishment of specific consultant 'lot' relating to governance.	On-going	Sep-15		Head of Policy and Compliance
G002	Governance and compliance risk	Non compliance with investment policies	Lack of understanding of investment policies	Non compliance with investment policies could increase the risk profile of the fund.	3	3	9	M/H	Periodic monitoring of investment types against regulations. Individual investments checked in advance of commitment as part of internal Due diligence.	3	2	6	M/H	Compliance monitoring programme, incorporating monthly, quarterly, and annual tests to commence from April 2015 and assurance results reported accordingly.	On-going	Sep-15		Compliance Officer









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G003	Governance and compliance risk	Production of incorrect financial statements	Production of misleading information and misleading stakeholders	Misunderstanding or wrong decisions	2	2	4	M/L	Review and sign off process in place.	2	1	2	L	Implementation of closure timetable, which includes regular management reviews of progress and figures	On-going	Dec-15	↕	Head of Corporate Finance
G004	Governance and compliance risk	Failure to adhere to Officer and Member Codes of Conduct	Officers or members fail to declare a personal or pecuniary interest and/or the receipt of gifts and hospitality	Inappropriate decisions being taken which are not in the best interests of the fund	2	2	4	M/L	Training on what constitutes a conflict and ensuring register of interests/ gift and hospitality entries are made where appropriate.	2	1	2	L	Officers and Pension Fund Committee members encouraged to make all appropriate declarations on the respective registers and at meetings	On-going	Dec-15	↕	Democratic Services Manager
G005	Governance and compliance risk	Failure to minute meetings correctly	Important decisions are not documented and then there is no record of them when evidence of the decision is required.	Unable to prove that a decision has been taken	2	2	4	M/L	All meetings to be minuted and agreed by members	2	1	2	L	All meetings containing key investment decisions are minuted by Democratic Services	On-going	Dec-15	↕	Democratic Services Manager

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G006	Governance and compliance risk	Failure to implement an proper monitoring system	Performance of the fund cannot be monitored over time	Incorrect decisions are taken	3	2	6	M/H	Performance reports provided on monthly and quarterly basis by independent custodian. Use of web-based Passport and Fundamentals modules. Performance of the fund is monitored on a monthly basis and reported to Investment Panel and to the Pension Fund Committee at its meetings. New Analyst team drilling down and reconciling custodian and manager/ fund performance.	3	1	3	M/L	Enhancement of performance information to include policy attribution, geographical and sector contributions.	On-going	Dec-15		Head of Policy and Compliance
G007	Governance and compliance risk	Information loss (intellectual property and confidential information)	Sensitive information could be lost damaging the reputation of the fund and putting the fund members at risk	Damaged reputation / litigation risk	3	2	6	M/H	Ensure confidential information is secure	3	1	3	M/L	Information asset audit undertaken and any resulting actions carried out. Confidential information is held in secure filing cabinets or Deed Room. Clear desk policy.	On-going	Mar-16		Head of Policy and Compliance/ Chief Investment Officer
G008	Governance and compliance risk	Information governance	Loss of information which means that the fund is unable to operate	Unable to undertake day to day functions	3	2	6	M/H	Back up of ICT network. Use of Northern Trust web-based Passport system.	3	1	3	M/L	Back up of ICT network and continued use of NT Passport.	On-going	Mar-16		Head of Investment Compliance

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G009	Governance and compliance risk	Non-existent assets	The risk that assets purchased by the pension fund do not exist, or fund managers are not bona fide.	Misrepresentation of assets held. Reputational damage.	4	2	8	M/H	Due diligence undertaken as part of investment review process either by Fund officers or investment consultants.	4	1	4	M/L	Robust policy of meeting managers in situ in advance of commitment. Physical inspection of assets by Fund.	On-going, paper going to Panel suggesting tighter on-going due diligence	Sep-15		Chief Investment Officer
G010	Governance and compliance risk	Regulation change - LGPS fund governance	Requirement for Pension Board to established by April 2015.	Non compliance with legislation change could result in penalties and poor governance	3	3	9	M/H	Implementation of Pension Board is now well under way and will be finalised by April	2	1	2	L	Consultants in place. Recruitment to Pension Board under way.	31-Mar-15	Sep-15		Director of Pension Fund
R001	Reputational risk	Actions damage the perception of the fund	Reputation of the fund will be damaged which may impact on participation rates and investment strategies		3	2	6	M/H	Good governance, open communication. Use of PIRC/ LAPFF to engage with shareholder companies to encourage good governance. UNPRI asset owner signatory.	3	2	6	M/H	Employ good corporate governance systems within the organisation. Enhanced asset verification. Stronger and formalised RI policy.	On-going	Sep-15		Chief Investment Officer/Financial Policy Officer
A001	Administration risk	Failure to process and pay pension payments and lump sums on time	Unavailability of IT / staff, or errors; employers' data not supplied in accordance with admin strategy	Incorrect or late payment, demand on chasing resource.	4	2	8	M/H	Testing of system including audit. Business continuity arrangements. Published Pensions Admin Strategy	2	2	4	M/L	Ensure disaster recovery plan in place; increased focus on employer performance monitoring and introduction of sanctions if required	On-going	Sep-15		Head of Your Pension Service

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A002	Administration risk	Failure to collect contributions from employers and employees	Unavailability of IT / staff, or errors or poor communication	Maintenance of IT, staff cover and training	3	2	6	M/H	Robust back-up systems in place	2	1	2	L	Robust back-up systems in place	On-going	Dec-15		Head of Your Pension Service
A003	Administration risk	Inadequate Financial Controls / loss of funds through fraud	Key Financial Processes not documented; absence of formal reconciliation regime; absence of adequate controls	Payment errors or losses to Fund	4	3	12	H	Existing financial control regime inc. separation of duties and internal/external audit	3	1	3	L	Gap analysis / review of efficiency. Increased focus on internal compliance monitoring.	On-going	Sep-15	New	Head of Your Pension Service
A004	Administration risk	Failure to keep abreast of regulatory changes or comply with Pensions Regulator Code 14.	Lack of 'horizon scanning' or technical capacity; inability to comply with Code 14.	Non compliance with regulations or best practice.	4	2	8	M/H	Dedicated technical resource; regulatory changes fed through organisations / systems and QA in place. Systems in place to measure Code 14 compliance.	2	2	4	M/L	Development of performance measures and compliance with nationally set KPI's	On-going	Sep-15	New	Head of Your Pension Service
A005	Administration risk	Failure to hold personal data securely	Poor procedures for data transfer, data retention and back up	Data is lost or compromised	4	2	8	M/H	Internal ICT controls. Information governance awareness.	4	1	4	M/L	Further work to improve the security of data interchange with employers through improvements in technology	On-going	Sep-15		Head of Your Pension Service

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A006	Administration risk	Failure to keep records up to date	Poor, late or non-existent notification of monthly date from employers.  Failure of employers to understand Scheme regulatory requirements. Lack of YPS resource.	Incorrect records held and therefore incorrect pensions paid	4	4	16	H	Documented internal controls. Robust training. Regular monitoring.  Employer training and support. Conferences and on-line employer guide. Data cleansing routines in place.	2	2	4	M/L	Tightening up of employer performance monitoring and application of sanctions specified in PASS.	On-going	Sep-15		Head of Your Pension Service



## Pension Fund Committee

Meeting to be held on 27 March 2015

Electoral Division affected: None
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## Responsible Investment

(Appendices 'A', 'B' and 'C' refer)

Contact for further information:

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[andrew.fox@lancashire.gov.uk](mailto:andrew.fox@lancashire.gov.uk)

### Executive Summary

The Fund aspires to be a good asset owner and is continuing to develop its approach to responsible investment. In doing so, activity is centred upon four distinct areas, being; global voting as a shareholder in invested companies, engagement with these companies (either alone or in partnership), effective litigation when things go wrong, and active investing (including active engagement with investment managers).

The Fund achieves some of this through engaging Pensions and Investment Research Consultants Ltd (PIRC) as its Governance Adviser and also through the Local Authority Pension Fund Forum (LAPFF). This report provides the latest quarterly update for the Committee on the work undertaken on the Fund's behalf by PIRC in accordance with current voting guidelines and the engagement activity undertaken by LAPFF.

The attached report from PIRC (Appendix 'A') covers the period 1 October 2014 to 31 December 2014. The Fund has voted on 351 occasions and has opposed or abstained in 35% 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 quarter to 31 December 2014.

Details of actual and potential actions in relation to companies in which the Fund currently owns shares or has previously owned shares are set out in the report.

Finally, progress in implementing the actions agreed from the work of the member working group, which completed its consideration towards the end of 2014, is noted.

### Recommendation

The Committee is asked to note the report.

## Background and Advice

The previous meeting of the Pension Fund Committee received a report detailing the outcome of the member working group into (socially) responsible investment. As part of this work, the adoption of the term 'responsible investment', to reflect the Fund's investment approach, was accepted in line with the definition provided by the National Association of Pension Funds (NAPF):

*Responsible Investment is an investment approach in which investors recognise the importance of the long-term health and stability of the market as a whole; seeking to incorporate material extra-financial factors alongside other financial performance and strategic assessments within investment decisions; and utilise ownership rights and responsibilities attached to assets to protect and enhance shareholder value over the long term – primarily through voting and engagement.*

The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests, and challenging companies who do not meet the standards set by their peers or reasonable expectations as measured by best practice.

The Fund's approach is part of its overall investment management arrangements and its intention to be a good asset owner for which its approach is developing. Accordingly, the Fund's approach to responsible investment divides into four areas of activity, and this (and future) monitoring reports will reflect this structure.

### *a) Voting Globally*

PIRC, who act as the Fund's proxy and casts the Fund's votes at shareholder meetings, 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.

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). The Lancashire County Pension Fund is a member of both these organisations.

PIRC's quarterly report to 31 December 2014 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 social and governance issues. It should be noted that if the Fund so wished, it retains the ability to cast a vote which does not accord with PIRC's recommendations.



The Fund's voting record using PIRC as its proxy for the three months ended 31 December 2014 is summarised below:

	For	Abstain	Oppose	Non-Voting	Not Supported	Withhold	Withdrawn	US Frequency Vote on Pay	Total
UK & BRITISH OVERSEAS	66	7	9	0	0	0	0	0	82
EUROPE & GLOBAL EU	10	2	10	0	0	0	0	0	22
USA & CANADA	76	5	43	0	0	9	0	0	133
ASIA	17	2	7	0	0	0	0	0	26
AUSTRALIA & NEW ZEALAND	44	4	33	7	0	0	0	0	88
<b>TOTAL</b>	<b>213</b>	<b>20</b>	<b>102</b>	<b>7</b>	<b>0</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>351</b>

The Fund was party to 351 resolutions during this period, of which 213 (61% resulted in positive votes for shareholder resolutions and 35% 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 9 within the period, just under 3%.

Details of the voting details by category for the largest markets (UK and US) are set out below:

UK							
	For	Abstain	Oppose	Non-Voting	Not Supported	Withheld	Withdrawn
All Employee Schemes	1	0	0	0	0	0	0
Annual Reports	6	2	5	0	0	0	0
Articles of Association	0	0	0	0	0	0	0
Auditors	5	3	0	0	0	0	0
Corporate Actions	1	0	0	0	0	0	0
Corporate Donations	2	1	0	0	0	0	0
Debt & Loans	0	0	0	0	0	0	0
Directors	32	1	3	0	0	0	0
Dividend	4	0	0	0	0	0	0
Executive Pay Schemes	0	0	1	0	0	0	0
Miscellaneous	4	0	0	0	0	0	0
NED Fees	0	0	0	0	0	0	0
Non-Voting	0	0	0	0	0	0	0
Say on Pay	0	0	0	0	0	0	0
Share Capital Restructuring	0	0	0	0	0	0	0
Share Issue/Re-purchase	11	0	0	0	0	0	0
Shareholder Resolution	0	0	0	0	0	0	0

US/Global US & Canada

	For	Abstain	Oppose	Non-Voting	Not Supported	Withheld	Withdrawn
All Employee Schemes	0	0	0	0	0	0	0
Annual Reports	0	0	0	0	0	0	0
Articles of Association	2	0	0	0	0	0	0
Auditors	9	1	0	0	0	0	0
Corporate Actions	0	0	0	0	0	0	0
Corporate Donations	0	0	0	0	0	0	0
Debt & Loans	0	0	0	0	0	0	0
Directors	59	1	27	0	0	9	0
Dividend	0	0	0	0	0	0	0
Executive Pay Schemes	0	0	4	0	0	0	0
Miscellaneous	0	0	1	0	0	0	0
NED Fees	0	0	0	0	0	0	0
Non-Voting	0	0	0	0	0	0	0
Say on Pay	0	0	10	0	0	0	0
Share Capital Restructuring	0	0	0	0	0	0	0
Share Issue/Re-purchase	0	1	1	0	0	0	0
Shareholder Resolution	6	2	0	0	0	0	0

*b) Engagement through Partnerships*

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 October 2014 to 31 December 2014.

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.

*c) Shareholder Litigation*

The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund, in partnership with two US law firms and other shareholders, submits class actions globally where possible and where appropriate.

**United States**

The Fund has appointed Barrack, Rodos and Bacine (BR&B) and, more recently in addition, Robbins Geller Rudman and Dowd (RGRD) to provide securities litigation (class action) monitoring 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. These services are at no cost to the Fund.

BR& B and RGRD will identify class actions where the Fund has a potential loss arising from an alleged fraud or a securities law violation. This is achieved through their respective monitoring systems which follows each potential 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 cases are set out below.

Company name	Effective class period begin	Effective class period end	Potential loss incurred (\$'000)
Medtronic, Inc	08/12/10	03/08/11	27.71
CenturyLink, Inc.	08/08/12	14/02/13	521.63
Barrick Gold Corp.	07/05/09	23/05/13	411.36
Intuitive Surgical, Inc.	19/10/11	18/04/13	251.54
ITT Educational Services, Inc.	24/04/08	25/02/13	760.06
Weightwatchers International	14/02/12	30/10/13	2,265.97
Petroleo Brasileiro SA Petrobras	07/01/10	26/11/14	6,158.91

## United Kingdom

Unlike class actions within the US jurisdiction, where all relevant recipients benefit from a class action when filed, securities claims in the UK require investors to file their actions individually (i.e. be named as a Claimant on an issued Claim Form) in order to benefit from a successful action. Such actions are therefore much less prevalent.

### *Royal Bank of Scotland*

The Committee will recall a current claim relating to the alleged actions of Royal Bank of Scotland Group Plc (RBS) where, it is argued, investors suffered losses in respect of a subsequent Rights Issue in 2008.

Since the previous meeting of the Committee, a Case Management Conference (CMC) took place on 15-17 December 2014 in front of Mr Justice Hildyard. In addition to arguments around information disclosure between the respective parties, the timetable to trial was also discussed. The claimants assertion that a trial was possible in Autumn 2016 (rather than the Autumn 2017 as suggested by RBS) was upheld by the Court and a trial date of 7 December 2016 was scheduled, and expected to last 25 weeks. Further case management conferences are scheduled for March 2015 and July 2015.

#### *d) Active Investing*

The fourth and most challenging activity for the Fund in this particular field is actively seeking investments with ESG characteristics, provided these meet the Fund's requirements of strong returns combined with best practice in ESG and/ or corporate governance. Such investments include alternative energy, clean energy, shared ownership housing.

The Committee will recall that the Fund has previously made the following investments in renewable and clean energy, and social housing:

- £12 million investment in a UK solar co-operative;
- £14 million in a separate Solar Energy Fund;
- Almost £100m in recovery of methane from landfill gas sites and coal mines for generation of electricity;
- £55m in biomass electricity generating plants;
- The Fund has also made a £30 million commitment to a clean energy fund focussed on wind energy assets and is actively considering further opportunities in anaerobic digestion, solar and wind projects;
- In addition the Fund is promoting the installation of photo-voltaic panels across all suitable roofs of its £435m commercial property portfolio with 17 installations currently agreed with tenants representing an investment in solar panels of over £3 million;
- Most recently, £180m has been committed to a social housing partnership, of which over £42 million has been currently invested.

In addition, the Fund was the winner of the British Renewable Energy Awards Pioneer Award 2013 for its approach to investment in these areas.

The Committee will be made aware of new investments as they are committed, and where appropriate, highlight where investment return requirements are complemented by any ESG aspects.

#### **Other developments**

##### *Staffing*

The Committee will be pleased to note that, as part of the County Council's ongoing transformation process, an appointment has recently been made to the new position of Financial Policy Officer within the Policy and Compliance Team of the Fund. This appointment, effective from 1 April 2015, will give the team the much needed capacity to progress many of the intended developments in governance, and in particular the Fund's aspirations in responsible investment, including taking forward the agreed actions from the recent member working group in this area. In addition, it is anticipated this appointment will enable the Fund to further develop its relationships and approach to voting and engagement.

##### *United Nations Principles of Responsible Investment (UNPRI)*

An application was submitted by the County Council as administering authority of the Lancashire County Pension Fund to become an Asset Owner signatory to UNPRI, which was provisionally approved on 13 February 2015. On 10 March 2015, the

Fund was formally welcomed as a signatory, and this acceptance is now recognised on the UNPRI website.

### *Guidance*

In January 2015, BT Pension Scheme, in conjunction with several public and private sector pension funds, produced a guide to Responsible Investment (RI) in listed equity investment, which seeks to help Funds develop their approach to reporting and stewardship in this area. This is attached at Appendix 'C' and will be considered as part of the development of the Lancashire County Pension Fund's own RI policy.

### *RI working group action plan*

As mentioned above, an action plan was created following the work undertaken by the member working group. Developments undertaken against those intended actions are set out below:

## RI Working Group – action plan

Area	Action	Progress since previous Pension Fund Committee meeting
<b>Fiduciary duty</b>		
<p>Outcome 1 Having considered all the information presented to its meetings, the Working Group agreed that it would wish to recommend the Pension Fund Committee to consider a more active stance in relation to RI issues than had previously been the case where that did not pose the risk of financial detriment to the Fund. Members acknowledged that the primary aim of an investment strategy was to secure the best possible return and that the administering authority and trustees should not impose their own ethical views on issues such as tobacco, energy, food etc., on scheme beneficiaries.</p>		
Action 1	Recommendation to Pension Fund Committee to consider a move towards RI where it was practicable to do so, and without posing a detrimental financial risk to the Fund.	<i>Implicitly accepted by the Pension Fund Committee on 27 November 2014 in accepting the recommendations of the member working group. Recognition of this stance will be reflected in the Fund's first Responsible Investment policy document, currently being drafted.</i>
<p>Outcome 2 Concerns were expressed about the Fund's ability to canvass and assess the views of scheme employers and members on specific social, ethical and environmental considerations and investments. Before taking any specific steps that could potentially lead to the investment in or divestment from particular sectors, Members acknowledged that it was important to canvass and understand the views of scheme stakeholders, and agreed that different ways of achieving this needed to be explored.</p>		
Action 2	A policy setting out the circumstances in which stakeholder consultation would be sought and the possible methods for achieving this should be developed.	<i>No actions to report since the previous meeting of the Pension Fund Committee.</i>
<p>Outcome 3 The Working Group felt that it now had a much greater understanding of RI, SRI and ESG issues and in particular the legal framework around fiduciary duties and the issue of divestment. Members again acknowledged that the primary aim of the Fund's investment strategy was to secure the best possible return and it was agreed that divestment was not an option which should be pursued by the Fund at this moment.</p>		
Action 3	No action required.	

Area	Action	Progress since previous Pension Fund Committee meeting
<b>Existing investment activity</b>		
<p>Outcome 4 The Working Group encouraged the taking of specific steps or actions to reduce carbon production within the Fund's portfolio - for example, within the property portfolio. In addition, the Group supported the continued identification of good investment opportunities and the making of investments that provide appropriate returns and which may possess certain 'green' or clean energy characteristics.</p>		
Action 4	Reduce carbon footprint of LCPF property portfolio wherever possible	<i>No additional actions to report since the previous meeting of the Pension Fund Committee.</i>
<b>Governance and policy</b>		
<p>Outcome 5 The Working Group recommend the establishment by the Fund of a Responsible Investment Policy based on the Policy Tool produced by UNPRI, and subsequently work towards the adoption of the UN Principles.</p>		
Action 5a	Create a Responsible Investment Policy for the Fund	<i>A literature review of good practice in this area has been undertaken, included reference to UN PRI suggested examples. A structure of a draft Responsible Investment Policy for LCPF has been created and it is intended to table a first draft at the Pension Fund Committee in Summer 2015.</i>
Action 5b	Consider signing up to the UN PRI initiative	<i>LCPF submitted an application to UNPRI in February 2015 to become an Asset Owner signatory, which was formally accepted on 10 March 2015, and recognised on the UNPRI website.</i>
<p>Outcome 6 A proposal for revised SRI wording within the SIP should be produced.</p>		
Action 6	Rewrite Statement of Investment Principles section on RI/ ESG	<i>Revised wording in relation to responsible investment will be incorporated into the next revision of the Fund's Statement of Investment Principles when it falls due.</i>
<b>Analysis and monitoring</b>		
<p>Outcome 7 Investigate the options for procuring/ signing up to an SRI/ ESG monitoring tool/ service.</p>		
Action 7	Procure/ sign up to RI/ ESG monitoring tool/ service eg RobecoSAM	<i>Discussions have begun with potential providers, but requires the Fund to determine through its Responsible Investment Policy what its aims and aspirations are in this area before deciding upon the best way to fulfil these requirements.</i>
<p>Outcome 8 Formalise SRI/ ESG discussions with external investment managers as part of ongoing engagement.</p>		
Action 8	Create structured framework for ongoing discussions with external investment managers.	<i>To form part of the draft Responsible Investment Policy, with reference to recent guidance produced by BT Pension Scheme.</i>

## Consultations

N/A

## Implications

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

Well-run, responsible companies are more likely to be successful and less likely to suffer from unexpected scandals.

## Risk management

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

Involvement in a non-US type of “class action” may result in losses incurred being recovered for the Fund, but should the claim be lost then the Fund may incur related costs which may not be known with certainty at the time of filing.

Should the claimants in the litigation against RBS fail, then it is possible that LCPF faces having to make a contribution towards RBS costs notwithstanding the insurance in place. The amount of any shortfall following an insurance settlement and the LCPF contribution thereto is impossible to quantify at this stage.

Furthermore, if successful the LCPF will be required to pay the amounts owing to SL under the Conditional Fee Agreement (insofar as not recovered from RBS) and pay a proportion of any sum recovered to the funder from the proceeds of the litigation.

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

Paper	Date	Contact/Directorate/Tel
Report of the SRI Working Group to Pension Fund Committee – November 2014	27 November 2014	Andrew Fox/ County Treasurer's Directorate/ 01772 535916
National Association of Pension Funds (NAPF) Responsible Investment Guide	2013	Andrew Fox/ County Treasurer's Directorate/ 01772 535916

Reason for inclusion in Part II, if appropriate

N/A





# Lancashire Council Pension Fund

## PROXY VOTING REVIEW

PERIOD 1<sup>st</sup> October 2014 TO 31<sup>st</sup> December 2014

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## 1 Resolution Analysis

- Number of resolutions voted: 351 (note that it MAY include non-voting items).
- Number of resolutions opposed by client: 102

### 1.1 Number of meetings voted by geographical location

Location	Number of Meetings Voted
UK & BRITISH OVERSEAS	7
EUROPE & GLOBAL EU	5
USA & CANADA	13
ASIA	5
AUSTRALIA & NEW ZEALAND	13
<b>TOTAL</b>	<b>43</b>

### 1.2 Number of Resolutions by Vote Categories

Vote Categories	Number of Resolutions
For	213
Abstain	20
Oppose	102
Non-Voting	7
Not Supported	0
Withhold	9
US Frequency Vote on Pay	0
Withdrawn	0
<b>TOTAL</b>	<b>351</b>

### 1.3 Number of Votes by Region

	For	Abstain	Oppose	Non-Voting	Not Supported	Withhold	Withdrawn	US Frequency Vote on Pay	Total
UK & BRITISH OVERSEAS	66	7	9	0	0	0	0	0	82
EUROPE & GLOBAL EU	10	2	10	0	0	0	0	0	22
USA & CANADA	76	5	43	0	0	9	0	0	133
ASIA	17	2	7	0	0	0	0	0	26
AUSTRALIA & NEW ZEALAND	44	4	33	7	0	0	0	0	88
<b>TOTAL</b>	<b>213</b>	<b>20</b>	<b>102</b>	<b>7</b>	<b>0</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>351</b>

## 1.4 Votes Made in the UK Per Resolution Category

	UK						
	For	Abstain	Oppose	Non-Voting	Not Supported	Withheld	Withdrawn
All Employee Schemes	1	0	0	0	0	0	0
Annual Reports	6	2	5	0	0	0	0
Articles of Association	0	0	0	0	0	0	0
Auditors	5	3	0	0	0	0	0
Corporate Actions	1	0	0	0	0	0	0
Corporate Donations	2	1	0	0	0	0	0
Debt & Loans	0	0	0	0	0	0	0
Directors	32	1	3	0	0	0	0
Dividend	4	0	0	0	0	0	0
Executive Pay Schemes	0	0	1	0	0	0	0
Miscellaneous	4	0	0	0	0	0	0
NED Fees	0	0	0	0	0	0	0
Non-Voting	0	0	0	0	0	0	0
Say on Pay	0	0	0	0	0	0	0
Share Capital Restructuring	0	0	0	0	0	0	0
Share Issue/Re-purchase	11	0	0	0	0	0	0
Shareholder Resolution	0	0	0	0	0	0	0

## 1.5 Votes Made in the US Per Resolution Category

### US/Global US & Canada

	For	Abstain	Oppose	Non-Voting	Not Supported	Withheld	Withdrawn
All Employee Schemes	0	0	0	0	0	0	0
Annual Reports	0	0	0	0	0	0	0
Articles of Association	2	0	0	0	0	0	0
Auditors	9	1	0	0	0	0	0
Corporate Actions	0	0	0	0	0	0	0
Corporate Donations	0	0	0	0	0	0	0
Debt & Loans	0	0	0	0	0	0	0
Directors	59	1	27	0	0	9	0
Dividend	0	0	0	0	0	0	0
Executive Pay Schemes	0	0	4	0	0	0	0
Miscellaneous	0	0	1	0	0	0	0
NED Fees	0	0	0	0	0	0	0
Non-Voting	0	0	0	0	0	0	0
Say on Pay	0	0	10	0	0	0	0
Share Capital Restructuring	0	0	0	0	0	0	0
Share Issue/Re-purchase	0	1	1	0	0	0	0
Shareholder Resolution	6	2	0	0	0	0	0

## 1.6 Votes Made in the EU Per Resolution Category

	EU & Global EU						
	For	Abstain	Oppose	Non-Voting	Not Supported	Withheld	Withdrawn
All Employee Schemes	0	0	1	0	0	0	0
Annual Reports	0	0	2	0	0	0	0
Articles of Association	1	0	0	0	0	0	0
Auditors	0	0	0	0	0	0	0
Corporate Actions	0	0	0	0	0	0	0
Corporate Donations	0	0	0	0	0	0	0
Debt & Loans	0	0	0	0	0	0	0
Directors	1	0	3	0	0	0	0
Dividend	1	0	0	0	0	0	0
Executive Pay Schemes	0	0	1	0	0	0	0
Miscellaneous	2	1	1	0	0	0	0
NED Fees	1	0	0	0	0	0	0
Non-Voting	0	0	0	0	0	0	0
Say on Pay	0	1	2	0	0	0	0
Share Capital Restructuring	1	0	0	0	0	0	0
Share Issue/Re-purchase	3	0	0	0	0	0	0
Shareholder Resolution	0	0	0	0	0	0	0

## 2 Notable Oppose Vote Results With Analysis

Note: Here a notable vote is one where the Oppose result is at least 10%.

### PROCTER & GAMBLE CO AGM - 14-10-2014

#### 5. *Shareholder Resolution: Report on Unrecyclable Packaging*

Proposed by: As you Sow

The proponent is requesting that the board of directors issue a report at reasonable cost, omitting confidential information, assessing the environmental impacts of continuing to use unrecyclable brand packaging. The proponent state that "Procter & Gamble is known for its leadership on environmental sustainability yet a portion of its product packaging is unrecyclable including some plastics, a growing component of marine litter, which authorities say kills and injures marine life, spreads toxics and poses a potential threat to human health."

The Board are against this proposal and state that, whilst they agree with the proponent that recyclability is an important consideration when designing packaging, they believe that the Company has focused significant effort on minimizing the environmental impacts from their packaging through materials reduction and recycling. They believe that given the Company has clearly demonstrated commitment to this issue, they do not believe that the report requested by the proponent would add meaningful value to our ongoing efforts, or to shareholders.

It is considered that reporting on environmental issues is in shareholders' interests both as a means of informing shareholders of potential risks and opportunities faced by the company, but also as a means of ensuring that the management and board of a company gives due consideration to these issues. The board has not indicated why it considers that such a report would be prohibitively expensive, and the fact that many companies already produce them suggests that this is not the case. A vote for the proposal is therefore recommended.

Vote Recommendation: *For*

Results: For: 23.2, Abstain: 6.8, Oppose/Withhold: 70.1,

#### 6. *Shareholder Resolution: Report on Alignment Between Corporate Values and Political Contributions*

Proposed by: NorthStar Asset Management

The proponent has requested that the Board of Directors report to shareholders annually at reasonable expense, excluding confidential information, a congruency analysis between corporate values as defined by P&G's stated policies and Company and P&G GGF political and electioneering contributions, including a list of any such contributions occurring during the prior year which raise an issue of misalignment with corporate values, and stating the justification for such exceptions.

The Board are against this proposal and believe that political engagement is necessary to ensure the interests of the Company's employees, consumers and shareholders are fairly represented at all levels of government around the world, and P&G is committed to being transparent about our political involvement.

It is considered regular disclosure of political donations to be best practice, and that the company has not disclosed all political donations that the shareholders are requesting. It is noted that the reports will not be strenuous if the company does not make significant contributions. Support is therefore recommended.

Vote Recommendation: *For*

Results: For: 6.1, Abstain: 5.4, Oppose/Withhold: 88.4,

#### 3. *Approve The Procter & Gamble 2014 Stock and Incentive Compensation Plan*

The Board are requesting shareholder approval of the Procter & Gamble 2014 Stock and Incentive Compensation Plan. The purpose of the Plan is to strengthen the alignment of interests between those employees of the Company and its subsidiaries who are largely responsible for the success of the business, as well as non-employee Directors, and the Company's shareholders through increased ownership of the Company. The participants in the Plan shall be non-employee Directors and those employees who, in the opinion of the Committee, have demonstrated a capacity for contributing in a substantial manner to the success of the Company.



This currently includes 10 non-employee Directors and approximately 6,000 of the Company's key managers who receive awards on an annual basis. It also includes an additional 8,000 employees currently eligible for cash bonuses who can elect to take all or part of their bonuses in stock options issued pursuant to the Plan. The maximum number of shares with respect to which options or other awards may be granted to any non-employee Director in any calendar year shall not exceed 10,000. The maximum number of shares with respect to which stock options or SARs may be granted to any employee who is a participant in any calendar year shall not exceed two million.

There are the following concerns with the plan: the maximum award that may be granted to an employee has the monetary value of USD 168.88 million (share price was \$84.44 as of 30/09/2014) which is considered to be excessive; the plan will have 160 million outstanding shares that can be awarded, which amount to 6% of the current issued share capital; and performance criteria for the performance based awards are not included. Due to these concerns a vote against the plan is recommended.

Vote Recommendation: *Oppose*

Results: For: 88.1, Abstain: 0.7, Oppose/Withhold: 11.2,

## ORACLE CORP. AGM - 05-11-2014

### 1.02. *Elect H. Raymond Bingham*

Non-Executive Director. Not considered independent as he has served on the Board for over nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Withhold*

Results: For: 74.1, Abstain: 0.0, Oppose/Withhold: 25.9,

### 1.03. *Elect Michael J. Boskin*

Non-Executive Director. Not considered independent as he has served on the Board for over nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Withhold*

Results: For: 79.5, Abstain: 0.0, Oppose/Withhold: 20.5,

### 1.05. *Elect Bruce R. Chizen*

Independent Non-Executive Director. However, Mr Chizen is the Chairman of the Compensation Committee and the compensation report received 57% oppose votes at the last AGM and 59% in the previous year. On the basis that there was sizeable opposition to pay package which awarded the CEO close to USD 70 million for each of the last four years, and the committee has stated that no change will be made to their compensation policy, a "withhold" vote on his re-election is recommended.

Note: Mr. Chizen had 42.2% of votes cast withholding on his re-election at the 2013 Annual Meeting.

Vote Recommendation: *Withhold*

Results: For: 72.1, Abstain: 0.0, Oppose/Withhold: 27.9,

### 1.09. *Elect Jeffrey O. Henley*

Executive Chairman. There is no independent Non-Executive Chairman, contrary to best practice guidelines. As there is also no Lead Director and insufficient independence on the Board, a withhold vote on his re-election is recommended.

Vote Recommendation: *Withhold*

Results: For: 88.7, Abstain: 0.0, Oppose/Withhold: 11.3,

**PERNOD RICARD SA AGM - 06-11-2014***O.7. Elect Gilles Samyn*

Non-Executive Director. Not considered to be independent as he is currently executive of Groupe Bruxelles Lambert, which he joined in 1983. Groupe Bruxelles Lambert holds 6.9% of the company's voting rights. There are concerns over his aggregate time commitments. There is insufficient independent representation on the board.

Vote Recommendation: *Oppose*

Results: For: 83.1, Abstain: 0.1, Oppose/Withhold: 16.7,

*O.12. Authorise Share Repurchase*

Authority allows the Board to repurchase and use capital stock within legal boundaries. The repurchase is limited to 10% of share capital. The authority will be valid for 18 months and cannot be used during a period of public offer. Meets guidelines.

Vote Recommendation: *For*

Results: For: 61.4, Abstain: 0.1, Oppose/Withhold: 38.5,

*E.13. Authorise the Board of directors to allocate free performance shares to employees and executives*

It is proposed to grant the board authorization to allocate performance shares free of charge to employees and executives. The authorization will be valid for 38 months. Actual allocation will be subject to presence and performance conditions, one internal and one external, of which only the external has been disclosed and quantified (TSR). Performance will be measured over two years and shares will vest over a minimum of three years.

Although the performance conditions are above market practice (both in terms of disclosure and criteria), internal performance criteria are still undefined. In addition, the vesting time is not considered long term. On these bases, opposition is recommended.

Vote Recommendation: *Oppose*

Results: For: 80.6, Abstain: 0.1, Oppose/Withhold: 19.3,

*E.14. Authorise the Board of Directors to grant stock options to executive and employees*

The company requests general approval to issue stock options, corresponding to maximum 1.5% of the issued share capital, to employees and management over a period of 38 months.

Performance conditions to be applied to those options awarded are not disclosed in full.

Dilution meets guidelines; however, the performance conditions applied to this specific plan are not disclosed. Opposition is recommended.

Vote Recommendation: *Oppose*

Results: For: 64.0, Abstain: 0.1, Oppose/Withhold: 36.0,

**HAYS PLC AGM - 12-11-2014***19. Meeting notification related proposal*

The proposed resolution reflects the implementation of the EU Shareholder Rights Directive into English law, which took place on 3 August 2009 as implemented by the company in its Articles of Association. Under the regulations, the minimum notice period for general meetings (other than Annual General Meetings) will increase to 21 days unless shareholders agree on a shorter notice period, in which case it may be 14 days. Shareholder approval is sought to call general meetings on 14 clear days notice.

All companies should aim to provide at least 20 working days notice for general meetings in order to give shareholders sufficient time to consider what are often complex issues. However, as the proposed change is permissible by the Companies Act, support is recommended.

Vote Recommendation: *For*

Results: For: 86.3, Abstain: 0.1, Oppose/Withhold: 13.5,

#### **SMITHS GROUP PLC AGM - 18-11-2014**

##### *19. Meeting notification related proposal*

The proposed resolution reflects the implementation of the EU Shareholder Rights Directive into English law, which took place on 3 August 2009 as implemented by the company in its Articles of Association. Under the regulations, the minimum notice period for general meetings (other than Annual General Meetings) will increase to 21 days unless shareholders agree on a shorter notice period, in which case it may be 14 days. Shareholder approval is sought to call general meetings on 14 clear days notice.

All companies should aim to provide at least 20 working days notice for general meetings in order to give shareholders sufficient time to consider what are often complex issues. However, as the proposed change is permissible by the Companies Act, support is recommended.

Vote Recommendation: *For*

Results: For: 89.0, Abstain: 0.4, Oppose/Withhold: 10.6,

#### **WOLSELEY PLC AGM - 25-11-2014**

##### *18. Issue shares with pre-emption rights*

The authority is limited to one third of the share capital and another third in connection with a Rights Issue. This is in line with normal market practice and expires at the next AGM. All directors are standing for annual re-election. Support is recommended.

Vote Recommendation: *For*

Results: For: 88.0, Abstain: 0.5, Oppose/Withhold: 11.5,

### 3 Oppose/Abstain Votes With Analysis

#### TELSTRA CORP LTD AGM - 14-10-2014

##### 4. *Approve the grant of Performance rights*

The Board is seeking shareholder approval for the grant of performance shares to the CEO David Thodey, under the Telstra FY15 LTI Plan. The proposed grant is for 939,716 performance shares with a combined value of \$ 5,300,000, which equates to 200% of his fixed remuneration.

The LTI plan has two performance metrics: relative TSR (RTSR) and free cash flow return on investment (FCF ROI). The two performance measures do not operate interdependently, which is against best practice. The peer group for the RTSR metric is disclosed and the minimum threshold is 50th percentile of peer group with 100% vesting at the 75th percentile of the peer group. The FCF ROI has a minimum target of 15% and the maximum at 16.6%. The awards have a three-year performance period, which is not considered sufficiently long term. It is noted awards are subject to an additional year restriction period.

Directors can exercise discretion to determine that unvested performance shares do not lapse and any restricted shares are not forfeited. The Board also has discretion to accelerate the end date of the restriction period for the release of the restricted shares to the date of departure. Such a high level of discretion negates the purpose of safeguards.

Based on these concerns, it is recommended that shareholders oppose.

*Vote Recommendation: Oppose*

##### 5. *Approve the Remuneration Report*

In accordance with Section 250R of the Australian Corporations Act, the directors are seeking approval of the remuneration report. The Act does not require directors to act on approval of the resolution and the vote is advisory.

Disclosure:

Overall disclosure is good. The policy statement is clear and concise.

Balance of Performance and Reward: Total remuneration comprises both a fixed and variable component, which consists of both short and long term incentives.

Short-Term Incentives:

These are based on Free Cash Flow, EBITDA, Total Income, Net Promoter Score(NPS) and individual performance measures. 25% of any STI is deferred into Telstra shares, with one-half vesting after one year and the balance after two years. The STI opportunity ranges from 150% to 200% of fixed remuneration. While the Company discloses performance as a percentage against each of the measures, it does not disclose the actual targets. There is no disclosure of the individual performance conditions.

Long-Term Incentives:

LTI awards are in the form of performance shares. The two performance measures do not operate interdependently. The peer group for the TSR metric is disclosed and the minimum threshold is 50th percentile of peer group with 100% vesting at the 75th percentile of the peer group. The FCF ROI has a minimum target of 15% and the maximum at 16.6%. The awards have a three-year performance period. It is noted awards are subject to an additional year restriction period.

Contracts:

Contracts for executives are in line with best practice. The notice period for executives is 6 months. Termination notice period is 12 months.

Summary:

Overall remuneration levels paid during the year are considered excessive. Compensation payments of \$ 1,020,456 were made to Mr Rick Ellis, which include pro-rated STI awards. Performance conditions under incentive performance remuneration work independently of each, which is considered to be against best practice. LTI awards are not subject to a non-finance measure. The RTSR vesting scale is not considered sufficiently broad. The 3-year performance period is also not considered sufficiently long term. The Remuneration Committee may apply upside discretion in determining termination severance.

Based on these concerns it is recommended shareholders oppose.

Note: Pursuant to the Corporations Act, if the resolution to adopt the Remuneration Report receives a “no” vote of at least 25% of the votes cast at two consecutive AGMs, a resolution must then be put to shareholders at the second AGM as to whether another general meeting of the Company should be held within 90 days at which all Directors (other than the Managing Director/ CEO), who were in office at the time the Board approved the second Remuneration Report, would need to stand for re-election. The resolution to adopt the Remuneration Report at 2013 AGM did not receive such a “no” vote.

Vote Recommendation: *Oppose*

## PROCTER & GAMBLE CO AGM - 14-10-2014

### 1c. *Re-elect Scott D. Cook*

Non-Executive Director. Independent by Company but not considered to be independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 96.9, Abstain: 0.5, Oppose/Withhold: 2.6,

### 1e. *Re-elect A.G. Lafley*

Re-appointed Chairman and CEO having previously served in this capacity. Continued combined roles at the head of the Company. There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company’s business. No one individual should have unfettered powers of decision. Combining the two roles in one person represents a concentration of power that is potentially detrimental to board balance, effective debate, and board appraisal.

Vote Recommendation: *Oppose*

Results: For: 96.2, Abstain: 0.8, Oppose/Withhold: 3.0,

### 1g. *Re-elect W. James Mc Nerney, Jr.*

Non-Executive Director. Independent by Company but not considered to be independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 96.0, Abstain: 0.4, Oppose/Withhold: 3.6,

### 1k. *Re-elect Ernesto Zedillo*

Non-Executive Director. Independent by Company but not considered to be independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 96.6, Abstain: 0.6, Oppose/Withhold: 2.8,

## 4. *Approve Pay Structure*

The company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The commentary on the disclosures made by the

company are contained in the body of this report and the voting outcome for this resolution reflects the balance of opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: BDA

Disclosure: B - There is disclosure of the bonus targets on a retrospective basis. The targets for the year under review are not considered to be challenging.

Balance: D - Not all awards have performance conditions attached.

Contracts: A - There are no severance agreements with executive officers. There is no automatic acceleration of vesting upon a change in control and the Company does have a clawback policy in place.

Based on this rating it is recommended that shareholders oppose.

Vote Recommendation: *Oppose*

Results: For: 94.5, Abstain: 0.9, Oppose/Withhold: 4.6,

### 3. Approve The Procter & Gamble 2014 Stock and Incentive Compensation Plan

The Board are requesting shareholder approval of the Procter & Gamble 2014 Stock and Incentive Compensation Plan. The purpose of the Plan is to strengthen the alignment of interests between those employees of the Company and its subsidiaries who are largely responsible for the success of the business, as well as non-employee Directors, and the Company's shareholders through increased ownership of the Company. The participants in the Plan shall be non-employee Directors and those employees who, in the opinion of the Committee, have demonstrated a capacity for contributing in a substantial manner to the success of the Company. This currently includes 10 non-employee Directors and approximately 6,000 of the Company's key managers who receive awards on an annual basis. It also includes an additional 8,000 employees currently eligible for cash bonuses who can elect to take all or part of their bonuses in stock options issued pursuant to the Plan. The maximum number of shares with respect to which options or other awards may be granted to any non-employee Director in any calendar year shall not exceed 10,000. The maximum number of shares with respect to which stock options or SARs may be granted to any employee who is a participant in any calendar year shall not exceed two million.

There are the following concerns with the plan: the maximum award that may be granted to an employee has the monetary value of USD 168.88 million (share price was \$84.44 as of 30/09/2014) which is considered to be excessive; the plan will have 160 million outstanding shares that can be awarded, which amount to 6% of the current issued share capital; and performance criteria for the performance based awards are not included. Due to these concerns a vote against the plan is recommended.

Vote Recommendation: *Oppose*

Results: For: 88.1, Abstain: 0.7, Oppose/Withhold: 11.2,

## PAYCHEX INC. AGM - 15-10-2014

### 1a. Elect B. Thomas Golisano

Non-Executive Chairman. Not independent as he holds 10.4% of the issued share capital and was President and CEO of the company until 2004. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 98.6, Abstain: 0.3, Oppose/Withhold: 1.1,

**1b. Elect Joseph G. Doody**

Non-Executive Director. Not considered independent as Mr. Doody is Vice Chairman of Staples, Inc. During fiscal 2014, the Company purchased through negotiated transactions approximately \$1.3 million (2013: \$1.6 million, 2012: \$1.8 million) of office supplies from Staples, Inc. There are also concerns over his time commitments. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 98.9, Abstain: 0.3, Oppose/Withhold: 0.8,

**1c. Elect David J. S. Flaschen**

Non-Executive Director. Not considered to be independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 95.8, Abstain: 0.4, Oppose/Withhold: 3.8,

**1d. Elect Phillip Horsley**

Non-Executive Director. Not considered independent as he has served the Board for more than nine years during his first tenure with the company between 1982 and 2009. He was re-elected again at the 2011 AGM. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 96.4, Abstain: 0.3, Oppose/Withhold: 3.3,

**1e. Elect Grant M. Inman**

Non-Executive Director. Not considered to be independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 92.9, Abstain: 0.4, Oppose/Withhold: 6.7,

**1f. Elect Pamela A. Joseph**

Non-Executive Director. Not considered independent as she will have served on the board for more than nine years as of the 2014 AGM. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.1, Abstain: 0.3, Oppose/Withhold: 0.6,

**1h. Elect Joseph M. Tucci**

Lead Director. Not considered independent as he has served on the board for more than nine years. Furthermore, Mr. Tucci is the Chairman and Chief Executive Officer of EMC Corporation. During fiscal 2014, the Company purchased through negotiated transactions approximately \$4.7 million of data processing equipment and software from EMC Corporation. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 94.8, Abstain: 0.3, Oppose/Withhold: 4.9,

**2. Approve Pay Structure**

The Company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The commentary on the disclosures made

by the company are contained in the body of this report and the voting outcome for this resolution reflects the balance of opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: BEA  
 Disclosure: B - The company discloses the annual bonus targets retrospectively. Qualitative metrics are not disclosed.  
 Balance: E - There are no performance criteria attached to stock options or time-vested restricted stock awards and the vesting periods are considered insufficient. Annual bonus targets are not considered challenging.  
 Contracts: A - The company has a recoupment policy in place and double triggers for award in the event of a change in control.  
 Based on this rating it is recommended that shareholders oppose.

Vote Recommendation: *Oppose*

Results: For: 93.0, Abstain: 0.7, Oppose/Withhold: 6.3,

## CSL LTD AGM - 15-10-2014

### 3. *Approve the Remuneration Report*

**Check your LaTeX tags**

Vote Recommendation: *Oppose*

### 4. *Approve grant of performance Rights and Performance Options to Paul Perreault*

The Board is seeking shareholder approval for the purposes of ASX Listing Rule 10.14 for the grant to the Managing Director and Chief Executive Officer, Mr Paul Perreault of: i) Performance Options up to the maximum value of USD 1,020,000; and ii) Performance Rights up to the maximum value of USD 1,912,500.

The Board conducted a review of its Remuneration practices and decided to make various changes to its policy, including an increase in the value of Long-Term Incentive awards. No clear maximum cap has been disclosed, but the total award proposed under this resolution, which is above 100% of CEO's base salary, is considered excessive when combined with the annual bonus also capped at 100% of base salary. The proposed grant of Performance Rights will be subject to two performance measures (EPS and TSR) over the four year performance period. The Performance Options, which have just been introduced to the remuneration structure, will not be subject to any performance conditions which is considered inappropriate. No holding period beyond vesting is in place.

Based on the above concerns, an oppose vote is recommended.

Vote Recommendation: *Oppose*

## CINTAS CORPORATION AGM - 21-10-2014

### 3. *Amend existing 2005 executive share option scheme/plan*

It is proposed to amend the 'Cintas Corporation 2005 Equity Compensation Plan' by increasing the number of shares of common stock, no par value, of the Company, available for issuance under the 2005 Equity Compensation Plan (and also the plan limit on incentive stock options) from 14,000,000 shares to 21,000,000 shares.

Under the 2005 Equity Compensation Plan, the Compensation Committee may grant awards of stock options (both non-qualified and incentive stock options), stock appreciation rights, restricted stock and unrestricted stock awards, performance awards and other stock unit awards. Any person who performs services for the Company or any subsidiary, including officers and directors of the Company or a subsidiary, who are compensated on a regular basis by the Company or a subsidiary,



other than a person who receives retirement benefits, consulting fees or honorariums from the Company, are generally eligible to be designated a participant under the 2005 Equity Compensation Plan. The Compensation Committee has the sole and complete authority to determine the participants to whom awards shall be granted under the 2005 Equity Compensation Plan. As of August 25, 2014, approximately five executive officers, 1,350 employees, and six independent directors were eligible to participate in the 2005 Equity Compensation Plan.

As of August 25, 2014, 2,317,172 shares of common stock remain available for grant under the plan. Amendment No. 4 will authorize the issuance of up to an additional 7,000,000 shares of common stock. This represents a potential dilution for shareholders of 7.8%. When total number of shares subject to outstanding awards are taken into account, the total potential dilution is 15.6%. This is considered excessive. Opposition is recommended.

Vote Recommendation: *Oppose*

Results: For: 99.6, Abstain: 0.4, Oppose/Withhold: 0.0,

## 2. Approve Pay Structure

The company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The commentary on the disclosures made by the company are contained in the body of this report and the voting outcome for this resolution reflects the balance of opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: CDD (2013: CDD)

Disclosure: C - The Company discloses EPS and Sales growth targets on a retrospective basis but not non-financial targets.

Balance: D - There is a minimum three year vesting period for awards but the targets for the annual incentive duplicate the targets which determine the quantum of long-term awards.

Contracts: D - The Company does not have severance agreements in place and there is no way for shareholders to determine amounts due upon a change in control.

Based on this rating it is recommended that shareholders oppose.

Note: In 2013, 99% of votes cast were in favour.

Vote Recommendation: *Oppose*

Results: For: 98.9, Abstain: 1.1, Oppose/Withhold: 0.0,

## 4. Appoint the auditors

Ernst & Young LLP proposed. Non-Audit fees represent 46.91% of audit fees for the year under review and 46.08% on a three year rolling basis. This raises concerns over the auditor's independence.

Vote Recommendation: *Abstain*

Results: For: 99.6, Abstain: 0.4, Oppose/Withhold: 0.0,

## AUCKLAND INTL AIRPORT LTD AGM - 23-10-2014

### 2. Elect Justine Smyth

Independent Non-Executive Director. Ms Smyth has missed 1 of the 6 Audit and Financial Risk Committee meetings held during the year. No adequate justification

has been provided.

Vote Recommendation: *Abstain*

## HARRIS CORP AGM - 24-10-2014

### 1a. To elect William M. Brown

Chairman and Chief Executive. Mr. Brown joined Harris in November 2011 as President and Chief Executive Officer and was appointed Chairman in April 2014. Combined role at the top of the Company. It is considered best practice for the roles of Chairman and CEO to be separated with a Chairman responsible for the functioning of the Board and a CEO responsible for the running of the Company. No one individual should have unfettered powers of decision as the combining the two roles in one person represents a concentration of power that is potentially detrimental to board balance, effective debate, and board appraisal.

Vote Recommendation: *Oppose*

Results: For: 98.4, Abstain: 1.6, Oppose/Withhold: 0.0,

### 1c. To elect Thomas A. Dattilo

Lead Director. Not considered independent due to serving on the board for over nine years. He previously served as Chairman between January 2012- April 2014. There is insufficient independence on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.4, Abstain: 0.6, Oppose/Withhold: 0.0,

### 1d. To elect Terry D. Growcock

Non-Executive Director. Not considered independent due to serving on the board for over nine years. There is insufficient independence on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.3, Abstain: 0.7, Oppose/Withhold: 0.0,

### 1e. To elect Lewis Hay III

Non-Executive Director. Independent by the Company, but not considered independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.4, Abstain: 0.6, Oppose/Withhold: 0.0,

### 1g. To elect Karen Katen

Non-Executive Director. Independent by the Company, but not considered independent as she has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.4, Abstain: 0.6, Oppose/Withhold: 0.0,

## 2. Approve Pay Structure

The company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The detailed commentary on the disclosures

made by the company are contained in the body of this report and the voting outcome for this resolution reflects the balance of our opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: CDB

Disclosure rating: C - It is welcomed that the peer group has been disclosed. Performance against past targets are disclosed, but future targets are not disclosed.

Balance rating: D - Sign on bonuses and one time equity grants are used as part of compensation packages. The annual bonus can be adjusted upwardly in a discretionary manner.

Contracts rating: B - Disclosed severance agreements are acceptable, but there aren't agreements with all executives.

Based upon this rating an oppose vote is recommended.

Vote Recommendation: *Oppose*

Results: For: 99.2, Abstain: 0.8, Oppose/Withhold: 0.0,

1h. *To elect Leslie F. Kenne*

Non-Executive Director. Independent by the Company, but not considered independent as she has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.3, Abstain: 0.7, Oppose/Withhold: 0.0,

1i. *To elect David B. Rickard*

Non-Executive Director. Independent by the Company, but not considered independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.4, Abstain: 0.6, Oppose/Withhold: 0.0,

1j. *To elect Dr. James C. Stoffel*

Non-Executive Director. Independent by the Company, but not considered independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.4, Abstain: 0.6, Oppose/Withhold: 0.0,

1k. *To elect Gregory T. Swinton*

Non-Executive Director. Independent by the Company, but not considered independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.4, Abstain: 0.6, Oppose/Withhold: 0.0,

**11. To elect Hansel E. Tookes II**

Non-Executive Director. Independent by the Company, but not considered independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.3, Abstain: 0.7, Oppose/Withhold: 0.0,

**STOCKLAND AGM - 28-10-2014****3. Re-elect Peter Scott**

Not considered to be independent due to related party transactions. Mr Scott served as chairman of Sinclair Knight Merz Holdings, which provided consulting services to the Company during the previous year for an amount of A\$144,252. Sinclair Knight Merz is paying commercial rent at various of Stockland's properties. Rents received and receivable from Sinclair Knight Merz for the previous financial year were A\$9,330,455. Mr. Scott is also Chairman of Perpetual Limited. Amounts paid or and payable to Perpetual for the previous year were A\$63,877. There is insufficient independence on the board, therefore opposition is recommended.

Vote Recommendation: *Oppose*

**4. Approve the Remuneration Report**

In accordance with Section 250R of the Australian Corporations Act, the directors are seeking approval of the remuneration report. The Act does not require directors to act on approval of the resolution and the vote is advisory.

Disclosure:

Overall disclosure is good. The policy statement is clear and concise.

Balance of Performance and Reward:

Total remuneration comprises both a fixed and variable component, which consists of both short and long term incentives.

Short-Term Incentives:

These are based on meeting financial and non-financial performance targets in five key areas: underlying profit performance, business performance, customer, stakeholder and sustainability performance, people management and operational excellence & risk. Short Term Incentives are limited to 125% of base salary for the managing director and 112.5% for senior executives. At least one third of Short Term Incentives for senior executives, and at least one half for the managing director, are deferred into Stockland securities which vest over two years, subject to continued service. However, the Board retains discretion to award STI entirely in cash in certain circumstances. Short Term Incentives are capped at 5% of of Stockland's underlying profit. It is noted that in the year under review all targets were met or exceeded. However it is difficult to determine how challenging these targets are.

Long-Term Incentives:

Stockland's LTI awards are linked to two measures: target underlying EPS growth and relative TSR performance. There was no LTI vesting in FY14 based on performance against these two hurdles measured over the period from 1 July 2011 to 30 June 2014. Maximum payout under the LTI is 100% of base salary for the managing director and 60% of base pay for senior executives. Clawback provisions are in place for the LTI. The LTI may vest three and four years later subject to performance hurdles and continued employment. Half of the LTI allocated to employees is linked to Stockland's performance against underlying EPS Growth Targets. The prospective target for maximum or full vesting of the EPS Growth component of FY15 LTI awards is 6.25% CAGR ("EPS Target"). The threshold hurdle for vesting to commence is a CAGR of 4.5% or 27.4 cents per Stapled Security over the same period. The Group exceeded the target in FY14 but fell short in FY12 and FY13. Accordingly, there was no vesting for the EPS portion of the 2011 (FY12) LTI awards to any employee.

The other half of the LTI award is linked to the TSR performance hurdle. From 1 July 2011 to 30 June 2014, Stockland's TSR returned a positive absolute return of

42.2% but underperformed over the period against its peer group benchmark of 52.7% (as measured by the A-REIT Accumulation Index excluding Stockland) so there was no vesting of the TSR portion of the 2011 LTI awards to any employee.

Furthermore, LTIP based schemes are inherently flawed. There is the risk that they are rewarding volatility rather than the performance of the company (creating capital and - lawful - dividends). They can act as a complex and opaque hedge against absolute company under-performance and long-term share price falls. They are also a significant factor in reward for failure.

Contracts:

Contracts for executives are in line with best practice. The notice period for executives is three months, for the managing director it is six months. Where Stockland initiates termination, including mutually agreed resignation, the Managing Director or Senior Executive would receive a termination of twelve months Fixed Pay.

Summary:

Overall remuneration levels paid during the year are not considered excessive. However, the lack of disclosure of the EPS targets frustrates shareholders ability to determine if they are sufficiently challenging. The lack of concurrent, rather than separate performance criteria is also not supported. Based on these concerns, it is recommended that shareholders oppose.

Note: Pursuant to the Corporations Act, if the resolution to adopt the Remuneration Report receives a “no” vote of at least 25% of the votes cast at two consecutive AGMs, a resolution must then be put to shareholders at the second AGM as to whether another general meeting of the Company should be held within 90 days at which all Directors (other than the Managing Director), who were in office at the time the Board approved the second Remuneration Report, would need to stand for re-election. The resolution to adopt the Remuneration Report at the 2013 AGM did not receive such a “no” vote.

*Vote Recommendation: Oppose*

#### *5. Approve the issuance of 811,000 performance rights to Mr Mark Steinert, Managing Director*

The board is seeking approval of the participation in the Stockland Performance Rights Plan by Mr M Steinert, Managing Director as to 811,000 performance rights as part of his 2015 financial year remuneration; and the issue to and acquisition by Mr M Steinert, Managing Director of those performance rights and, in consequence of vesting of those performance rights, of Stockland Stapled Securities.

Stockland's LTI awards are linked to two measures: target underlying EPS growth and relative TSR performance. The prospective target for maximum or full vesting of the EPS Growth component of FY15 LTI awards is 6.25% CAGR (“EPS Target”). The threshold hurdle for vesting to commence is a CAGR of 4.5% or 27.4 cents per Stapled Security over the same period. In order for the TSR grant to vest, Stockland's TSR must be greater than the growth in the ASX/Australian Real Estate Investment Trust Index (“Index”) reconstituted to exclude Stockland (“TSR Target”). 50% of the TSR grant will vest at a performance greater than the target. A proportion of the TSR grant vests in a straight line between 50% and 100% when performance is up to 10% greater than the TSR target. 100% of the grant vests when performance is 10% or more greater than the TSR target. Based on current earnings the EPS target is not deemed to be sufficiently challenging. The TSR hurdle is considered challenging. However, it would be better if the performance conditions were used concurrently rather than independently. Furthermore, LTIP based schemes are inherently flawed. There is the risk that they are rewarding volatility rather than the performance of the company (creating capital and - lawful - dividends). They can act as a complex and opaque hedge against absolute company underperformance and long-term share price falls. They are also a significant factor in reward for failure. On this basis it is recommended that shareholders oppose.

*Vote Recommendation: Oppose*

**TATTS GROUP LTD AGM - 29-10-2014****1. Approve the Remuneration Report**

Disclosure: The Remuneration and Human Resources Committee does not disclose of specific performance conditions and targets for the variable remuneration. Under the terms of the Managing Director/Chief Executive Officer's contract, the remuneration structure to apply for the 3 years from 14 January 2013 to 14 January 2016 comprises:

a Fixed Annual Remuneration (FAR) set currently at \$1.47 million per annum;

performance based incentive entitlement of up to 70% of FAR, subject to achievement of KPIs set annually. Any performance based incentive entitlement will be paid as 50% cash and 50% rights to restricted shares. The rights are subject to shareholder's approval; and

a total of 450,000 rights to restricted shares, granted over 3 years in 150,000 tranches each year of the three-year contract and with each tranche exercisable 12 months after grant date subject to continued employment, and no performance conditions.

The performance based incentive entitlement is based on KPIs of financial performance set around year-on-year growth in EBIT, with EBITDA and Earnings Per Share (EPS) used to determine actual payment levels. These measures of performance are combined with individual, business and Group performance requirements which include financial and non-financial measures, and other specific performance requirements for the position (which include strategic value adding initiatives and organisation development).

Contracts: The Managing Director's contract provides for a written notice for the lesser of 12 months or the period remaining until 13 January 2016.

Summary: Variable pay is not considered excessive when compared with the Director's base salary. The Managing Director receives share-based awards unrelated to performance which is against best practice. The Committee does not disclose the rationale behind such a practice. The Company does not disclose rules for the treatment of awards in the event of termination of employment or takeover. There is no evidence of a real clawback policy. Based on these concerns it is recommended shareholders oppose.

*Vote Recommendation: Oppose*

**2a. Re-elect Kevin Seymour**

Non-Executive Director. Not considered independent as he was on the Board of UNITAB (with which the Company merged in 2006) since September 2000. There is insufficient independent representation on the Board. An oppose vote is recommended.

*Vote Recommendation: Oppose*

**ORACLE CORP. AGM - 05-11-2014****2. Approve Pay Structure**

The company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The voting outcome for this resolution reflects the balance of opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: BDA

Disclosure rating: B - performance targets for the annual bonus are set out both for the year under review and the forthcoming year.

Balance rating: D - There is a concern over Executive Compensation Committee having a discretion in awarding additional bonuses, and stock options vesting in less than three years.

Contracts rating: A - There are "double-trigger" and "clawback" policies in place.

Based upon this rating an oppose vote is recommended.

Note: The 2013 'say-on-pay vote' received an oppose vote of approximately 56%.

Vote Recommendation: *Oppose*

Results: For: 99.7, Abstain: 0.3, Oppose/Withhold: 0.0,

#### 4. *Shareholder Resolution: Vote Tabulation*

Proposed by: Chief Executive of Investor Voice, Bruce T. Herbert.

It is proposed that the Board amend the Company's governing documents to provide that all matters presented to shareholders be decided by a simple majority unless shareholders have approved higher thresholds or the law or stock exchange regulations require higher thresholds.

The shareholders' concern is related to the company's practice with respect to vote counting for the resubmission of shareholder proposals. The Company does not follow the SEC's vote-counting standard, but instead includes Abstain votes as well. The shareholder points out this lowers the vote to shareholder sponsored proposals. He considers that "these practices fail to respect voter intent, are arbitrary, and run counter to the core principles of democracy".

The Company does not recommend support for the proposal. They state that their current voting standard "does not favour management-sponsored proposals over stockholder-sponsored proposals, does not prevent the passage of stockholder proposals and does not circumvent SEC standards". They consider it appropriate to include abstentions in the tabulation of the vote on proposals other than the election of directors and do not consider that the proposal will enhance the company's corporate governance.

It is considered that the investors concerns and the proposal have somewhat different implications. The proposal is that all matters be decided by simple majority. Generally, it is considered that shareholders should have the right to approve most matters submitted for their consideration by a simple majority of the shares voted. However, it is considered that it is appropriate for certain matters to be subject to a higher approval threshold. Therefore, it is recommended shareholders abstain.

Vote Recommendation: *Abstain*

Results: For: 96.2, Abstain: 3.8, Oppose/Withhold: 0.0,

### **CARDINAL HEALTH INC. AGM - 05-11-2014**

#### 1.03. *Re-elect George S. Barrett*

Chairman and CEO. Combined roles at the head of the Company. There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision. Combining the two roles in one person represents a concentration of power that is potentially detrimental to board balance, effective debate, and board appraisal.

Vote Recommendation: *Oppose*

Results: For: 99.5, Abstain: 0.5, Oppose/Withhold: 0.0,

### 3. Approve Pay Structure

The company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The commentary on the disclosures made by the company are contained in the body of this report and the voting outcome for this resolution reflects the balance of opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: CDA

Disclosure: C - There is no disclosure of future targets or individual goals.

Balance: D - Restricted stock awards are not subject to performance conditions. PSU grants have two-year and three-year performance periods. Pay levels for the CEO are considered to be quite high as the total aggregate pay has exceeded \$10 million for each of the previous four years.

Contracts: A - The Company does not automatically accelerate vesting upon a change in control. Change in control provisions do not define good reason in an appropriate manner.

Based upon this rating it is recommended that shareholders oppose.

Vote Recommendation: *Oppose*

Results: For: 99.7, Abstain: 0.3, Oppose/Withhold: 0.0,

### 4. Approve the material terms of the performance goal under the Cardinal Health Inc. Management Incentive Plan

The proposal seeks approval for an extension of the Management Incentive Plan ("MIP") from 2009 for a further five years in line with section 162(m) of the Internal Revenue Code of 1986. One of the purposes of the MIP is provide employees in leadership positions with an annual bonus incentive. Shareholder approval is required for the terms of the scheme so that it may qualify for a tax benefit under the Code, namely that remuneration paid in excess of USD 1 million may be subject to an income tax deduction.

There are concerns that the maximum limit disclosed amounts to USD 7.5 million, which is deemed excessive. There are also concerns that, although the nature of performance criteria that may be applied is disclosed in general terms, specific targets are not. Furthermore, the tax treatment of performance pay is intended to act as performance incentive itself. However, it is not considered that favourable tax treatment under such schemes can be justified unless it is possible to evaluate the targets that are in use in a more specific fashion. In view of these concerns an oppose vote for this proposal is recommended.

Vote Recommendation: *Oppose*

Results: For: 99.7, Abstain: 0.3, Oppose/Withhold: 0.0,

## PERNOD RICARD SA AGM - 06-11-2014

### O.1. Approval of the Financial Statements

Disclosure is adequate. The financial statements were made available sufficiently before the meeting and have been audited and certified. However, the following serious corporate governance concerns have been identified.

First, there is no de facto division at the head of the company between the chairmanship of the board and executive responsibilities, as these are both run by members of the Pernod family. In addition, the former CEO Mr. Pringuet remains of the board, having reached the statutory age limit for the post of Chief Executive. The roles of chairman and chief executive are completely different and should be separated. Although the two roles at the company are formally separated, their de facto



coincidence represents a concentration of power that is potentially detrimental to board balance, effective debate, and board appraisal. Generally, it is considered that the combination of roles at a listed company can only be justified on a temporary basis under exceptional circumstances. In addition, seven out of 14 non-executive directors are linked to significant shareholders. The founding family Pernod (13.14% of the issued share capital) and Raphael Gonzales-Gallarza (0.56% of the issued share capital) seem to have a disproportionate representation on the Board as they jointly hold 13.7% of the share capital (and 19.68% of the voting rights) but have seven representatives on the Board. On this ground, opposition is recommended.

Vote Recommendation: *Oppose*

Results: For: 99.4, Abstain: 0.2, Oppose/Withhold: 0.4,

#### *O.2. Approval of the Consolidated Financial Statements*

Disclosure is adequate. The financial statements were made available sufficiently before the meeting and have been audited and certified. However, given the serious governance concerns reported in resolution 1, opposition is recommended also for this resolution.

Vote Recommendation: *Oppose*

Results: For: 99.6, Abstain: 0.1, Oppose/Withhold: 0.3,

#### *O.4. Approval of the regulated agreements and commitments*

It is proposed to approve the third-party transactions authorized and renewed during the year under review. Two new agreements are under this resolution. First, a Multicurrency Revolving Facility Agreement for EUR 2.5 billion with, amongst others, BNP Paribas and J.P. Morgan Ltd as Mandated Lead Arrangers and Bookrunners and BNP Paribas and J.P. Morgan Chase Bank N.A. as Original Lenders. Under this agreement, the lenders would make available to the Group a line of credit up to EUR 2.5 billion. In addition, the the renewal of the brand licensing agreements has been authorised for a period of 5 years.

Such transactions are considered on the basis of whether the transaction has been adequately explained and whether there is sufficient independent oversight of the recommended transaction. The circular contains full details of the transaction; however, there is not a sufficient balance of independence on the board.

Vote Recommendation: *Oppose*

Results: For: 99.4, Abstain: 0.1, Oppose/Withhold: 0.5,

#### *O.5. Re-elect Martina Gonzalez-Gallarza*

Non-Executive Director. Not considered to be independent as there is a shareholder agreement between her father, Raphael Gonzalez-Gallarza (holder of 0.56% of the share capital) and Société Paul Ricard (which holds 13.14% of the company's voting rights) pursuant to which Rafaël Gonzalez-Gallarza undertakes to consult Société Paul Ricard prior to any Pernod Ricard general meeting in order for them to agree on the voting at the meeting. There is insufficient independent representation on the board.

Vote Recommendation: *Oppose*

Results: For: 94.8, Abstain: 0.1, Oppose/Withhold: 5.1,

#### *O.6. Re-elect Ian Gallienne*

Non-Executive Director. Not considered to be independent as he is connected to Groupe Bruxelles Lambert (GBL), which holds 6.86% of the company's voting rights. Furthermore there are concerns over his aggregate time commitment. There is insufficient independent representation on the board.

Vote Recommendation: *Oppose*

Results: For: 96.6, Abstain: 0.1, Oppose/Withhold: 3.3,

#### *O.7. Elect Gilles Samyn*

Non-Executive Director. Not considered to be independent as he is currently executive of Groupe Bruxelles Lambert, which he joined in 1983. Groupe Bruxelles

Lambert holds 6.9% of the company's voting rights. There are concerns over his aggregate time commitments. There is insufficient independent representation on the board.

Vote Recommendation: *Oppose*

Results: For: 83.1, Abstain: 0.1, Oppose/Withhold: 16.7,

#### *O.9. Advisory Vote on Compensation of Daniele Ricard, Chairman of the Board*

Shareholders are asked to approve the annual compensation, paid or due to the Chairwoman of the Board, Danielle Ricard. This is an advisory vote, whose outcome is not binding for the Company.

The Chairwoman only receives fixed remuneration, in the amount of EUR 110,000. Despite the corporate governance concerns identified at the company, the remuneration for the Chairman is not considered to be excessive and her compensation structure does not raise serious concerns. However, the chairwoman is also a member of the founding family and major shareholder. On the basis of the governance concerns identified at the company, abstention is recommended.

Vote Recommendation: *Abstain*

Results: For: 99.6, Abstain: 0.1, Oppose/Withhold: 0.4,

#### *O.10. Advisory Vote on Compensation of Pierre Pringuet, Vice Chairman and CEO*

Shareholders are asked to approve the annual compensation, paid or due to the Pierre Pringuet, Vice Chairman and CEO. This is an advisory vote, whose outcome is not binding for the Company.

The Company does not disclose quantified targets for the annual bonus or the long time incentives, which prevents shareholders from evaluating the potential excessiveness of the pay structure as a whole. The overall variable remuneration for the CEO seems to exceed guidelines potentially; in addition, there are concerns over the severance agreement entered into with the CEO, which is deemed excessive. Opposition is therefore recommended.

Vote Recommendation: *Oppose*

Results: For: 97.9, Abstain: 0.1, Oppose/Withhold: 2.1,

#### *O.11. Advisory Vote on Compensation of Alexandre Ricard, Vice CEO*

Shareholders are asked to approve the annual compensation, paid or due to the Alexandre Ricard, Vice CEO. This is an advisory vote, whose outcome is not binding for the Company.

The Company does not disclose quantified targets for the annual bonus or the long time incentives, which prevents shareholders from evaluating the potential excessiveness of the pay structure as a whole. The overall variable remuneration for the Vice CEO has not been excessive for 2013: fixed salary of EUR 750,000 and variable remuneration of EUR 950,000. However, due to lack of disclosure, an accurate assessment of balance between performance and pay is not possible. In addition, there are concerns over the severance agreement entered into with him (severance and non-compete clause capped at 1 year of total remuneration) which is deemed excessive. Opposition is therefore recommended.

Vote Recommendation: *Oppose*

Results: For: 97.9, Abstain: 0.1, Oppose/Withhold: 2.1,

#### *E.13. Authorise the Board of directors to allocate free performance shares to employees and executives*

It is proposed to grant the board authorization to allocate performance shares free of charge to employees and executives. The authorization will be valid for 38 months. Actual allocation will be subject to presence and performance conditions, one internal and one external, of which only the external has been disclosed and quantified (TSR). Performance will be measured over two years and shares will vest over a minimum of three years.

Although the performance conditions are above market practice (both in terms of disclosure and criteria), internal performance criteria are still undefined. In addition, the vesting time is not considered long term. On these bases, opposition is recommended.

Vote Recommendation: *Oppose*

Results: For: 80.6, Abstain: 0.1, Oppose/Withhold: 19.3,

#### E.14. *Authorise the Board of Directors to grant stock options to executive and employees*

The company requests general approval to issue stock options, corresponding to maximum 1.5% of the issued share capital, to employees and management over a period of 38 months.

Performance conditions to be applied to those options awarded are not disclosed in full.

Dilution meets guidelines; however, the performance conditions applied to this specific plan are not disclosed. Opposition is recommended.

Vote Recommendation: *Oppose*

Results: For: 64.0, Abstain: 0.1, Oppose/Withhold: 36.0,

### BRAMBLES LTD AGM - 06-11-2014

#### 2. *Approve the Remuneration Report*

**Disclosure:** Overall disclosure is considered acceptable. However, specific performance targets are not provided for STI awards, either on retrospective or prospective basis.

**Short-Term Incentives :** These are based on Brambles Value Added (BVA) which represent the value generated over and above the cost of the capital used to generate that value, Cash Flow from Operations and Profit After Tax (PAT) financial targets; and non-financial measures which include personal objectives in areas such as safety, business strategy and growth objectives, customer satisfaction and retention, and people and talent management. The STI comprise a cash component and a deferred portion which is delivered as equity two years following the cash payment.

**Long-Term Incentives :** LTI awards at the Company normally comprise performance share rights. Half of the LTI share awards are based on the relative TSR condition where 40% of LTI share awards vest if the Company's relative TSR performance equals the TSR of the median ranked ASX100 company and 100% vest for out-performance of the TSR of the median-ranked ASX100 company by 25%. Vesting occurs on a pro rata straight line basis for performance in between these two levels. The other half vest based on both long-term sales revenue targets which are underpinned by BVA hurdles. Specific targets are also provided in the report.

**Contracts:** Executive Directors' contracts may be terminated by the employer giving 12 months notice or by the employee giving six months notice. LTI awards continue to vest, for a Good Leaver, subject to pro-rata for time in service. Malus provisions are in place for unvested awards.

**Summary:** Variable remuneration has the potential to be excessive, as STI and LTI awards are not individually capped, and as it is noted, rewards made in the year to the CEO were excessive when compared to his base salary. LTI performance conditions work independently of each other, which is considered to be against best practice. Multiple interdependent metrics should be used, which include a non-financial element. The three-year performance condition is not considered sufficiently long-term and no holding period is used. The shareholding policy in place does not set a time-frame in which the minimum requirement must be met. Guidelines recommend this should be met in three years for Executive Directors. There is no evidence of a real clawback policy and the Committee cannot retrieve awards already made to Directors. No mitigation statement has been made. Opposition is recommended.

Vote Recommendation: *Oppose*

#### 7. *Authorise issuance of shares under the brambles Limited 2006 Performance Share Plan*

Shareholder approval is being sought for the issue of Awards under the Performance Share Plan. Two types of awards can be made under the Performance Share Plan. First, STI awards under which participants may receive a bonus in the form of an award, or awards may also be granted to employees who do not ordinarily receive a cash bonus, secondly LTI awards, the vesting of which is subject to performance conditions. STI award normally only vests two years after grant and if the

participant is still employed in the Employer Group. LTI awards in place at the Company only vests three years after grant, to the extent that the performance condition is met. The performance condition for half of the LTI Awards will be based on Brambles' combined total shareholder return (TSR) compared against companies which are in the S&P/ASX100 at the beginning of the performance period. For the other half of the LTI awards will be based on the achievement of sales revenue targets performance hurdles set on a compound annual growth rate basis and underpinned by Brambles Value Add (BVA) hurdles. Quantified performance is not disclosed. The market value of Brambles Limited share awards made to any person in any financial year, shall not be more than 200% of their Total Fixed Remuneration, and 300% of Total Fixed Remuneration under exceptional circumstances. In event of cessation of employment, awards continue to vest for a Good Leaver, pro-rated down to reflect the time service. In the event of a takeover awards vest at the discretion of the Committee or alternatively, awards may be exchanged for equivalent awards over shares in the acquiring company subject to the consent of that company. As at 13 August 2014, 6,903,851 awards have been granted under the Performance Share Plan.

**Summary and voting advice:** Awards under the plan have the potential to be excessive. LTI Performance conditions work independently of each other, which is considered to be against best practice. Multiple interdependent metrics should be used, which include a non-financial element. The three-year performance period is not considered sufficiently long term. There is no holding period. Malus provisions are in place, however, the Committee cannot retrieve awards already made to Directors under the LTI. In the event a Director ceases employment or in the event of a takeover, vesting of awards is mainly at the discretion of the Remuneration Committee. Based on these concerns, oppose is recommended.

*Vote Recommendation: Oppose*

#### *8. Authorise issuance of shares under the Brambles Limited Myshare Plan*

Shareholder approval is being sought for the issue of awards under the Brambles Limited Myshare Plan. The limit on the number of new shares that may be issued under the MyShare Plan and any other employee share plan is 5% of the capital share. Under the plan, employees may acquire ordinary shares at a price determined by the Board which they must hold for a two year period. If they hold the shares and remain employed at the end of that two year period, Brambles will match the number of shares they hold by issuing or transferring to them the same number of shares which they held for the qualifying period at no additional cost to the employee. Employees may elect to reinvest the dividends payable on their acquired shares to purchase more shares in Brambles. The Board has set an annual limit on the annual value of acquired shares that participants may purchase up to a maximum of AUD 5,000. The Board has discretion to determine the price at which acquired shares will be purchased.

Although the proposed plan is open to all employees, there are concerns over the price at which employees purchase the awards. A discount to market price of more than 20% would be considered unacceptable. The price is set by the Remuneration Committee which does not set a limit for the discount. An oppose vote is therefore recommended.

*Vote Recommendation: Oppose*

#### *9. Approve the Grant of Awards to Thomas Joseph Gorman under the Brambles Limited 2006 Performance Share Plan*

The Board is seeking shareholder approval for the purposes of ASX Listing Rule 10.14 for the grant of performance rights under the Brambles Limited 2006 Performance Share Plan to Joseph Gorman, the CEO of the Company. The number of STI awards to be granted to Tom Gorman for the financial year 2015, will depend on the actual performance against annual targets. He will receive awards representing 35% of base salary for threshold performance, 60% of base salary for on target performance and 90% of base salary for maximum opportunity. LTI awards will have a face value of 130% of base salary. The maximum awards that the Director may receive under the authority have a face value of AUD5,108,400.

As previously expressed in Resolutions 2 and 7, LTI awards should not be supported as performance conditions work independently of each other and do not include non-finance measure(s). The three-year performance period is not considered sufficiently long term and no holding period applies. There is no evidence of a clawback policy for the awards. The high level of the Remuneration Committee's discretion in the event of termination of employment or takeover is not in the best interests of

shareholders and negates the purpose of safeguards. Based on these concerns, opposition is recommended.

Vote Recommendation: *Oppose*

#### 10. Approve the Grant of Awards to Thomas Joseph Gorman under the Brambles Limited Myshare Plan

The Board is seeking shareholder approval for the purposes of ASX Listing Rule 10.14 for the grant of performance rights under the Brambles Limited Myshare Plan to Joseph Gorman, the CEO of the Company. The maximum amount that Tom Gorman may contribute is AUD\$ 5,000 per annum. The CEO will be required to hold the shares for a period of two years. The matching ratio is 1:1. As expressed in Resolution 8, the price at which the Director will purchase the awards is entirely at the discretion of the Committee, which does not set a limit for the discount to market share price. Therefore opposition is recommended.

Vote Recommendation: *Oppose*

### HAYS PLC AGM - 12-11-2014

#### 2. Approve Remuneration Policy

Disclosure is acceptable. However, we would welcome further disclosure of TSR performance targets for the Performance Share Plan (PSP) awards made during the year.

The variable element of CEO pay is considered potentially excessive as it can amount up to 325% of his salary. The ratio CEO pay to average employee pay is also not considered adequate. The PSP performance metrics are not operating interdependently and its performance period is three years, without a further holding period, which is not considered sufficiently long-term.

The CEO's contract allows him to receive a sum in lieu of notice that equates to his salary, benefits and also his on-target bonus pro-rated for time, which is deemed inadequate. It is considered that all contracts, including those agreed prior 27 June 2012, should be in line with Company's policy. Malus provision exists for the PSP which is welcomed. Nevertheless, best practice would be to operate real clawback provisions for all incentive schemes, such that money already paid are shares which already vested (after the implementation of the clawback provision) can be recovered under exceptional circumstances. Also, upside discretion can be used by the Committee when determining severance payments under the different incentive schemes.

Rating: BDD.

Vote Recommendation: *Oppose*

Results: For: 92.2, Abstain: 0.5, Oppose/Withhold: 7.3,

#### 5. Re-elect Alan Thomson

Incumbent Chairman. Independent upon appointment. It is noted that he is the Chairman of another FTSE 250 Company, Bodycote plc, which is considered inappropriate. The role of the chairman is considered to be crucial to good governance as they are primarily responsible for the culture of the board, and by extension the organisation as a whole and for ensuring that the board operates effectively. As such we consider the chairman should be expected to commit a substantial proportion of his or her time to the role. A chair of more than one large public company cannot effectively represent corporate cultures which are potentially diverse and the possibility of having to commit additional time to the role in times of crisis is ever present, particularly in diverse international, complex and heavily regulated groups or groups which are undergoing significant governance changes. An oppose vote is therefore recommended.

Vote Recommendation: *Oppose*

Results: For: 94.2, Abstain: 0.7, Oppose/Withhold: 5.1,

### 13. *Re-appoint the auditors: Deloitte LLP*

Non-audit fees represent approximately 22% of audit fees during the year under review and approximately 32% of audit fees over a three-year aggregate basis. This level of non-audit fees raises concerns over the independence of the auditor. An abstain vote is recommended.

Vote Recommendation: *Abstain*

Results: For: 98.8, Abstain: 1.1, Oppose/Withhold: 0.1,

## COMMONWEALTH BANK AUSTRALIA AGM - 12-11-2014

### 3. *Shareholder Resolution: Elect Mr Stephen Mayne*

Shareholder resolution proposed by Mr Mayne himself, individual shareholder.

In accordance with Rule 11.2(c) of the Constitution of the Commonwealth Bank of Australia, an external non-Board endorsed candidate, Mr Stephen Mayne, has submitted himself for election.

Mr Mayne explains that his nomination is a response to the concerns raised by the recent Senate Committee which called for a Royal Commission into the bank's financial advice division. He also stated that, if elected, he will undertake to work constructively and collegiately with the board and management team to maximize shareholder value in an environment of heightened governance and transparency.

The Board does not believe that it is in the best interests of shareholders that Stephen Mayne be elected as a member of the Board and recommends that shareholders vote against the resolution.

There is insufficient evidence of Mr Mayne's experience and skills in running Board of large listed companies. Also, the composition of the Board does not raise significant concerns as a large majority of the directors are independent. The appointment made during the year and subject to shareholders' approval are considered adequate. A vote against his election is therefore recommended.

Vote Recommendation: *Oppose*

### 4. *Approve the Remuneration Report*

**Check your LaTeX tags**

Vote Recommendation: *Oppose*

### 5. *Grant securities to Ian Narev*

The Board is seeking shareholder approval for the purposes of ASX Listing Rule 10.14 for the grant of 58,131 reward rights under the Group Leadership Reward Plan (GLRP) in relation to his long term incentive (LTI) arrangements. The present value of the award of 58,131 reward rights is AUD 2,650,000, using a valuation factor of 56%, which is approximately 100% of his fixed remuneration. The maximum value of these rights is AUD 4,713,843 based on the volume weighted average price (VWAP) of the Company's ordinary shares over the five trading days up to and including 1 July 2014. The award is based on TSR (75%) and customer satisfaction (25%) performance conditions and the targets attached are adequately disclosed. While it would be best practice for these targets to operate interdependently, the use of a non-financial performance condition is welcomed. The performance period is four years which is acceptable, although a five year period would be preferred and considered properly long-term. No dividend equivalents are paid while LTI awards are unvested which is welcomed. The vesting scale of the TSR metric is however not considered sufficiently broad.

The amount granted under this plan, when combined with maximum potential annual bonus, is considered excessive. Also, the treatment of reward rights if Mr Narev leaves the group raises some concerns as he would continue to be entitled to unvested entitlements under the Plan.

Furthermore, LTIP based schemes are inherently flawed. There is the risk that they are rewarding volatility rather than the performance of the company (creating capital and - lawful - dividends). They act as a complex and opaque hedge against absolute company underperformance and long-term share price falls. They are also a significant factor in reward for failure.

An oppose vote is therefore recommended.

Vote Recommendation: *Oppose*

#### **BROADRIDGE FINANCIAL SOLUTIONS AGM - 13-11-2014**

##### *1a. Re-elect Leslie A. Brun*

Non-executive Chairman. Not considered independent as he has been on the Board for more than nine years. It is noted that he is the Non-Executive Chairman of the former parent company, Automatic Data Processing. There is sufficient independent representation on the Board. However, there are concerns over his aggregate time commitments.

Vote Recommendation: *Abstain*

##### *2. Approve the pay Structure*

As a result of new SEC legislation that has entered into force (Section 951 of The Dodd-Frank Wall Street Reform and Consumer Protection Act), the company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The detailed commentary on the disclosures made by the company are contained in the body of this report and the voting outcome for this resolution reflects the balance of our opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: BDA

Disclosure rating: B - Specific targets for the annual bonus are disclosed, though not forward looking targets.

Balance rating: D - There are no additional performance targets attached to the stock options. The performance period is less than three years. EPS is used as a performance metric under both the annual bonus and the RSU plan.

Contracts rating: A - both a "double trigger" and a "clawback" policy are in place.

Based upon this rating an oppose vote is recommended.

Vote Recommendation: *Oppose*

#### **SHANDONG WEIGAO GP MED POYL CLASS - 17-11-2014**

##### *1. Approve new executive share option scheme/plan.*

Authority is sought to approve the adoption of the Share Award Scheme which will be effective for a term of 10 years commencing from the Adoption Date. The purpose for such scheme is to recognise and motivate the contributions of employees, attract and retain quality talents, ensure the realisation of the Group's development strategy

and business objectives and attain a long-term relationship between the Group and its employees. The maximum number of Non-listed Shares subject to the Share Award Scheme will not exceed 5% of the issued share capital of the Company as at the Adoption Date prior to the issue of any Incentive Shares, in addition, Non-Listed Shares that may be granted to a Selected Employee must not exceed 0.5% of the issued share capital of the Company. The scheme is for selected employees and will be subject to a lock-up period and performance target based on certain key performance index.

The Circular contains full details of the conditions and reason for the share scheme. However, there are concerns over the dilution effect that the issuance will have in the time period, in addition, the Company has not provided information on the performance conditions attached to the share award and the vesting period. Finally, there are concerns that the scheme is aimed for selected employees rather than all the employees of the company which will provide preferential treatment to certain employees.

Vote Recommendation: *Oppose*

*2. Approve the allotment and issue of the Non-Listed Shares subject to the executive incentive scheme.*

Given the concerns over the dilution effect of the issuance of the share for the purpose of scheme and pursuant to the voting recommendation for resolution 1, opposition is recommended.

Vote Recommendation: *Oppose*

*3. Authorise the directors to take all actions the consider necessary to give effect to the scheme and/or the issue of Non-Listed Shares.*

Standard Proposal. However, pursuant to the voting recommendation set out in resolution 1, opposition is recommended.

Vote Recommendation: *Oppose*

## **SHANDONG WEIGAO GP MED POYL EGM - 17-11-2014**

*3. Approve new executive share option scheme/plan*

Authority is sought to approve the adoption of the Share Award Scheme which will be effective for a term of 10 years commencing from the Adoption Date. The purpose for such scheme is to recognise and motivate the contributions of employees, attract and retain quality talents, ensure the realisation of the Group's development strategy and business objectives and attain a long-term relationship between the Group and its employees. The maximum number of Non-listed Shares subject to the Share Award Scheme will not exceed 5% of the issued share capital of the Company as at the Adoption Date prior to the issue of any Incentive Shares, in addition, Non-Listed Shares that may be granted to a Selected Employee must not exceed 0.5% of the issued share capital of the Company. The scheme is for selected employees and will be subject to a lock-up period and performance target based on certain key performance index.

The Circular contains full details of the conditions and reason for the share scheme. However, there are concerns over the dilution effect that the issuance will have in the time period, in addition, the Company has not provided information on the performance conditions attached to the share award and the vesting period. Finally, there are concerns that the scheme is aimed for selected employees rather than all the employees of the company which will provide preferential treatment to certain employees.

Vote Recommendation: *Oppose*



**SMITHS GROUP PLC AGM - 18-11-2014***1. Receive the Annual Report*

Strategic Report meets guidelines. Adequate environmental and employment policies are in place and relevant, up-to-date, quantified environmental reporting is disclosed. The Company also disclosed the proportion of women on the Board, in Executive Management positions and within the whole organisation. However, the company has made donations in the US which are deemed to be political during the year. The Group made political donations of US\$42,600 (£25,000) to 'raise awareness and to promote the interests of the Company, on a bi-partisan basis'. Such donations require additional clarification as to who are exactly the recipients and how such expenditure is in the best interest of shareholders. An abstain vote is therefore recommended.

Vote Recommendation: *Abstain*

Results: For: 98.6, Abstain: 1.1, Oppose/Withhold: 0.3,

*2. Approve Remuneration Policy*

Disclosure is acceptable

Maximum potential awards under all incentive schemes are considered highly excessive and the use of a Co-Investment Plan (CIP) to match the deferred element of the Annual Bonus is considered inappropriate. The Long-Term Incentive Plan (LTIP) is based on metrics which are not operating interdependently. The performance period of the LTIP is three years, without further holding period beyond vesting, which is not sufficiently long-term.

The contract policy is not in line with best practice. The contracts of the CEO allows him to receive termination payments in excess of one year salary and benefits. Upside discretion can also be used by the Committee when determining severance payments under the different incentive schemes. Finally, the Company's recruitment policy allows for the replication of new appointees' forfeited schemes at their previous employers, which is an inappropriate practice.

Rating: ADD.

Vote Recommendation: *Oppose*

Results: For: 92.3, Abstain: 2.8, Oppose/Withhold: 4.9,

*6. Re-elect Mr P. Bowman*

Chief Executive Officer. 12 months rolling contract. There are concerns over his aggregate time commitments. An abstain vote is recommended.

Vote Recommendation: *Abstain*

Results: For: 98.5, Abstain: 1.1, Oppose/Withhold: 0.4,

**CLOROX CO. AGM - 19-11-2014***1.1. Elect Daniel Boggan, Jr.*

Non-Executive Director. Not considered independent as he has served on the board for over nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.4, Abstain: 0.6, Oppose/Withhold: 0.0,

*1.5. Elect Donald R. Knauss*

Executive Chairman. Mr. Knauss will become Executive Chairman of the Company on November 20, 2014. He has served as Chairman and Chief Executive Officer of the Company since October 2006. It is not considered appropriate for the CEO to become an Executive Chairman as the two roles should be separate and an Executive Chairman can impinge upon the independent functioning of the Chief Executive.

Vote Recommendation: *Oppose*

Results: For: 99.5, Abstain: 0.5, Oppose/Withhold: 0.0,

#### 1.7. *Elect Robert W. Matschullat*

Senior Independent Director. Independent by the Company, but not independent by PIRC as he served as interim CEO and interim Chairman from March 2006 through October 2006. Further, he has been on the board for over nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.4, Abstain: 0.6, Oppose/Withhold: 0.0,

#### 1.10. *Elect Pamela Thomas-Graham*

Non-Executive Director. Not considered to be independent as she has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.5, Abstain: 0.5, Oppose/Withhold: 0.0,

#### 1.11. *Elect Carolyn M. Ticknor*

Non-Executive Director. Not considered to be independent as she has served on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose*

Results: For: 99.4, Abstain: 0.6, Oppose/Withhold: 0.0,

### 2. *Approve Pay Structure*

The Company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The voting outcome for this resolution reflects the balance of our opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: CDC

Disclosure rating: C - Performance criteria is disclosed for the annual bonus is disclosed for the year under review, in retrospect, but not for the forthcoming year.

Balance rating: D - Stock options vest at the rate of one-fourth per year over four years, which is not considered adequate. There is no cap for the maximum variable remuneration.

Contracts rating: C - There is potential for excessive payouts in the event of a change in control.

Based upon this rating an oppose vote is recommended.

Vote Recommendation: *Oppose*

Results: For: 98.6, Abstain: 1.4, Oppose/Withhold: 0.0,

## SONIC HEALTHCARE LTD AGM - 20-11-2014

### 1. *Re-elect Peter Campbell*

Non-Executive Chairman. Not considered to be independent as he has been on the Board for more than nine years. There is insufficient independent representation on the board.

Vote Recommendation: *Oppose*

## 2. Re-elect Lou Panaccio

Non-Executive Director. Not considered to be independent as he has been on the Board for more than nine years. There is insufficient independent representation on the board. There are also concerns over his aggregate time commitments, opposition is recommended.

Vote Recommendation: *Oppose*

## 5. Approve the Remuneration Report

### Disclosure:

Overall disclosure is good. The policy statement is clear and concise.

### Balance of Performance and Reward:

Total remuneration comprises both a fixed and variable component, which consists of both short and long term incentives.

### Short-Term Incentives:

70% of STI is based on annual EBITDA growth with awards vesting pro rata from 40% to 100% with EBITDA growth from 5% to 12%. The remaining 30% is based on qualitative factors assessed by the Remuneration and Nomination Committee. For Financial Year 2015 the hurdles for EBITDA growth have been adjusted so that the maximum STI payout is 135% of base salary.

### Long-Term Incentives

60% of the Maximum annual value of LTI is granted as share options. The rest is performance rights award. There are two separate performance conditions to be applied with a 50% weighting for each. 50% of the options and 50% of the performance rights are subject to Compound Average Growth Rate ("CAGR") in Return on Invested Capital ("ROIC") performance, and the other 50% of each are subject to relative Total Shareholder Return. TSR minimum vesting target is not considered challenging and a vesting scale over 25 percentiles is not considered broad enough. The awards will vest over a three year period with 30% vesting in year one and two and 40% vesting in year three, which is not sufficiently long term.

### Contracts:

None of the key management personnel of Sonic Healthcare Limited has a service contract. Rather the terms and entitlements of employment are governed by applicable employment laws. Notice periods are not clearly stated.

### Summary:

Overall remuneration levels paid during the year are not considered excessive, however future awards do have the potential to be so. The company is also proposing a significant increase in the overall quantum pay going forward which is deemed excessive. Also LTIP based schemes are inherently flawed. There is the risk that they are rewarding volatility rather than the performance of the company (creating capital and - lawful - dividends). They act as a complex and opaque hedge against absolute company underperformance and long-term share price falls. They are also a significant factor in reward for failure. Based on these concerns opposition is recommended.

Vote Recommendation: *Oppose*

## 6. Approval of the issue of securities under the Sonic Healthcare Limited Employee Option Plan as an exception to ASX Listing Rule 7.1

Approval of this resolution would permit the Company to issue more than 15% of its securities. Issuance beyond this amount is considered to be overly dilutive. On this basis, it is recommended that shareholders oppose. It is noted that opposing this resolution does not infringe on the companies ability to make awards in general.

Vote Recommendation: *Oppose*

### 7. *Approval of the issue of securities under the Sonic Healthcare Limited Performance Rights Plan as an exception to ASX Listing Rule 7.1*

Approval of this resolution would permit the Company to issue more than 15% of its securities. Issuance beyond this amount is considered to be overly dilutive. On this basis, it is recommended that shareholders oppose. It is noted that opposing this resolution does not infringe on the companies ability to make awards in general.

Vote Recommendation: *Oppose*

### 8. *Approval of long term incentives for Dr Colin Goldschmidt, Managing Director and Chief Executive Officer*

60% of the Maximum annual value of LTI is granted as share options. The rest is performance rights award. There are two separate performance conditions to be applied with a 50% weighting for each. 50% of the options and 50% of the performance rights are subject to Compound Average Growth Rate ("CAGR") in Return on Invested Capital ("ROIC") performance, and the other 50% of each are subject to relative Total Shareholder Return. TSR minimum vesting target is not considered challenging and a vesting scale over 25 percentiles is not considered broad enough. The awards will vest over a three year period with 30% vesting in year one and two and 40% vesting in year three, which is not sufficiently long term. Also LTIP based schemes are inherently flawed. There is the risk that they are rewarding volatility rather than the performance of the company (creating capital and - lawful - dividends). They act as a complex and opaque hedge against absolute company underperformance and long-term share price falls. They are also a significant factor in reward for failure. Based on these concerns opposition is recommended.

Vote Recommendation: *Oppose*

### 9. *Approval of long term incentives for Mr Chris Wilks, Finance Director and Chief Financial Officer*

60% of the Maximum annual value of LTI is granted as share options. The rest is performance rights award. There are two separate performance conditions to be applied with a 50% weighting for each. 50% of the options and 50% of the performance rights are subject to Compound Average Growth Rate ("CAGR") in Return on Invested Capital ("ROIC") performance, and the other 50% of each are subject to relative Total Shareholder Return. TSR minimum vesting target is not considered challenging and a vesting scale over 25 percentiles is not considered broad enough. The awards will vest over a three year period with 30% vesting in year one and two and 40% vesting in year three, which is not sufficiently long term. Also LTIP based schemes are inherently flawed. There is the risk that they are rewarding volatility rather than the performance of the company (creating capital and - lawful - dividends). They act as a complex and opaque hedge against absolute company underperformance and long-term share price falls. They are also a significant factor in reward for failure. Based on these concerns opposition is recommended.

Vote Recommendation: *Oppose*

## WESFARMERS LTD AGM - 20-11-2014

### 3. *Approve the Remuneration Report*

#### **Disclosure:**

Overall disclosure is good. The policy statement is clear and concise.

#### **Balance of Performance and Reward:**

Total remuneration comprises both a fixed and variable component, which consists of both short and long term incentives.

#### **Short-Term Incentives:**

These are based on cash awards up to 100 per cent of fixed annual remuneration (FAR) for the Managing Director and 60% for other Executives , with any amount awarded above that provided in the form of restricted shares. The cap on the annual incentive award is 120% of FAR. These awards are based on both financial

and non-financial targets; Group NPAT and ROE, Balance Sheet, Divisional EBIT, Divisional ROC, Store sales growth, coal sales and mine cash costs and agreed objectives include diversity, safety and talent. The weighting of each target is not disclosed.

**Long-Term Incentives:**

The LTI is based on two performance criteria 75% is attributed to Compound Annual Growth Rate (CAGR) in ROE and 25% to TSR both measured over a four year period. Awards are made via performance rights with maximum awards of 200% of FAR for the Managing Director and 160% for other executives. For both criteria 50% of awards vest at the 50th percentile with an additional two percent award for each percentile increase up to the 75th percentile. This vesting scale at less than three deciles is not considered sufficiently broad.

**Contracts:**

Contracts for executives are in line with best practice. The notice period for executives and the Company are all within 12 months.

**Summary:**

Overall remuneration levels were excessive as variable pay accounted for 62% of fixed pay. No Long Term Incentive Plan award vested because of the change in performance period from three to four years. However, Dividend accrual occurs on all LTI shares outstanding and accounting charges led to payment of \$2.4million to Mr. Goyder during the year. This is deemed highly excessive. Specific future targets are not disclosed for the annual bonus which is a frustration for shareholders as they are unable to effectively assess the stringency of targets. Targets do not operate interdependently and no non-financial metric is utilised for the LTI, which is against best practice. Based on these concerns opposition is recommended.

*Vote Recommendation: Oppose*

*4. Approve the grant of performance rights to the Group Managing Director*

The LTI is based on two performance criteria 75% is attributed to Compound Annual Growth Rate (CAGR) in ROE and 25% to TSR both measured over a four year period. Awards are made via performance rights with maximum awards of 200% of FAR for the Managing Director and 160% for other executives. For both criteria 50% of awards vest at the 50th percentile with an additional two percent award for each percentile increase up to the 75th percentile. This vesting scale at less than three deciles is not considered sufficiently broad. Also LTIP based schemes are inherently flawed. There is the risk that they are rewarding volatility rather than the performance of the company (creating capital and - lawful - dividends). They act as a complex and opaque hedge against absolute company underperformance and long-term share price falls. They are also a significant factor in reward for failure. Based on these concerns opposition is recommended.

*Vote Recommendation: Oppose*

*5. Approve the grant of performance rights to the Group Finance Director*

The LTI is based on two performance criteria 75% is attributed to Compound Annual Growth Rate (CAGR) in ROE and 25% to TSR both measured over a four year period. Awards are made via performance rights with maximum awards of 200% of FAR for the Managing Director and 160% for other executives. For both criteria 50% of awards vest at the 50th percentile with an additional two percent award for each percentile increase up to the 75th percentile. This vesting scale at less than three deciles is not considered sufficiently broad. Also LTIP based schemes are inherently flawed. There is the risk that they are rewarding volatility rather than the performance of the company (creating capital and - lawful - dividends). They act as a complex and opaque hedge against absolute company underperformance and long-term share price falls. They are also a significant factor in reward for failure. Based on these concerns opposition is recommended.

*Vote Recommendation: Oppose*

**WISCONSIN ENERGY CORP. EGM - 21-11-2014***1. Issue shares of common stock in line with the planned merger among Wisconsin Energy Corporation and Integrys Energy Group Inc.*

The Board is seeking shareholder approval for the issuance of shares in connection with the merger of Integrys Energy Group (Integrys) with and into Wisconsin Energy Corporation (Wisconsin Energy). Under the terms of the merger agreement, Integrys shareholders will have the right to receive 1.128 shares of Wisconsin Energy common stock plus \$18.58 in cash, per each share of Integrys common stock. If the merger is completed, it is currently estimated that Wisconsin Energy will issue or reserve for issuance approximately 90 million shares of Wisconsin Energy common stock in connection with the merger. On an as-converted basis, the aggregate number of shares of Wisconsin Energy common stock to be issued in the merger will exceed 20 percent of the shares of Wisconsin Energy common stock outstanding before such issuance. For this reason, Wisconsin Energy must obtain the approval of Wisconsin Energy stockholders for the issuance of shares of Wisconsin Energy common stock to Integrys shareholders in connection with the merger.

Such transactions are considered on the basis of whether there has been adequate disclosure and sufficient independent objective oversight. While there has been appropriate disclosure of the risks and benefits of the transaction, there is insufficient independence on the Board to provide assurance that the transaction has received adequate objective scrutiny. On this basis it is recommended that shareholders abstain.

Vote Recommendation: *Abstain*

Results: For: 99.1, Abstain: 0.9, Oppose/Withhold: 0.0,

*3. Adjourn the special meeting and if necessary solicit additional proxies.*

Where a meeting has been properly called and a quorum obtained, it is considered that the will of the majority present at the meeting should prevail and that it is inappropriate to adjourn the meeting. It is recommended that shareholders oppose.

Vote Recommendation: *Oppose*

**AMLIN PLC EGM - 24-11-2014***1. Approve Remuneration Policy*

**Disclosure:** The Company does not provide specific performance conditions and targets for the Annual Bonus Plan. Also, the remuneration structure is not appropriately linked to the Company specific business objectives.

**Balance:** The Company operates an Annual Bonus Plan under which Executive Directors may be granted awards up to 165% of base salary for those not involved in underwriting activities and 400% of base salary for Directors involved in underwriting activities. Although it is noted that the limit has been decreased, the cap is still considered excessive particularly for Directors in underwriting or when aggregated with other variable schemes. It is also welcomed that any bonus paid to an Executive Director in excess of a predetermined percentage of salary will be deferred into shares, in three tranches over the ensuing three year period. Awards under the Performance Share Plan (PSP) are capped at 200% of base salary. Total variable pay is therefore considered excessive as grants equivalent to 600% of base salary may be made to Directors. PSP awards vest subject a single criterion: the average return on consolidated net tangible assets. This runs against best practice as multiple interdependent performance conditions should be used, including a non-financial measure. It is commended that the performance period is set at five years. The Company does not disclose the Directors' minimum shareholding requirements, although it specifies that these should be met within three years. There is no evidence schemes are available to enable all employees to benefit from business success without subscription.

**Contracts:** Executive Directors' contracts may be terminated by either party giving twelve months notice. The Committee has the discretion to determine whether a 'Good Leaver' status should be applied on termination. Besides contractual termination payments, a Good Leaver may receive, subject to performance conditions, a pro rated bonus relating to the year of cessation, which is against best practice. Also PSP awards may vest early, subject to satisfactory performance, and the

Committee has discretion to dis-apply pro rata for time in service. This does not align with shareholders' interests. Clawback provisions are in place for both the bonus and PSP awards. Mitigation arrangements exist.

Rating: BDC

Vote Recommendation: *Oppose*

Results: For: 98.1, Abstain: 0.0, Oppose/Withhold: 1.9,

## 2. Amend existing long term incentive plan

The Amlin plc 2014 Performance Share Plan (PSP) is proposed to replace the existing PSP and Long Term Incentive Plan. The scheme expires in 10 years. The amount of awards that may be granted under the scheme shall not exceed 10% of the Company's issued ordinary share capital.

Disclosure is considered acceptable.

The grants are individually capped at 200% of base salary and 300% of base salary in exceptional circumstances. The PSP awards are considered excessive particularly when aggregated with other variable schemes and can lead to generous payouts. It is pleasing that awards vest over an adequate performance period of five years. However, awards are only based on a single criterion: the average return on consolidated net tangible assets. This runs against best practice multiple interdependent performance conditions should be used, including a non-financial measure. It is noted that clawback provisions will be attached to the awards made under the plan. In the event of cessation of employment, a Good leaver's awards may vest early, subject to satisfactory performance and the Committee has discretion to dis-apply pro rata for time in service. This does not align with shareholders' interests. The Remuneration Committee has also the ability to adjust the extent to which an award may vest in exceptional circumstances. Such a high level of discretion negates the purpose of safeguards.

Furthermore, Long Term Incentive Plans based schemes are inherently flawed. There is the inherent risk that they are rewarding volatility rather than the performance of the company (creating capital and - lawful - dividends). They are inherently acting as a complex and opaque hedge against absolute company under performance and long-term share price falls. They are also a significant factor in reward for failure.

Rating: DB

Vote Recommendation: *Oppose*

Results: For: 98.1, Abstain: 0.0, Oppose/Withhold: 1.9,

## WOLSELEY PLC AGM - 25-11-2014

### 2. Approve the Remuneration Report

All elements of each director's cash remuneration and pension contributions are disclosed. All share incentive awards are fully disclosed with award dates and prices. There were no significant changes in policy and no compensation payments were made during the year under review. However, changes in CEO pay over the last five years are not considered in line with Company's financial performance. The variable remuneration paid to the CEO for the year under review is considered excessive.

Rating: C.

Vote Recommendation: *Abstain*

Results: For: 92.5, Abstain: 6.0, Oppose/Withhold: 1.5,

### 3. Approve Remuneration Policy

Disclosure is acceptable.

Maximum potential awards under all incentive schemes are considered highly excessive. The ratio of CEO pay to average employee pay is also considered inappropriate. The use of two long-term incentive schemes, each using only one performance criteria, is deemed contrary to best practice. The performance periods are also not considered sufficiently long-term. Also, there are no schemes available to enable all employees to benefit from business success without subscription.

Finally, upside discretion can be used by the Committee when determining severance payments under the different incentive schemes. Furthermore, the Company's recruitment policy allows for the replication of new appointees' forfeited schemes at their previous employers, which is an inappropriate practice.

Rating: AEC.

Vote Recommendation: *Oppose*

Results: For: 89.0, Abstain: 5.0, Oppose/Withhold: 6.1,

#### 7. *To re-elect Mr Gareth Davis*

Incumbent Chairman. Considered independent upon appointment. However, it is noted that he is also the Chairman of two other FTSE 350 companies. The role of the chairman is considered to be crucial to good governance as they are primarily responsible for the culture of the board, and by extension the organisation as a whole and for ensuring that the board operates effectively. As such we consider the chairman should be expected to commit a substantial proportion of his or her time to the role. A chair of more than one large public company cannot effectively represent corporate cultures which are potentially diverse and the possibility of having to commit additional time to the role in times of crisis is ever present, particularly in diverse international, complex and heavily regulated groups or groups which are undergoing significant governance changes.

Vote Recommendation: *Oppose*

Results: For: 92.4, Abstain: 1.3, Oppose/Withhold: 6.3,

#### 15. *Re-appoint the auditors: PricewaterhouseCoopers LLP*

Non-audit fees represent approximately 21% of audit fees during the year under review and approximately 34% of audit fees over a three-year aggregate basis. This raises concerns over the independence of the auditor. An abstain vote is recommended.

Vote Recommendation: *Abstain*

Results: For: 96.7, Abstain: 2.2, Oppose/Withhold: 1.1,

#### 17. *Approve Political Donations*

Approval sought to make donations to political organisations and incur political expenditure not exceeding £125,000 in total. The Company did not make any political donations or incur any political expenditure and has no intention either now or in the future of doing so. However, the maximum limit sought under this authority is considered excessive. An abstain vote is recommended.

Vote Recommendation: *Abstain*

Results: For: 97.1, Abstain: 1.9, Oppose/Withhold: 1.1,

### **WOOLWORTHS LTD AGM - 27-11-2014**

#### 2c. *Re-elect Stephen Mayne*

Self-nominated for Non-Executive Director role. Mr Mayne has offered himself as a Director as he believes he would bring a strong understanding of corporate social responsibility to the Board. The Board does not support Mr Mayne's nomination as they do not consider that Mr Mayne has appropriate extensive knowledge, experience and skills to meet the Board's responsibilities and objectives. This is the second time that Mr Mayne has stood for election.

There is insufficient evidence of Mr Mayne's experience in running large listed companies of retail industries. Therefore his election can not be supported.

Vote Recommendation: *Oppose*



### 3. *Approve Long Term Incentive Plan issue to Managing Director and Chief Executive Officer*

The Board is seeking shareholder approval for the purposes of ASX Listing Rule 10.14 for the grant of 67,514 performance rights under the LTI plan to Mr Grant O'Brien, the MD and CEO of the Company. Using the volume weighted average share price of Woolworths Limited shares in the five days prior to 1 July 2014 which was AUD 34.46, the awards have a face value of AUD 2,326,532 and represent approximately 100% of the CEO and MD's base salary. The performance period is three years. Awards will be assessed against comparative TSR performance (50%) and (50%) according to EPS targets. Vesting scales and specific performance targets are provided.

As expressed in Resolution 4, support cannot be recommended for LTI awards as the performance conditions work independently of each other and do not include non-financial measure. The vesting scale is not considered sufficiently broad for both the TSR and EPS performance metrics targets. The three-year performance period is not considered sufficiently long term and no holding period applies. There is no clawback arrangements in relation to rewards already granted to the Director.

Vote Recommendation: *Oppose*

### 4. *Approve the Remuneration Report*

**Disclosure:** Overall disclosure is considered acceptable. However, specific performance targets are not provided for STI awards, either on retrospective or prospective basis.

**Short-Term Incentives Awards (STI):** Deferral under the STIP was considered for FY15, but deemed inappropriate by the Remuneration Committee, given the introduction of minimum shareholding targets. The removal of a deferral element does not align with shareholders interests. STIP is based on a number of factors, including Group performance (NPAT growth), divisional or functional performance: sales, Profit, Return on funds employed (ROFE), Cost of doing business (CODB), and individual performance. The weighting of the factors is not disclosed. No maximum individual cap has been disclosed for the STIP.

**Long-Term Incentive Awards:** LTIP consists of Performance Rights. The 2014 awards vest after a five year performance period. However, this performance period has been reduced to three years for 2015 awards. This is not supported as the this period is not considered sufficiently long-term. No additional holding period will apply. 50% of the award vests according to comparative TSR performance and 50% according to EPS targets. No non-financial measure is used and so the focus may only be given to financial metrics and not the Company's performance as a whole. Targets set are not considered to be sufficiently broad: The TSR element provides for less than three deciles between performance levels and there is less than 6% percentage points between the EPS performance levels. Performance conditions are applied independently of each other which is not considered best practice. No maximum individual cap has been disclosed for the LTI.

**Contracts:** Contracts may be terminated by either the Company or the employee providing 12 months notice. Upside discretion of the Committee exists as the Board may allow STI and unvested LTIP to continue to accrue for Good Leavers.

**Summary:** Variable rewards made in the year under review are not considered to be excessive in comparison with base salary. However, they have the potential to be excessive as awards are not individually capped. The Company has introduced shareholding guidelines, however the time-frame in which the minimum requirement must be met is not considered adequate, at more than three years. There is no evidence a clawback policy exist. No mitigation statement has been made in the case of cessation of employment. Opposition is recommended.

Vote Recommendation: *Oppose*

## RYANAIR HOLDINGS PLC EGM - 28-11-2014

### 1. *Approve the purchase under the 2014 Boeing Contract*

The Board seeks approval for the purchase up to up to 200 Boeing 737 MAX 200 Aircraft "gamechanger" aircraft during a five year period from 2019 to 2023. The agreement includes 100 firm aircraft and 100 options. When finalized, the deal will be worth USD 22 billion . Shareholder approval is requested due to the size of the

purchase. There is sufficient disclosure on the transaction. However, as the Board has insufficient independent representation, there are concerns that it has not been presented to sufficient independent scrutiny. It is recommended to abstain.

Vote Recommendation: *Abstain*

## **SINGAPORE PRESS HOLDINGS LTD AGM - 02-12-2014**

### *3ii. Re-elect Lucien Wong Yuen Kuai*

Non-Executive Director. Not considered to be independent as he is a director of Temasek Holdings, which has significant indirect ownership of the Company through controlling stakes in Singapore Telecommunications and Development Bank of Singapore, which hold 13.3% and 9.5% respectively. There is insufficient independent representation on the Board. Opposition is recommended.

Vote Recommendation: *Oppose*

### *6. Appoint the auditors and allow the board to determine their remuneration*

It is proposed to re-appoint KPMG as auditors. The proportion of non-audit to audit fees for the year under review is 31.1% and 58.3% over two years. This raises significant concerns over the independence of the auditors.

Vote Recommendation: *Abstain*

### *7. Transact any other business*

Shareholders should receive sufficient notice of proposals brought forward by either management or other shareholders. As such, any other proposition brought forward in the meeting would provide insufficient time for an informed assessment.

Vote Recommendation: *Oppose*

## **MICROSOFT CORP. AGM - 03-12-2014**

### *2. Advisory Vote on Compensation*

The company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The commentary on the disclosures made by the company are contained in the body of this report and the voting outcome for this resolution reflects the balance of opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: CEA (2013: CDA). Based on this rating it is recommended that shareholders oppose.

Vote Recommendation: *Oppose*

Results: For: 99.3, Abstain: 0.7, Oppose/Withhold: 0.0,

### *4. Shareholder Resolution: Proxy Access for Shareholders*

Proponent: Myra K. Young.

The proponents asks the Board, to the fullest extent permitted by law, to amend the Company's governing documents to allow share owners to make board nominations. It is noted that shareholders may already nominate one or more directors whom the board will then evaluate under the same criteria it applies to its own candidates. Recommendation: While we are in sympathy with the aims of this proposal and believe that the board is need of replenishment, there are concerns over the way in which the proposal is structured which may give rise to confusion, if adopted. On this basis, it is recommended that shareholders abstain.

Vote Recommendation: *Abstain*

Results: For: 95.0, Abstain: 5.0, Oppose/Withhold: 0.0,

## MYRIAD GENETICS INC AGM - 04-12-2014

### 2. Amend existing 2010 executive share option scheme/plan

The Board is seeking shareholder approval for amendments to the 2010 Employee, Director and Consultant Equity Incentive Plan. The main aim of the amendment is to increase the common stock available for the grant of awards under the plan by 2,000,000 shares. Another purpose of the amendment is to qualify awards under the Plan under Section 162(m) of the Internal Revenue Code which restricts the deductibility of compensation which is not performance-based. Additionally, in response to shareholders the board has started to issue restricted stock unit awards to reduce the dilutive effect of the plan (which was a concern raised at the 2013 AGM). As the board issues restricted stock unit awards, they will reduce the number of shares available for future grant from the 2010 Plan on a 2 for 1 basis. However, based on the level of discretion granted to the Compensation Committee to determine all provisions of the awards (which is not considered fully independent), including performance conditions, if any, it is recommended that shareholders oppose.

Vote Recommendation: *Oppose*

### 4. Approve advisory vote on Executive Compensation

The company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The commentary on the disclosures made by the company are contained in the body of this report and the voting outcome for this resolution reflects the balance of opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: CDB (2013: CDA) Based on this rating it is recommended that shareholders oppose.

Vote Recommendation: *Oppose*

## ASSOCIATED BRITISH FOODS PLC AGM - 05-12-2014

### 11. To re-elect Charles Sinclair

Incumbent Chairman. Independent on appointment. Also Chairman of the Nomination Committee which has not adhered to Lord Davies' recommendation of setting a target for female representation on Board by 2015. An oppose vote is recommended.

Vote Recommendation: *Oppose*

Results: For: 94.3, Abstain: 5.0, Oppose/Withhold: 0.7,

### 3. Approve Remuneration Policy

Disclosure with regards to the policy is considered acceptable. The Company operates one Long Term Incentive Plan (LTIP) although awards continue to vest under a

legacy plan. LTIP awards vest subject to one single performance measure. This is against best practice as multiple performance conditions which include a non-financial metric should be used in an interdependent manner. At three years, the performance period is not considered sufficiently long term. It is welcomed that an additional holding period of two year has been introduced. Potential awards that can be made to the Directors and under all variable plans are considered excessive, as the maximum individual limits for awards under performance-related plans allow for up to 300% of base salary equivalent of awards. The ratio of CEO pay to employee average pay is not disclosed, however it is, by estimate, also considered excessive at 133 to 1. Shareholding requirements are in place, however the Remuneration Committee does not set an adequate time-frame. Schemes are not available to enable all employees to benefit from business success without subscription.

The Company's recruitment policy allows for the replication of new appointees' forfeited schemes at their previous employers. This practice undermines the rationale behind the remuneration policy to retain Executive Directors. Upside discretion may be used while determining severance. The Committee has the discretion to determine whether 'Good Leaver' status should be applied on termination. The Executive's notice period may not be taken into account in any pro rating for vesting LTIP awards. Such discretion negates the purpose of safeguards in place. Also, the discretion may reward the Director for performance not obtained. Mitigation arrangements exist. There is a clawback policy in place, however, there is no evidence that the Company may retrieve awards already made to the Directors. Takeover provisions attached to the LTIP are not disclosed.

Rating: ADD

Vote Recommendation: *Oppose*

Results: For: 90.4, Abstain: 0.2, Oppose/Withhold: 9.4,

#### 14. *Re-appoint the auditors: KPMG LLP*

Non-audit fees represent 37.93% of audit fees during the year under review and 36.75% of audit fees over a three-year aggregate basis. This level of audit fees raises significant concerns over the Auditor's independence.

Vote Recommendation: *Abstain*

Results: For: 98.6, Abstain: 0.3, Oppose/Withhold: 1.0,

### PROSPECT CAPITAL CORP AGM - 05-12-2014

#### 2. *Authorise the board to sell shares at prices below the company's then current net asset value per share.*

The Board is seeking authorization for the Company, with approval of its Board of Directors, to sell shares of its Common Stock (during the next 12 months) at a Price or Prices below the Company's then current Net Asset Value Per Share in one or more Offerings subject to certain conditions (including that the number of shares sold on any given date does not exceed 25% of its outstanding Common Stock immediately prior to such sale).

The issuance of shares at a discount to NAV could potentially result in significant dilution to existing shareholders if not sold on a pre-emptive rights basis to existing shareholders. There is no guarantee that existing shareholders would be the only parties to whom shares are to be sold. On this basis it is recommended that shareholders oppose.

The proposal will be approved if the Company obtains the affirmative vote of (1) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting; and (2) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting that are not held by affiliated persons of the Company. For purposes of this alternative, the Investment Company Act of 1940, or 1940 Act, defines "a majority of the outstanding shares" as: (1) 67% or more of the voting securities present at a meeting if the holders of more than 50% of the outstanding voting securities of such company are present or represented by proxy; or (2) 50% of the outstanding voting securities of a company, whichever is the less.

Vote Recommendation: *Oppose*

**MINDRAY MEDICAL INTL AGM - 10-12-2014****2. Re-elect Peter Wan**

Non-Executive Director. Not considered to be independent as he is a former partner at PricewaterhouseCoopers, the Company's external auditors. The Company does not clarify when Peter Wan stopped working at PwC. In addition, there are concerns over his aggregate time commitments. There is insufficient independent representation on the Board. Opposition is recommended.

Vote Recommendation: *Oppose*

**4. Appoint the auditors**

It is proposed to re-appoint PricewaterhouseCoopers as auditors. The proportion of non-audit to audit fees for the year under review is 31.9% and 53.7% over three years. This raises significant concerns over the independence of the auditors. In addition, Peter Wan, the Chairman of the Audit Committee, is a former partner of PWC. It is possible that relationships initiated during this period may affect the approach taken to the audit. Abstention is recommended.

Vote Recommendation: *Abstain*

**NATIONAL AUSTRALIA BK AGM - 18-12-2014****3. Approve the Remuneration Report**

**Check your LaTeX tags**

Vote Recommendation: *Abstain*

**4. Approve the grant of performance rights to the Group Chief Executive Officer and Managing Director**

The Board is seeking shareholder approval for the purposes of ASX Listing Rule 10.14 for the grant of performance rights worth up to AUD\$2,990,000 under the STI plan and the LTI plan to Mr Thorburn.

This includes an award of performance rights with a maximum value of AUD\$130,000 represents 50% of his STI award for the year ended 30 September 2014 (deferred award). This part of the award is limited and do not raise concerns as the integration of a deferred element to the STI plan is welcomed.

The rest, which is worth AUD\$2,860,000, will be granted under the LTI plan. This represents 172% of CEO's fixed remuneration. While this is below maximum acceptable award limits, the value of the award is considered potentially excessive when combined with future potential STI rewards. Also, it is unclear why the value of this award represents more than 130% of CEO's fixed remuneration, as disclosed in the Company's remuneration report (see resolution above). The awards vest in two tranches, each based on Company's relative TSR performance against two different peer groups over the four-years performance period. Targets are adequately disclosed. However, the use of only one performance metrics (relative TSR) is not considered appropriate. Best practice would be to use at least two separate metrics interdependently. The performance period is not considered sufficiently long-term, although it is longer than standard market practices (three years), and the use of a further testing after one year for unvested awards is not considered appropriate practice. Furthermore, LTIP based schemes are inherently flawed. There is the risk that they are rewarding volatility rather than the performance of the company (creating capital and - lawful - dividends). They are inherently acting as a complex and opaque hedge against absolute company underperformance and long-term share price falls. They are also a significant factor in reward for failure.

Based on the above concerns, an oppose vote is recommended.

Vote Recommendation: *Oppose*

## ANZ-AUSTRALIA & NEW ZEALD BK AGM - 18-12-2014

### 2. Approve the Remuneration Report

Check your LaTeX tags

Vote Recommendation: *Oppose*

### 3. Approve grant of Performance Rights to Mr Michael Smith

The Board is seeking shareholder approval for the purposes of ASX Listing Rule 10.14 for the grant of performance rights worth \$3,400,000 to the CEO, Mr Smith. This represents approximately 108% of his current salary, which is considered excessive when combined with his maximum potential bonus. The awards vest in two tranches, each based on Company's relative TSR performance against two different peer groups over a three-year performance period. Targets are adequately disclosed but it would be best practice that LTI Plans use at least two separate metrics interdependently. The three-year vesting period, without a further holding period, is not considered sufficiently long-term. Performance Rights granted under the ANZ Share Option Plan do not carry any dividend or voting rights until they vest and are exercised, which is welcomed.

Based on the above concerns, an oppose vote is recommended.

Vote Recommendation: *Oppose*

## INCITEC PIVOT LTD AGM - 19-12-2014

### 4. Approve the Grant of Incitec Pivot Performance Rights to the Managing Director

The Board is seeking shareholder approval for the purposes of ASX Listing Rule 10.14 for the grant of up to 773,696 performance rights to Mr Fazzino under the Incitec Pivot Performance Rights Plan (the Long-Term Incentive Plan). Based on share price on 1 October 2014 (AUD2.90), this represents approximately 100% of his fixed remuneration. When combined with the maximum potential award under the STI plan (also 100% of Fixed remuneration), this is considered just acceptable. Awards are made as performance rights based on the achievement of certain performance measures: relative TSR and Strategic Initiatives Condition. Strategic Initiatives Condition has been introduced in replacement of the EPS element, which was previously used. This change is welcomed as an EPS metric is already used to assess performance under the STI plan and the introduction of non-financial strategic objectives is considered best practice. The targets attached are adequately disclosed. However, the performance conditions are not concurrent and the performance period is three years, without a further holding period, which is not considered sufficiently long-term. No clawback provisions are in place for this plan which is not best practice. Based on these concerns, an abstain vote is recommended.

Vote Recommendation: *Abstain*

### 5. Approve the Remuneration Report

Check your LaTeX tags

Vote Recommendation: *Abstain*



## 4 Appendix

The regions are categorised as follows:

ASIA	China; Hong Kong; Indonesia; India; South Korea; Malaysia; Philippines; Singapore; Thailand; Taiwan; Papua New Guinea
SANZA	Australia; New Zealand; South Africa
EUROPE/GLOBAL EU	Austria; Belgium; Switzerland; Czech Republic; Germany; Denmark; Spain; France; Hungary; Italy; Luxembourg; Netherlands; Poland; Portugal; Sweden; Norway; Greece; Finland; Ireland
JAPAN	Japan
USA/CANADA	USA; Canada; Bermuda
UK/BRIT OVERSEAS	UK; Cayman Islands; Gibraltar; Guernsey; Jersey
SOUTH AMERICA	Brazil; Mexico; Peru
REST OF WORLD	Israel; Kazakhstan; Russia; Turkey



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**Regulated by the Financial Conduct Authority**

*Version 1*



# QUARTERLY ENGAGEMENT REPORT

OCTOBER TO DECEMBER 2014



Councillor Peter Brayshaw\*

## Local Authority Pension Fund Forum

The 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, [www.lapfforum.org](http://www.lapfforum.org).

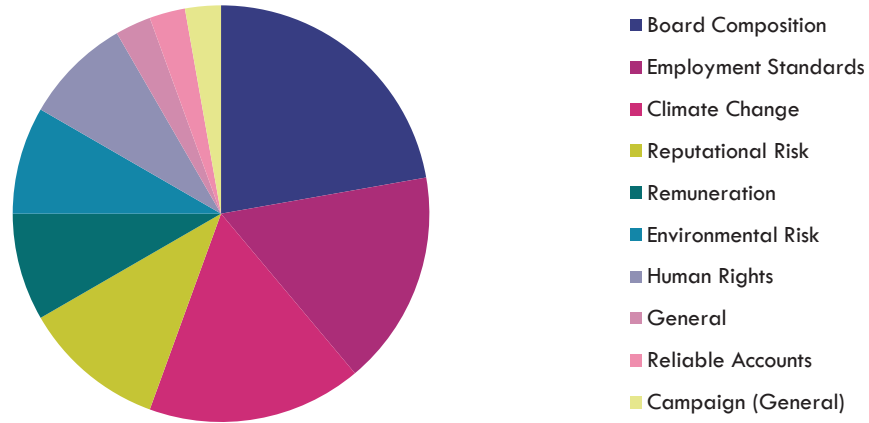
\*The Executive and members of the Local Authority Pension Fund Forum mourn the death of Cllr Peter Brayshaw, LB Camden, who had been an active Executive member for the past four years. Peter also chaired the Camden pensions committee for 11 out of the last 25 years, and was involved in the founding of the modern LAPFF in 1992. He was a most esteemed member of the LAPFF Executive and will be missed by all who worked with him on LAPFF activities.

# ENGAGEMENT SUMMARY

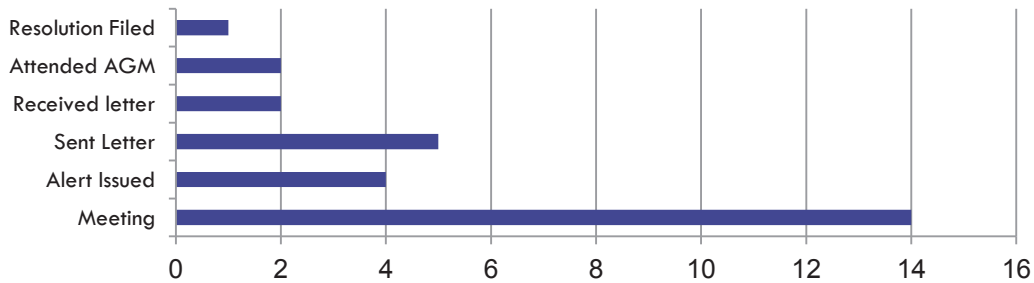
OCTOBER TO DECEMBER 2014

The Forum engaged with **19 companies** over the period

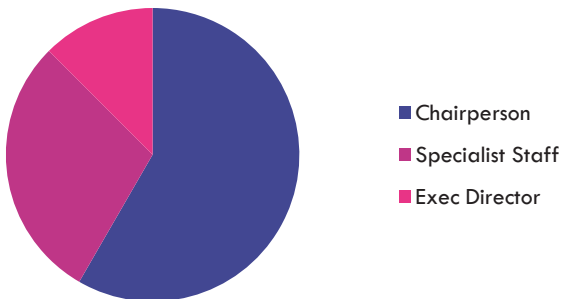
## Topics



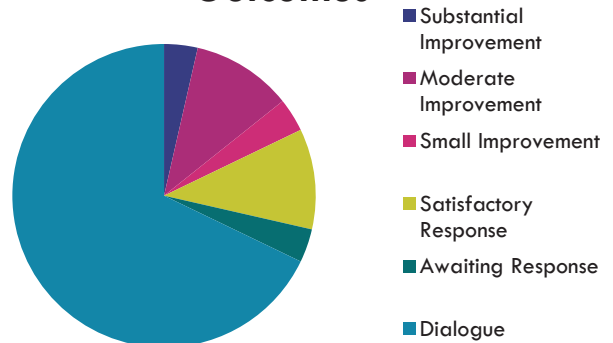
## Activities



## Company Contact



## Outcomes



# ACHIEVEMENTS

During the Quarter, LAPFF met with fourteen companies on issues ranging from phone hacking to carbon management. Eight of these meetings were with company Chairmen.

- Met with **Shell** to discuss the company's approach to carbon management. LAPFF met the Chairman, Jorma Ollila for the first time. Ian Greenwood and Cllr Cameron Rose spoke to Mr Ollila about strategy and carbon management, including the proposed shareholder resolution calling on Shell to disclose a longer-term carbon strategy. This resolution has now been filed for the 2015 AGM next year. LAPFF representatives also attended a shareholder roundtable with the company.



Shell AGM

- Met with the **BP** chairman, also to discuss the company's carbon management strategy and proposed shareholder resolution. Worked with the company to file a shareholder resolution regarding carbon management that has now reached the necessary threshold of co-filers to go to a vote.
- Following up on member concern about companies involved in the production and sale of cluster munitions, LAPFF held conference calls with **Singapore Technologies** (Singapore), **Textron** (US) and **Lockheed Martin** (US) that clarified the position of these companies in relation to cluster munitions. A call was also held with **Deutsche Telekom** (Germany) on labour rights at its US subsidiary.
- Cllr John Gray and West Midlands Pension Fund representative, Leanne Clements met with construction firms, **Kier** and **Carillion**, to discuss labour relations in light of assertions that these companies engaged in blacklisting of trade union employees. Kier Chairman, Phil White, spent nearly two hours speaking to LAPFF and is keen to engage further.
- LAPFF Chairman, Cllr Kieran Quinn, and LAPFF Executive Member, Cllr Richard Greening, met with the **National Express** Chairman and CEO to continue dialogue around concerns that the company's US unit, Durham School Services, engages in poor labour practices at some of its US sites. LAPFF has engaged extensively with National Express in the past, and the fact that the company continues to meet with LAPFF is encouraging.
- Cllr Quinn also met with **Trinity Mirror**, another company with which LAPFF has engaged extensively. Discussions are continuing in relation to the company's role in the hacking scandal, but there are signs that Trinity Mirror is responding to engagement.
- Issued a draft voting alert to **BG Group** over the company's proposed executive remuneration package for incoming CEO, Helge Lund. Along with other investor groups, LAPFF voiced concern to the company about the excessiveness of the package and its potential to undermine the new binding remuneration vote. The company eventually capitulated and re-worked Mr Lund's package to fit within the company's remuneration policy.



# 2014 LAPFF ANNUAL CONFERENCE

LAPFF held its 19<sup>th</sup> Annual Conference in Bournemouth from 3-5 December, 2014. As with prior annual conferences, this one was extremely well-attended with around 120 local councillors present. Cllrs Quinn, Rose and Greening provided highlights of LAPFF company engagement over the year at the opening session of the conference.

Featured speakers included Cherie Blair and Michael Heseltine. Cherie Blair spoke about the importance of human rights to investors, not just from a moral perspective but also from a business perspective. She cited growing evidence that a failure to consider adequately human rights concerns can lead to negative returns for investors. Michael Heseltine spoke to localism and the need for local authorities to ensure that they are promoting investment and development within their authorities. Other speakers included Fiona Reynolds, head of the UN Principles for Responsible Investment, and Jim O'Neill, former economist with Goldman Sachs.

Topics covered included more traditional corporate governance concerns, such as executive pay and gender diversity on boards. However, some newer topics, such as the potential for infrastructure as a possible investment opportunity for local authority pension funds and labour rights (continuing on from Cherie Blair's speech) were also discussed.



# COMPANY ENGAGEMENT

## LEADERSHIP ON KEY CAMPAIGNS

In line with the LAPFF Executive's authorisation to engage with certain aerospace and defence companies over possible involvement with the production and sale of cluster munitions, LAPFF Vice Chair Cameron Rose and West Midlands LAPFF representative, Leanne Clements, held teleconferences with **Singapore Technologies**, **Textron** and **Lockheed Martin**. The concern is that cluster munitions kill people indiscriminately and that they continue to be dangerous after conflicts have ended. These companies were identified for engagement on the basis of their presence on investor exclusion lists or other publicly available materials suggesting that they might be involved in the production or sale of these munitions. The abovementioned companies also provided responses to an initial letter of inquiry from LAPFF regarding cluster munitions and offered to engage.

The LAPFF line of inquiry focused on the companies' awareness of and adherence to the Oslo Convention banning cluster munitions. This Convention provides a definition of cluster munitions and activities banned in relation to these munitions. While the companies were all aware of the Convention and its definition of these weapons, they are all based in countries that have failed to ratify or accede to the Convention – Singapore and the US. The companies have contracts with these governments as well, so although two companies provided reasonable assurances that they no longer produce or sell cluster munitions, one company could not offer such assurances. Furthermore, some government contracts require contracting companies to maintain cluster munitions or produce components that facilitate the use of cluster munitions. Because the companies are not in countries that have ratified the Oslo Convention, they are not in breach of any law in relation to cluster munitions. However, their practices might meet the exclusion criteria threshold for certain investors.

## PROMOTING GOOD GOVERNANCE

### Holdings Based Engagement and Executive Pay



Following on from its attendance at the **Vodafone** AGM, LAPFF Vice Chair Ian Greenwood met with Chairman Gerard Kleisterlee to discuss a range of governance issues at the company, including tax avoidance. Mr Kleisterlee responded that the company has issued a detailed tax report and has fully complied with all of its tax obligations. He further outlined in detail his philosophy on succession planning for the company.

Ian Greenwood also met with the Chairman of **Severn Trent**, Andrew Duff, to discuss remuneration arrangements at the company, as a follow-up to LAPFF attendance at the AGM.

## Reliable Accounts

LAPFF sent a letter to the Financial Reporting Council in relation to **Afren** Plc. This letter expressed a concern about the company's accounts, specifically the failure to disclose certain transactions entered in 2012 and 2013. Among other things, LAPFF is concerned that the company's practices did not comply with the Listing Rules or with the s410A of the Companies Act 2006. The latter provision requires disclosure of 'off balance sheet arrangements.' Defective accounts have implications not only for the appointment of directors, but also for the approval of remuneration policy. As a result, LAPFF has asked the FRC to address this issue with some urgency.



## MANAGING ENVIRONMENTAL RISK

### Energy and Environmental Risk



LAPFF has continued to pursue its strategy of engagement with the top UK corporate carbon emitters on business strategies for emission reductions and management of carbon asset risk. **Shell** and **BP** are the two highest emitters in the UK, and LAPFF met with chairmen of both companies to discuss planned shareholder resolutions to encourage these companies to provide more focussed disclosure on their longer-term carbon management plans. LAPFF is part of an investor coalition, working to file these resolutions, the coalition also including the largest members of the £15bn Church Investors Group and Rathbone Greenbank. The

resolutions have been designed to be supportive but stretching and articulate the need to balance the short-term and longer-term aspects of shareholder value creation and investment risk concerns.

The meeting with the Shell chairman, Jorma Ollila, followed up on issues discussed at a meeting in 2013 with the company and in 2012, namely on carbon management and the environmental and community concerns in Nigeria. Other areas covered included potential exploration in the Arctic and fracking in the US. 13 LAPFF funds were co-filers to the Shell resolution alongside 136 other shareholders filing, representing 52 million shares. Other filers, apart from the investor coalition bodies, included three Swedish funds, a Canadian fund, an Australian fund and a number of US bodies.

The meeting with Carl-Henric Svanberg, the BP chairman, following meetings in previous years, also covered a range of issues; health and safety management; the Rosneft investment and the situation in Russia; the effect of variations in the oil price, the company's views on fracking as well as carbon management in the context of the proposed resolution.



## TARGETING SOCIAL ISSUES

### Employment Standards and Practices

LAPFF continued its engagement with companies in relation to employment standards and practices. This engagement has taken two main forms over the quarter: an inquiry into allegations of blacklisting and questions about the labour practices at US subsidiaries. The companies engaged on the blacklisting issue tended to be more forthcoming, possibly because the UK law is stronger in this area.



In relation to blacklisting, both **Kier** and **Carillion** pointed to measures they had taken in response to allegations they used the Consulting Association's list to blacklist trade union members. Since the issue broke in 2009, the UK has passed legislation prohibiting blacklisting, and councils such as Islington have issued procurement requirements that contractors not use blacklists. However, there is a group litigation order (GLO) working its way through the court system which alleges that Kier, Carillion and other companies are responsible for a greater level of blacklisting than they have admitted to so far. It is unclear what the likelihood of success is for this litigation, or what the cost implications are for these companies if the litigation succeeds. As a result, LAPFF will be tracking this litigation to determine how it could impact long-term investors.



In relation to labour practices at US subsidiaries, LAPFF engaged with **Deutsche Telekom** and **National Express**. Both companies have been targeted publicly for US subsidiaries alleged to be flouting US labour laws on collective bargaining and freedom of association. Both companies have said that they have no concerns in this regard. However, some trade unions have alleged that poor labour practices are threatening existing and future contracts, which could be a concern for investors.

### Social and Reputational Risks

For a number of years, LAPFF has voiced concern about the level of control the Murdoch family holds over the **News Corp**, **BSkyB** and **21<sup>st</sup> Century Fox** boards. In November 2014, LAPFF issued voting alerts in relation to these three companies calling for, respectively, more independence on the board and to oppose the election of James Murdoch. Board independence is a particular concern in light of a separation agreement that allows for 21<sup>st</sup> Century Fox to 'control the defence of civil claims' in relation to phone hacking claims arising at News International. If News International chooses not to comply with the stipulations established by 21<sup>st</sup> Century Fox in relation to hacking claims, it might not benefit from an established indemnification arrangement. This arrangement could cost investors a lot of money, depending on how future hacking inquiries play out. LAPFF has also continued to engage with **Trinity Mirror** on hacking. Trinity Mirror also faces a number of future hacking claims and has worried some investors by refusing to join a recognised industry regulator.

## NETWORKS & EVENTS

- **Climate Change Investor Coalition 'Aiming for A'** – met to discuss the wording and roll out of resolutions for Shell and BP
- **All Party Parliamentary Group on Climate Change** – event to discuss the threat of stranded assets
- **UKSIF AGM and annual lecture** – Lucinda Bell, Finance Director of British Land, gave the annual lecture
- **Access to Medicines Index** – investor event hosted by Aviva to disclose the latest company rankings on the Index
- **Land grabs, human rights and the UK** – law firm Leigh Day hosted an event to examine the impact of land grabs on local communities

## THE FORUM IN THE NEWS

BP and Shell shareholder resolutions  
[Financial Times](#), [Investments & Pensions Europe](#), [Reuters](#)

BSkyB  
[City AM](#), [The Guardian](#), [Reuters](#), [Times of India](#), [Financial Times](#), [Yahoo Finance UK & Ireland](#), [Euronews](#), [HITC Business](#)

LAPFF G20 tax transparency  
[Financial Times](#), [Investment & Pensions Europe](#), [Corporate Governance](#), [Responsible Investor](#), [Top 1000 Funds](#), [Investor Weekly Australia](#)

Infrastructure and Investment Governance Reform  
[Financial Times](#)

***Investment governance reform is the key to infrastructure funding writes LAPFF Chair Kieran Quinn:*** read London Mayor Boris Johnson's opinion piece first published in the *Telegraph* in October and then the Forum response from Cllr Quinn advocating a long term investment culture published in the *Financial Times* in November in a special feature article ([www.lapfforum.org/news/investment-governance-reform-is-the-key-to-infrastructure-funding](http://www.lapfforum.org/news/investment-governance-reform-is-the-key-to-infrastructure-funding))

# COMPANY PROGRESS REPORT

Company	Topics	Outcome	Domicile
BP	Carbon management	Dialogue	United Kingdom
Deutsche Telekom	Employment Standards	Dialogue	Germany
Vodafone	Remuneration	Moderate Improvement	United Kingdom
Trinity Mirror	Phone Hacking	Dialogue	United Kingdom
Severn Trent	Remuneration	Moderate Improvement	United Kingdom
Shell	Carbon Management	Dialogue	UK/Netherlands
Kier Group	Employment Standards	Small Improvement	United Kingdom
Twenty-First Century Fox	Board Composition	Dialogue	United States
News Corporation	Board Composition	Dialogue	United States
<b>Carillion</b>	Employment Standards	Moderate Improvement	United Kingdom
National Express	Employment Standards	Dialogue	United Kingdom
BSkyB	Board Composition	Dialogue	United Kingdom
Afren	Reliable Accounts	Dialogue	United Kingdom
<b>Textron</b>	Reputational Risk/Human Rights	Satisfactory Response	United States
Associated British Foods	Diversity	Dialogue	United Kingdom
<b>Singapore Technologies</b>	Reputational Risk/Human Rights	Dialogue	Singapore
<b>Lockheed Martin</b>	Reputational Risk/Human Rights	Satisfactory Response	United States
BG Group	Remuneration	Dialogue	United Kingdom
Bellway	Corporate Governance/Diversity	Dialogue	United Kingdom

Companies LAPFF has not previously engaged with individually are indicated in bold.

## Local Authority Pension Fund Forum Members

Avon Pension Fund  
Barking and Dagenham LB  
Bedfordshire Pension Fund  
Camden LB  
Cardiff and Vale of Glamorgan Pension Fund  
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  
East Sussex Pension Fund  
Enfield LB  
Falkirk Council  
Greater Gwent Fund  
Greater Manchester Pension Fund  
Greenwich Pension Fund  
Gwynedd Pension Fund  
Hackney LB  
Hampshire Pension Fund  
Haringey LB  
Harrow LB  
Hounslow LB  
Islington LB  
Lancashire County Pension Fund  
Lambeth LB

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  
Sheffield City Region Combined Authority  
Shropshire Council  
Somerset CC  
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  
Wandsworth Borough Council Pension Fund  
Warwickshire Pension Fund  
West Midlands ITA Pension Fund  
West Midlands Pension Fund  
West Yorkshire Pension Fund  
Wiltshire CC  
Worcestershire CC

# A Guide to Responsible Investment Reporting in Public Equity

January 2015  
Version 1



## Background

This guide was drafted following a number of roundtable meetings with pension funds and open consultation with fund managers. It is an iterative document which will be updated to reflect further feedback from fund managers and changing best practice. It should be seen in the context of our wider efforts to include responsible investment in requests for proposals, manager searches, due diligence and investment mandate terms.

## Introduction

With over £200bn of assets we are a group<sup>1</sup> of UK asset owners committed to responsible investment (RI). We believe better reporting can help build our understanding of the extent to which RI factors and activities can help to explain both short and long-term investment risk and performance in public equity. More broadly, we believe RI reporting can help improve transparency and accountability between asset owners and fund managers.

Building on the Principles for Responsible Investment's (PRI) guidance for asset owners on including RI in manager selection and oversight<sup>2</sup>, the aim of this document is to clarify our RI reporting expectations. We are also mindful of the NAPF's Stewardship Disclosure Framework which provides a high level reporting framework<sup>3</sup> reflecting the categories of the FRC's Stewardship Code. Whilst these frameworks provide guidance for reporting at the firm-wide level, this guide is intended for individual mandates.

## Defining responsible investment

As long-term investors, we define RI in this guide as the integration of environmental, social and governance (ESG) factors in the investment decision-making process and stewardship activities.

## An engagement and monitoring tool

The asset owners supporting this guide intend to use it to inform their engagement with, and monitoring of, both current and prospective fund managers. It is hoped the guide will be particularly useful for smaller pension funds and once a mandate has been awarded to a fund manager, where reporting will help us to monitor how well the fund manager's approach to RI is aligned to the broader investment strategy. For example, we would not necessarily expect the same approach to ESG analysis for a growth fund as a tactical opportunities fund. More broadly we intend to use managers' RI reporting to help inform our investment decision-making as well as engagement with our trustees, scheme beneficiaries and other stakeholders.

## Intended fund manager audience

Where fund managers suggest that they already integrate RI in their investment processes, we expect ongoing private client reporting to help us understand in more detail how, and under which circumstances, these activities are taking place. Only through explicit RI reporting will we be able to build our understanding of the extent to which RI factors and activities can help to explain both short and long-term risk and performance. We believe better RI reporting can help fund managers to develop a more disciplined approach to explaining the rationale behind particular RI decisions.

Fund managers should regard these reporting expectations as a guide to help kick-start a process of reflection regarding their approach to RI. We do not expect managers to demonstrate best practice reporting overnight nor should managers feel compelled to deliver all the reporting expectations as a box-ticking exercise. Rather we encourage continuous improvement in RI reporting within a mutually acceptable time frame.

<sup>1</sup> Supportive asset owners include (as of launch): BTPS, PPF, Kingsfisher, West Midlands, Strathclyde, SAUL, Environment Agency, Merseyside, Northern Ireland Local Government Officers' Superannuation Committee, Pensions Trust, Lothian, USS, Unilever, BBC, NEST, RPMI Railpen.

<sup>2</sup> Aligning expectations: guidance for asset owners on incorporating ESG factors into manager selection, appointment and monitoring. UN-supported Principles for Responsible Investment, 2013.

<sup>3</sup> <http://www.napf.co.uk/PolicyandResearch/Corporate-Governance/Stewardship/Stewardship-disclosure-framework.aspx>

## Improving the quality of RI reporting

The purpose of this guide is to encourage improvements in the quality of RI reporting for individual mandates. In drafting this document we have engaged with a number of managers and recognise that different investment styles and strategies will require different approaches to RI reporting. A one-size-fits-all approach would not be helpful.

A consistent and repeatable approach to generating RI reports could help to avoid adding unnecessary costs and administrative burden for our fund managers. We firmly believe that the long-term benefits that stem from greater transparency and accountability will outweigh any short term incremental reporting costs. Fund managers with high quality RI reporting may be less likely to receive more bespoke reporting requests.

We take a long-term, holistic approach to our relationships with our fund managers and are particularly interested in moving towards understanding long-term ESG trends and the development of metrics to assess long-term investment risk and performance.

## RI reporting can vary in frequency and form

In this guide the term reporting is used in its widest sense, to capture all forms of communication between fund managers and their clients. Reporting can vary in frequency (daily, monthly, quarterly, annually etc.) and form (client specific reports, website portals, public reports, formal and informal verbal updates, analyst blogs etc). We do not prescribe our preferred RI reporting frequency or form.

Our primary objective is to encourage managers to clearly communicate their valuable insights. Where no material RI activity has taken place in the reporting period we encourage nil-responses. The manager is invited to demonstrate reasoning or explanation as to why they do not feel a particular reporting metric is relevant.

We would expect those involved in a specific mandate to be well-informed about the extent to which RI is integrated in the investment process. Portfolio managers in particular are expected to be able to rationalize decisions and give relevant examples of RI activities.

## Clarifying RI reporting expectations

We have divided this section into the two parts of core RI reporting activity:

1. **ESG integration**: the transparent processes for considering environmental, social and governance factors in the manager's investment process including examples. We expect ESG integration to be applied in different ways depending on the fund manager's investment style.
2. **Stewardship**: the policies and processes for identifying companies for engagement and for voting stocks; voting and engagement activities, and evidence of outcomes from those activities. Building on the Financial Reporting Council's Stewardship Code<sup>4</sup>, we regard stewardship activities as a core requirement for both passive and active public equity managers.

<sup>4</sup> <https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx>

# 1. ESG integration

Our public equity managers might reasonably be expected to report on two areas of ESG integration in their investment process:

- a) Identification of ESG risk and opportunity; and
- b) Management and monitoring of ESG risks and opportunities.

## 1. (a) Identification of ESG risk and opportunity

- Examples of where and why the manager is prepared to take either stock or sector ESG risks or where it sees opportunities.
- Quantitative or qualitative examples of material ESG factors identified in fundamental analysis and stock valuation.<sup>5</sup>
- Identification of long-term ESG secular trends and themes (as potential determinants of future growth/valuation etc.) and the extent to which they have influenced portfolio construction decisions.
- Relevant information gathered from due diligence and stewardship activity which has informed the identification of ESG risks and opportunities.
- Benchmark relative, portfolio level ESG analysis (for example distribution of portfolio ESG scores relative to the benchmark, ESG scores or qualitative indicators or carbon footprinting) including specific stocks or sector decisions which drive under or over performance. Commentary on the materiality of this information to investment decision-making.
- Any changes to the ESG integration process during the period e.g. new resources, data provision.

## 1. (b) Management and monitoring of ESG risks and opportunities

- Examples of where the manager believes companies' management of ESG issues is a material determinant of performance e.g. lower volatility, sustainable earnings growth etc.
- Any geographic or industry allocation, or stock buying/selling decisions, that were influenced by the identification of ESG portfolio and stock risk and opportunity in the reporting period.
- Stock level ESG analysis for top risk and performance detractors/contributors in the reporting period.
- Any material changes to portfolio companies' ESG performance. Examples may include where the manager's view of ESG risk and opportunity differs from the market/rating agencies.

<sup>5</sup> There is a growing recognition of how ESG performance indicators can impact company value drivers. For further information on the impact of material ESG factors on sales, costs and long-term return on capital please follow this link: [www.unpri.org/viewer/?file=wp-content/uploads/Integrated\\_Analysis\\_2013.pdf](http://www.unpri.org/viewer/?file=wp-content/uploads/Integrated_Analysis_2013.pdf)



## 2. Stewardship

Fund managers are invited to demonstrate how stewardship activities and ESG integration are connected in the investment process, and in turn, how engagement and voting activities are linked with each other as well as the link with forward-looking ESG analysis. Reporting should provide assurance that the type of engagement activity being undertaken is meaningful- not purely reactive.

The section on stewardship reporting is divided into two sections (a) Engagement and (b) Voting and for each section, where the manager is voting or engaging on behalf of the supporting asset owners, we might reasonably expect reporting on both process and outcomes.

### 2. (a) Engagement

#### Process

- Change in process for identifying engagement targets, change in list of engagement targets, portfolio weighting, engagement objectives, nature of activity (e.g. in-house or collaborative engagement), who attended meeting from company (e.g. Chair, investor relations) and investment firm, anticipated engagement timeline if applicable.
- Updates on any market-wide or public policy initiatives (engagement, consultations etc) responded to which are relevant to the strategy or the market in which it operates, and the underlying rationale for the specific activity undertaken.
- Any changes to resourcing or processes in place to engage portfolio companies (including change of proxy voting or engagement services provider).

#### Outcomes

- Examples of progress against engagement objectives over the reporting period.
- For completed engagements, provide any examples of how you expect engagement will enhance or avoid the destruction of long-term shareholder value or help manage risk.
- In addition to substantive engagement reporting, managers may also provide the percentage of portfolio and/or universe engaged. This may include engagement for the purpose of gathering information.
- For managers with a longer track record on stewardship, we would welcome any analysis on the degree to which engagement has contributed to portfolio level risk or return over time.

## 2. (b) Voting

### Process

- Any changes to proxy voting policy/scope during the reporting period.
- Any changes to resourcing or processes in place to vote portfolio companies.
- Example of how proxy voting decisions are made:
  - Percentage of votes reviewed in-house (We are concerned that some managers follow external voting provider's recommendations without interrogation).
  - Examples of how conflicts of interest (if any) were managed in the reporting period.
  - Explanations for any deviations from proxy voting policy if applicable.
- A description of how and when votes were followed up or pre-empted by engagement activities (including any instances where a vote against management followed on from unsuccessful engagement).
- Information on how voting information was used to inform ESG integration and/or impacted investment decisions.
- Information on how environmental and social issues informed voting activities e.g. any votes (including rationale) on shareholder resolutions.
- Outline of changes to stock lending policies (if any) applicable:
  - Explanations for any deviations from policy; Details of events where holdings (entire or partial) could not be voted due to stock on loan over record date.
  - Any instances where lent stocks were recalled for the purposes of voting.

### Outcomes

- Commentary on headline voting decisions during the reporting period and discussion of any themes/trends emerging in voting activity.
- Percentage of portfolio voted. Where less than 100%, reasons for missed/failed votes should be specified; and the steps taken to investigate and address the reasons behind failed/missed votes explained.
- A list of companies for which votes were cast during the reporting period, split by region, and all voting decisions for each; the rationale for all votes against management and abstentions; and any relevant examples of the rationale for votes in favour of management on controversial issues; explain votes cast (for or against) with respect to M&A resolutions and corporate actions.
- A breakdown of votes cast against management and abstentions by issue (e.g. remuneration, board quality etc).
- Progressive reporting: outcomes of any voting audit including the extent of the audit – which checks whether votes were cast as intended and actually reached the company; Results for key votes against the fund manager's assessment/vote cast.

## Concluding remarks

We hope that this guide will stimulate discussion and facilitate constructive dialogue between asset owners and their fund managers. To reiterate, we do not expect managers to fulfil all of the reporting metrics overnight. Managers are invited to demonstrate reasoning or explanation as to why they do not feel a particular reporting metric is relevant.

We encourage continuous improvement in RI reporting and welcome further dialogue on progressive and innovative approaches to RI reporting which fund managers might work toward over the medium to long-term.

We welcome feedback on this guide including views on whether further guides might be developed for other asset classes.

The group would like to acknowledge the contributions and support from the PRI, NAPF, Ebba Schmidt at the PPF and the fund managers which provided feedback on early drafts. A copy of the paper is available on the NAPF website [www.napf.co.uk/stewardship](http://www.napf.co.uk/stewardship)

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# A Guide to Responsible Investment Reporting in Public Equity

January 2015  
Version 1

BT Pension Scheme



Environment Agency  
Pension Fund

Kingfisher



NILGOSC  
NATIONAL INDEPENDENT  
SUPERANNUATION COMMITTEE



The Pensions Trust



## **Pension Fund Committee**

Meeting to be held on 27 March 2015

Electoral Division affected: None
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## **Update on the Establishment of the Lancashire Local Pension Board**

(Appendices 'A' to 'E' refer)

Contact for further information:

George Graham, (01772) 538102, County Treasurer's Directorate,

[george.graham@lancashire.gov.uk](mailto:george.graham@lancashire.gov.uk)

### **Executive Summary**

The new Local Government Pension Scheme Governance regulations require each LGPS administering authority to create a Local Pension Board to assist its work in managing its pension fund. At its meeting on 28 November 2014 the Committee endorsed the proposals for the Lancashire Local Pension Board and recommended them to Full Council for approval. The proposals were approved by Full Council on 18 December 2014 and this report provides an update on progress with the establishment of the Board.

### **Recommendation**

The Committee is asked to note the appointments to the Lancashire Local Pension Board.

## **Background and Advice**

The Committee has previously considered the arrangements for the establishment of the Lancashire Local Pension Board and the full County Council approved the Committee's recommendations at its meeting in December 2014. The role of the Board as set out in the LGPS (Amendment) (Governance) Regulations 2015 is:

- a) to secure compliance with:
  - i. the Regulations;
  - ii. other legislation relating to the governance and administration of the LGPS;
  - iii. and the requirements imposed by the Regulator in relation to the LGPS, and
- b) to ensure the effective and efficient governance and administration of the LGPS.

The Board is not a committee set up under the Local Government Acts but a specific creation of the relevant regulations under public sector pension legislation. The Board is also not a decision making body, its role is to "assist" the Administering Authority and the Scheme Manager.

In order to comply with the regulations work since the last meeting of the Committee has concentrated on ensuring appointments are made to the Board in line with the arrangements approved by the County Council so that a training programme for members of the Board can be delivered prior to the first formal meeting.

### **The Appointment Process**

In line with the criteria of openness and transparency set out in the relevant guidance, the following appointment process was followed for each category of membership:

- An Independent Chair was appointed following public advertisement using an interview process similar to that used for the Fund's independent investment advisers, but with representatives of the Full Council as administering authority. This appointment was made jointly with the London Pension Fund Authority (i.e. the same individual will chair both Boards)
- Nominations for Employer Representatives were sought from the respective "constituencies".
- Nominations from Employee Representatives were sought from the respective "constituencies" (Appendix A refers). As there were more nominations than places (subject to all nominees satisfying the "relevant experience and capacity test") a ballot of the relevant employee group was held. A resume of each candidate accompanied the ballot papers – see appendices B-E.

Appointments are for a four year term, although for the councilors appointed this will be subject to the results of any election in the intervening period. A term of office of this length, with the potential for reappointment, provides the opportunity for members of the Board to develop a degree of expertise, which will be of value to the Board. Elected members of the County Council are mid-way through their four year term and therefore there will be some staggering in the turnover of members to be introduced from the beginning of the life of the Board which is desirable.

### **Timetable for Appointment of Employee Representatives**

In order to ensure that appointments to the Board were made by 1 April 2015, the following timetable was followed. The process for appointment of the Independent Chair and the nominations for Employer Representatives ran parallel with this timetable.

Where communication with members of the Fund was required this was undertaken by letter to the address held by the Fund in order to ensure the greatest possible engagement with members.

Selection by ballot	
By 9 January 2015	Invite Nominations
By 19 February 2015	Circulate ballot papers
9 March 2015	Closing date for ballot papers to be returned
11 March 2015	Counting of ballot papers and declaration of results, successful candidates advised.
13 March 2015	Appointment details on LCPF website
27 March 2015	Results reported to Pension Fund Committee

## **The Appointments Made**

### Independent Chair

Interviews were held and an appointment made on 19 March 2015. As this is after the date for publication of the papers for this meeting an oral update will be provided to the Committee.

### Employer Representatives

At the time of writing the following is known:

1. The local authorities (other than the County Council) will be asked to approve the appointment of Mr. Steve Thompson, Borough Treasurer of Blackpool Borough Council.
2. Recommendations for the appointment of County Council representatives will be determined prior to the meeting of the Committee and an oral update will be provided.
3. At the time of writing no nominations for the other employer representative have been received and officers are continuing to encourage applications.

## Employee Representatives

The results of the ballot are set out in the table below. Full details of the results can be found at [www.yourpensionservice.org.uk](http://www.yourpensionservice.org.uk)

<b>Member Status</b>	<b>Successful Candidate</b>	<b>Votes</b>
Active	Yvonne Moulton	887
Active	Kathryn Haigh	691
Deferred	John Hall	566
Pensioner	Robert Harvey*	1,332

The turnout in the ballot was 9.25% with over 10,000 members of the Fund voting.

\*Note – Mr Harvey is currently a co-opted voting member of this Committee and has indicated that he will resign from the Committee on 27 March 2015 in order to become a member of the Pension Board. Officers are engaging with Unison in order that the co-opted seats available on the Committee for members of the Fund are not left vacant.

### **Next Steps**

The first formal meeting of the Board is scheduled to take place during July 2015. A learning and development programme is currently under development with training planned to take place prior to the Board commencing its work.

### **Implications:**

#### **Risk management**

The creation of the Board and its effective operation is intended to reduce the Fund's exposure to a range of risks associated with compliance with regulations and the Pension Regulator's code of practice for public service schemes,

#### **Financial**

Any costs incurred in the establishment and running of the Pension Board are chargeable to the Pension Fund under the terms of the relevant regulations.



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

Paper	Date	Contact/Directorate/Tel
N/a		
Reason for inclusion in Part II, if appropriate		
N/a		



The logo for 'Your Pension Service' is a large purple circle with a vertical line extending downwards from its bottom edge. Inside the circle, the words 'your pension service' are written in a white, lowercase, sans-serif font. 'your' is on the top line, 'pension' is on the middle line, and 'service' is on the bottom line.

your  
pension  
service

# Do you want to get involved in the running of your Pension Fund?

You may be interested to know that there are some changes to the governance arrangements for pension funds within the Local Government Pension Scheme. The changes are part of the Public Sector Pension Reform.

## How did this happen?

In June 2010 the Government appointed Lord Hutton of Furness to chair the Independent Public Service Pensions Commission to review public service pension provision in the UK.

In March 2011 the Commission produced its final report making 27 recommendations for the reform of public service pension schemes.

The recommendations were accepted by the Government and were carried forward into the Public Service Pensions Act 2013.

The Act included a requirement for each Local Government Pension Scheme Manager to establish a Local Pension Board that is properly constituted, with trained and competent board members, including member nominees.

The Local Pension Board is to be established by 1 April 2015. The intention of this regulatory change is to ensure that the Local Government Pension Scheme is managed well at a local level.



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# What will the Local Pension Board do?

The Local Pension Board will be responsible for assisting Lancashire County Council, who is the Scheme Manager, to:

Secure compliance with:

- The Local Government Pension Scheme Regulations;
- Any other legislation relating to the governance and administration of the Scheme, and;
- Requirements imposed by The Pensions Regulator in relation to the Scheme, and;

To ensure the effective governance and administration of the Scheme.

The new Board will be an oversight body and will not replace existing governance arrangements in place at Lancashire County Council in respect of the administration of the Local Government Pension Scheme.

## How will the Local Pension Board in Lancashire be Constituted?

Voting members of the Board must be drawn equally from Scheme employers and Scheme members which is why we are writing to you now. It is also possible to appoint non-voting members. The Local Pension Board for the Lancashire Pension Fund will constitute of:

- An independent non-voting Chair who will be appointed through a public appointments process
- Four member representatives, comprising two members from current contributors, one member with a deferred (frozen) pension within the Fund, one pensioner member and;
- Four employer representatives comprising two from Lancashire County Council, one from other local authorities in Lancashire and one from other employers who participate in the Lancashire Pension Fund.

## Have you registered for our Online Service?

My Pension Online is a facility where you can log in securely to your own pension scheme member record. Whether you are still working, or have a deferred pension, or a pension in payment, there is something in the online service for you.

We will be using the My Pension Online facility to communicate with you in the future. If you have not already registered for My Pension Online, please visit our website.

You need a personal email address which you can register to be able to use this service, and we will inform you when there is new information for you to view.

In addition to ad hoc communications about your benefits, each year we will make your benefit statement available online (for active and deferred pensioner members), and pensioner members will have their P60 online.

If you wish to opt out of electronic communications please inform us in writing.

# What criteria do you need to satisfy to become a member of the Local Pension Board?

- You must be a member of the Lancashire Pension Fund
- You must have a good knowledge and understanding of public sector pensions and specifically the Local Government Pension Scheme.
- You must be able to commit to a term of membership of four years
- You must also be able to attend up to four meetings each year and up to two training sessions each year.
- Travel to Preston is essential and expenses will be reimbursed.

The role and composition of the Lancashire Local Pension Board is described in full within a Terms of Reference which can be found on our website or you can ring or email us to request a copy.

## Are you interested in being a Member Representative?

As part of the process of setting up the Lancashire Local Pension Board the County Council is now seeking nominations for Scheme Members to sit on the Board.

If you are interested in becoming a Member Representative you should complete the attached Expression of Interest Form and

send, either by post or by email, to the address shown by no later than Friday 30 January 2015.

Nominations will be assessed to ensure that nominees meet the relevant criteria and if nominations exceed the required number in each category of Scheme Member then a ballot will be held to appoint a Representative.

## Our Contact Details



Tel: **01772 530530**



E-mail: **Askpensions@lancashire.gov.uk**



Web: **www.yourpensionservice.org.uk**

Your Pension Service

PO Box 100, County Hall,  
Preston PR1 0LD

# Lancashire Local Pension Board Expression of Interest Form

Name	
Address	
Postcode	
Email address	
National Insurance Number (to confirm you are a member of the fund)	

Please tell us in no more than 500 words about your experience, knowledge and understanding of public sector pensions and the Local Government Pension Scheme\*

Please tell us in no more than 500 words why you want to be a Member of the Lancashire Local Pension Board\*

Please confirm that you are able to commit to a term of membership of four years from 1 April 2015 to 31 March 2019	Tick here
---	-----------

Please confirm that you will be able to attend up to four meeting per annum and up to 2 training sessions per annum in Preston	Tick here
--	-----------

Signature	Date
-----------	------

\*please continue using plain white A4 paper

# Lancashire Local Pension Board Active Member

Following the recent ballot above held on 30 January 2015, as an active member of the local Government Pension Scheme you are being asked to vote for two candidates below. You may place an X in up to two of the boxes.

Yvonne Moulton

Kathryn Haigh

Gillian Sands

Tracie McCrudden

James Tattersall

John Taylor

Ballot papers must be returned in the envelope provided by 4pm on 9 March 2015.

# Lancashire Local Pension Board Pensioner Member

Following the recent ballot above held on 30 January 2015, as an active member of the local Government Pension Scheme you are being asked to vote for one candidates below. You may place an X in one of the boxes.

Heather Edwards

Robert Harvey

Ron Hatley

Jacqueline Waring

Gareth Roscoe

Michael Perry

Brian Taylor



Ballot papers must be returned in the envelope provided by 4pm on 9 March 2015.



# Lancashire Local Pension Board Deferred Member

Following the recent ballot above held on 30 January 2015, as an active member of the local Government Pension Scheme you are being asked to vote for one candidates below. You may place an X in one of the boxes.

Roy McClements

John Hall

Ballot papers must be returned in the envelope provided by 4pm on 9 March 2015.



# Are you interested in who will be involved in the running of your Pension Fund? You can choose!

your  
pension  
service

## The Lancashire Local Pension Board

### Active Member Representatives

We sent you a newsletter in early January to ask you to get involved in the running of your Pension Fund and become a member of the Local Pension Board. We have now received expression of interest forms for nominations and below is a brief resume from each candidate.



#### Yvonne Moulton

My name is Yvonne Moulton and I'm employed by Blackpool Borough Council

I have worked at Blackpool BC since 1997, providing HR, Payroll & Pensions Services to the Council as well as other Local Authorities, Housing Associations & Academies. I'm currently Senior Pensions Officer and I'm involved with public sector pensions on a daily basis; Local Government Pension Scheme, Teachers Pension Scheme & National Health Pensions. I have a Diploma in Pensions Management and have recently joined the Local Government Association's Teachers Pension Scheme Employer Group North which meets twice a year to discuss employer issues. I'm a key contact for pension queries for scheme members and I also liaise with managers and colleagues within my organisation. In my role I deal with many aspects of pension scheme legislation. I also have experience of The Pension Regulator's governance requirements. I believe I have sufficient depth of knowledge, experience & understanding to be a good member of the Lancashire Local Pension Board.

I am keen to be involved in new challenges using my pension knowledge and the chance to be a member of the Lancashire Local Pension Board would allow me to be involved with the LGPS from a different perspective. The chance to be a part of something new from its inception would be a privilege. Having worked within Local Government for many years I am well versed in operating within the public domain and would be delighted to be appointed to the Lancashire Local Pension Board.



#### Kathryn Haigh

My name is Kathryn Haigh and I am employed by Lancashire County Council

I have previously been a member of the Teachers Pension Scheme and I am now a member of the Local Government Pension Scheme.

After working as a teacher I worked for 13 years as a financial adviser. For much of that time I worked with Teachers Assurance who specialised in advising teachers and members of other public sector organisations on their pensions and other finances. I have been trained to thoroughly understand how pensions work for members and was also involved in training others. Part of my job involved going into schools and colleges to give



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talks on pensions. I later worked as an independent financial adviser and had further training in pensions generally.

I am interested in being involved in the running of Lancashire County Pension Fund and I would like to be able to use my past experience of financial planning to contribute to this work. There is much more information available now and pension schemes are more proactive in contacting members with information. However, I think there is still a role for looking at the scheme through an 'ordinary' members eyes and I would be interested to use my abilities and experience for the benefit of others. I have a good eye for detail and I am alert to jargon and other unclear or unhelpful use of language, which could be useful in considering communications with scheme members. I am now working in the Domiciliary Service which supports adults with learning disabilities.



#### Gillian Sands

My name is Gillian Sands and I currently work for West Lancashire Borough Council. I have been a member of the Local Government Pension Scheme since I joined the authority in 2004.

I previously worked in the financial sector and was required to attain Financial Planning Certificates to become qualified. This enabled me to learn about different types of pension schemes

I'm currently a Performance and Project Manager at West Lancashire Borough Council. Being a Performance Manager, I regularly have to ensure data quality is being considered. How is the data being collated, why is it being collated and who reviews the quality of the data being provided.

I understand that the pension needs to comply with regulations and governance structures as well as understanding the risks associated with the administration of the pension fund.

My experience hopefully shows you that I have the skills necessary to have a positive contribution to the pension board. I am willing to learn new skills and would relish the opportunity to work on a board and gain experience outside of my current role.

Having worked in the financial sector in the past, I feel this would be a great opportunity for me to enhance what I have already learned and utilise the qualifications I achieved.

#### Tracie McCrudden

I have been a member of the Local Government Pension Scheme for nearly 30 years of which many changes have occurred.

I have attended the official UNISON training courses on the new 2014 Local Government Pension Scheme in relation to the Legal Structures of Workplace Pensions, Types of Pension Schemes, and the Public Services Pension Scheme Act 2013, especially in relation to being IORP Compliant. I have a good knowledge and understanding of the governance rules, UK Stewardship Code and the requirements to ensure that the Fund is compliant.

As a local Unison Branch Secretary I regularly give advice on Ill Health Retirement, Retirement via Redundancy and normal Retirement, the Rule of 85, and many types of pension queries all of which has given me a vast knowledge of the pre 2014 pension, which enables me to understand and identify the changes to the new pension scheme.

I have also attended various presentations by LGPS staff on their understanding of the changes and how they will affect members going forward.

I have recently received further training on the Pension fund investments on what they are how do they work.

My commitment is to maintaining the Lancashire LGPS Scheme as a healthy and vibrant, with investment management being always in the best interests of all Scheme members, those being current members contributing to the Scheme, deferred members and pensioners.

I would welcome the opportunity to be a Board Member representing Scheme members diligently during my term of office on the Board.



### James Tattersall

My name is James Tattersall and I am seeking to become a member of the Lancashire Local Pension Board.

I am employed as a member of Police Staff with Lancashire Constabulary with 19 years' service.

For the last seven years I have been elected as the Unison Assistant Branch Secretary for Lancashire Police Branch where I have been the pensions contact and active trade unionist.

Prior to joining Lancashire Constabulary I worked as a financial advisor selling and advising clients on pension provision and other financial products therefore I have a good knowledge and understanding of pension schemes including the LGPS.

As part of my role as Unison Assistant Branch Secretary I have been responsible for giving presentations to members on the LGPS and advising them on changes to the scheme which took place in 2008 and 2014. I have extensive experience of dealing with members on a wide variety of issues relating to the LGPS. I have also campaigned hard to retain the LGPS.

It is essential that excellent schemes such as the LGPS continue to provide sustainable and cost effective pension provision that allow employees to save for their retirement, encourage existing and new employees to start saving for retirement and also provide value for money for employers and tax payers.

I want to make sure that the scheme continues to uphold the highest principles of customer service and investment strategy which will protect members and employers investments and make sure that the scheme continues to be financially sustainable, and meet its pension liabilities.

### John Taylor

As a trade union pension champion I have undertaken training provided by Unison regarding Local Government Pension scheme, consisting of 2 day training events, local seminars, consultation events with trade union members on the changes to the local government scheme. The Local Government scheme is the only public service pension that holds and invests funds other schemes such as "pay as you go" in which the member contributes weekly or monthly do not hold an investment pot therefore administering authorities are required to appoint a scheme actuary and auditor and to produce a pension fund annual report and accounts which, in accordance with scheme regulations, describe the governance, administration and investment arrangements.

It is important to me as a trade unionist to ensure that the future needs of Unison members are endeared too as the pension scheme is the most important investment of their lives and the outcome of that investment/ management of the scheme could have detrimental implications not just on their future needs but also the long term viability of the local government pension scheme.

Therefore the Public Service Pension Act 2013, has given me an opportunity to become a board member and to ensure that the Local Government Pension Scheme is managed well at a local level.

Enclosed is a ballot form and an addressed envelope. Please complete and return to us by 9 March 2015. The results of this ballot will be published on 13 March at [www.Yourpensionservice.org.uk](http://www.Yourpensionservice.org.uk)

## Have you registered for our Online Service?

My Pension Online is a facility where you can log in securely to your own pension scheme member record. Whether you are still working, or have a deferred pension, or a pension in payment, there is something in the online service for you.

We will be using the My Pension Online facility to communicate with you in the future. If you have not already registered for My Pension Online, please visit our website.

You need a personal email address which you can register to be able to use this service, and we will inform you when there is new information for you to view.

In addition to ad hoc communications about your benefits, each year we will make your benefit statement available online (for active and deferred pensioner members), and pensioner members will have their P60 online.

If you wish to opt out of electronic communications please inform us in writing.


 your  
pension  
service

# Are you interested in who will be involved in the running of your Pension Fund?

## The Lancashire Local Pension Board Deferred Member Representatives

We sent you a newsletter in early January to ask you to get involved in the running of your Pension Fund and become a member of the Local Pension Board

We have now received expression of interest forms for nominations and below is a brief resume from each candidate

### Roy McClements

My name is Roy McClements and I'm a deferred member of Lancashire County Pension Fund. I have been a member of the Local Government Pension Scheme for 35 years. I understand the Scheme very well because I have kept up to date with all the changes to the Scheme over the years.

I would like to be a deferred member representative on the Lancashire Local Pension Board because I am currently President of the UCCAT Union Lancaster Branch and being a member of the Board will help in terms of pension enquiries from members as I will be able to keep them informed and up to date about changes to the Scheme.

Administered by



John Hall

My name is John Hall and I'm a deferred member of Lancashire County Pension Fund. I've been a member of the Local Government Pension Scheme for 25 years and I was also a member of the Lancashire branch of Unison. I've always had a keen interest in the LGPS and have long campaigned for it to remain a premium Scheme for all its members. I have a good understanding of the Scheme and I'm aware of the size and membership of Lancashire County Pension Fund.

I've had experience of working with the public throughout my working life and I've developed the necessary skills to be a confident communicator with an outgoing personality which allows me to reach people at all levels and cultures.

I have considerable experience of working on committees and I'm currently the Chairman of the Friends of Slaidburn Youth Hostel in the Bowland Forest of Lancashire. I'm also the Treasurer of Crosshill Tennis Club in Blackburn as well as being a member of the East Lancashire Co-Operative Members Group where I'm the minutes secretary. I also attend the Blackburn and District Trade Union Council and my local residents association in Blackburn.

I'm committed to undertake training as I recognise this as being a key component of being a member representative on the Lancashire Local Pension Board

Enclosed is a ballot form and an addressed envelope. Please complete and return to us by 9 March 2015. The results of this ballot will be published on 13 March at [www.Yourpensionservice.org.uk](http://www.Yourpensionservice.org.uk)

## Have you registered for our Online Service?

My Pension Online is a facility where you can log in securely to your own pension scheme member record. Whether you are still working, or have a deferred pension, or a pension in payment, there is something in the online service for you.

We will be using the My Pension Online facility to communicate with you in the future. If you have not already registered for My Pension Online, please visit our website.

You need a personal email address which you can register to be able to use this service, and we will inform you when there is new information for you to view.

In addition to ad hoc communications about your benefits, each year we will make your benefit statement available online (for active and deferred pensioner members), and pensioner members will have their P60 online.

If you wish to opt out of electronic communications please inform us in writing.




 your  
pension  
service

# Are you interested in who will be involved in the running of your Pension Fund? You can choose!

## The Lancashire Local Pension Board Pensioner Member Representatives

We sent you a newsletter in early January to ask you to get involved in the running of your Pension Fund and become a member of the Local Pension Board

We have now received expression of interest forms for nominations and below is a brief resume from each candidate.

### Heather Edwards

My name is Heather Edwards and I was Service Director for Finance and Deputy Director at Stockport until 2012. Since I joined Local Government in 1980 I have always worked in a financial role and had some responsibility for Payroll and Pensions, including pensioner payrolls.

I have an accounting qualification and a Master of Business Administration degree. Although this role is different from actually working for an employer or the Pension Fund, I feel that I have the knowledge, ability and understanding to deal with the issues raised at the Board. I have a wide understanding of the financial and governance issues surrounding pensions as well as recent knowledge and practical experience of the Local Government Pension Scheme.

I'm currently a member of the Lancashire Workforce Development Partnership Board and I'm also a Director of a private company for which I undertake the Secretarial Function. I'm very grateful that I was encouraged to join the Local Government Pension Scheme and would like to give something back for the help and advice I have received in respect of pensions during my working life. This role fits with the career I've had and continues my public sector ethos. I believe that this would enable me to take an active and positive role in the business of the Lancashire Local Pension Board.

Administered by





### Robert Harvey

My name is Robert Harvey and I have been a member of the Lancashire County Council Pensions Committee since 1987. During that time I have acquired some knowledge of the rules and regulations concerning the administration of the Pension Fund but more importantly I have gained knowledge of how the Pension Fund is being managed to ensure the payment of pensions in the future. The role of the Pensions Committee has been crucial in trying to maintain the financial stability of the Fund. To ensure I had adequate knowledge of the financial markets in which the Fund operates I have undertaken appropriate training. I have also tried to keep up to date on developments in the wider pensions industry.

The Local Pension Board is a new innovation in the LGPS which recognises the need to improve the governance of pension schemes.

Because of my experience of the Lancashire Pension Fund, I have been asked by the retired members of the Lancashire UNISON Branch to undertake the role of pensioner representative on the new Board. Although this means I will have to be replaced on the Pensions Committee I believe it will be helpful to have someone with my knowledge and experience on the new Board to assist the development of the member representatives in what will be a new experience for them.

### Ron Hatley

My name is Ron Hatley and I was employed by Lancashire County Council for over 40 years. I became a Principle Officer Building Surveyor Engineer and also a UNISON representative. Since I retired I have become acutely aware of the vagaries of life on a pension. I have looked at the various government initiatives being offered and how we pension receivers are treated. I have no pensions qualifications as such, other than the above. However, I believe my lack of formal qualifications puts me in a strong position of being able to appreciate and identify when jargon is being used. I would pursue such use of 'in speak' to clarify what is being said or proposed and whether it would be of advantage or not to fellow pensioners.



### Jacqueline Waring

My name is Jacqueline Waring and I worked for Blackburn with Darwen Borough Council for 12 years in a senior management position. During this time as well as attending to my own pension, I had over 50 staff to whom I was responsible for supplying information about all HR matters, including pensions. I did not work directly in pensions but do not see this as a disadvantage. My work has been strategic and involved the ability to work with budgets across millions of pounds. I am very well versed in the HR side of management and until recently was a member of IPD.

I presently serve as an independent Director on the Board of Twin Valley Homes, a social housing association. I carry out appeals and dismissals representing this Board. I enjoy this Board work and feel that there is room in my life to sit on another Board and give it my full attention.

### Gareth Roscoe

My name is Gareth Roscoe and I worked for nearly 20 years as a Local Government Solicitor initially with Lancashire County Council and then latterly with Blackburn with Darwen. I was then elected as UNISON Assistant Branch Secretary and then Branch Secretary of Blackburn Branch. In my union role I had to advise members of the Pension Scheme on a regular basis. As Branch Secretary I attended various UNISON seminars on the LGPS and made presentations on Scheme changes to my members. I retired last year and I'm now in a position to use my time and skills to promote and assist in the supervision of the Scheme.

As a former trades unionist from Local Government I have always been a real supporter of, and advocate for, the Local Government Pension Scheme and I now have time to take on the role of pensioner member representative on the Lancashire Local Pension Board.

### Michael Perry

My name is Michael Perry and I have 40 years Local Government experience, starting as a trainee accountant and finishing as Director of Leisure and Operations at South Ribble Borough Council. I have an in depth knowledge of the Public Sector Pension Scheme. As a member of the authorities' senior management team my pension knowledge was sought across all divisions of the council. My own division consisted of 243 employees, many at the sharp end of operation and they needed independent professional advice on their pension requirements. With this in mind it was important that I kept abreast of current pension regulations in order to give the right advice. I felt that I did this with enthusiasm and professionalism

My reason for wishing to be a member of the LCC Pension Board stems from my experience of a professionally managed fund which continues to give its members the best possible pensions advice and guidance. Governance of such funds remains an important issue in the present uncertain financial climate and whilst LCC remain the fund manager it is, I feel, critical that some independent external measures are in place to ensure compliance with Local Government Pension Scheme Regulations in relation to Administration and Governance. I feel that my experience and interest in the scheme can bring the necessary qualities to the board to ensure this compliance.



### Brian Taylor

My name is Brian Taylor and I have been a scheme member since 1979. I have seen many changes to our scheme during that time. In latter years I have taken a keener interest in our scheme and particularly since I retired. My knowledge and understanding of public sector pensions has improved with being a recipient and I would expect it to be further enhanced with member representation.

Following the Public Service Pensions Act 2013 I look forward to the greater participation of members, which I hope will lead to an increased consultation and engagement of members. It is a scheme which should be protected, particularly as central government has shown an envious interest in our schemes. We need to safeguard the rights of members in relation to such issues as pension promises and accrued rights. Our scheme needs to be affordable, sustainable, adequate and fair to all members. In addition, the workings of the scheme have to be transparent.

As a member, who now gains the benefits of our LGPS scheme, I appreciate what it has to offer and why the benefits certainly need to be protected and hopefully improved for present and future members.

Enclosed is a ballot form and an addressed envelope. Please complete and return to us by 9 March 2015. The results of this ballot will be published on 13 March at [www.Yourpensionsservice.org.uk](http://www.Yourpensionsservice.org.uk)

## Have you registered for our Online Service?

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We will be using the My Pension Online facility to communicate with you in the future. If you have not already registered for My Pension Online, please visit our website.

You need a personal email address which you can register to be able to use this service, and we will inform you when there is new information for you to view.

In addition to ad hoc communications about your benefits, each year we will make your benefit statement available online (for active and deferred pensioner members), and pensioner members will have their P60 online.

If you wish to opt out of electronic communications please inform us in writing.

## Pension Fund Committee

Meeting to be held on 27 March 2015

Electoral Division affected: All
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## External Audit

### Lancashire County Pension Fund Annual Audit Plan 2014/15

(Appendix 'A' refers)

Contact for further information:

Karen Murray, 0161 234 6364, Director, Grant Thornton

[karen.l.murray@uk.gt.com](mailto:karen.l.murray@uk.gt.com)

## Executive Summary

The Annual Audit Plan sets out the nature and scope of work that the Authority's external auditor will carry out to discharge its statutory responsibilities, compliant with the Audit Commission Act 1998 (the Act) and the Code of Audit Practice for Local Government.

This audit plan is specific to the financial year 2014/15 and sets out in broad terms the programme of work required to:

- give a financial opinion on whether the financial statements:
  - give a true and fair view of the financial position of the Pension Fund as at 31 March 2015 and of its expenditure and income for the year then ended; and
  - have been prepared in accordance with proper accounting practice.

The Audit Plan, setting out the process that underpin the audit is at Appendix 'A'.

## Recommendation

The Committee is asked to note and comment on the contents of the Audit Plan 2014/15.

## Background and Advice

Attached at Appendix 'A' is the external auditor's Annual Audit Plan for the audit of the Lancashire County Pension Fund 2014/15. The plan sets out the main risk areas which the audit will focus on, including:

- the two default risks as highlighted in ISA+315 applicable to all audits on the revenue cycle includes fraudulent transactions and management override of controls;

- the risk of incorrect valuations on Level 3 investments, which by their nature require a significant degree of judgement to reach an appropriate valuation at year end; and
- other key risks areas around member data, investments, contributions and benefits payable.

The fee for the audit of the pension fund has been set at £34,169, which is the scale fee set by the Audit Commission. A fee of £1,737 is set to cover the IAS19 assurance work which is subject to separate approval from the Public Sector Audit Appointments Limited. Please note the total audit fee is the same as that charged in 2013/14.

(Note: The scale fee set previously by the Audit Commission for pension fund audits is based on a formula linked to the size of the net assets of the fund and has no specific risk factors linked to it).

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

### **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		

# The Audit Plan for Lancashire County Pension Fund

Year ended 31 March 2015

March 2015

**Karen Murray**

Director

T 0161 234 6364

E karen.l.murray@uk.gt.com

**Gareth Kelly**

Senior Manager

T 0141 223 0891

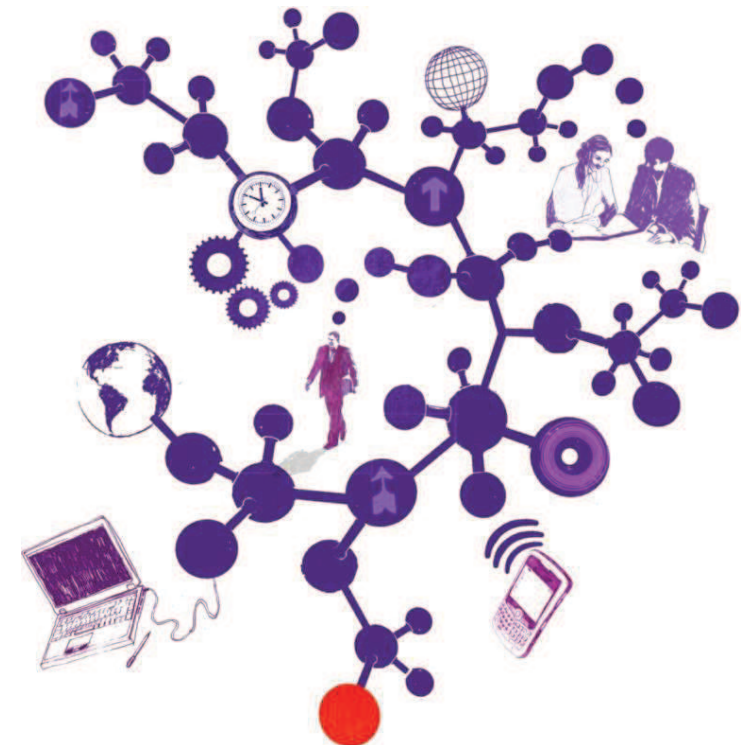
E gareth.kelly@uk.gt.com

**Ian Pinches**

[Executive]

T 0161 234 6359

E ian.m.pinches@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.



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# Contents

## Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. Significant risks identified
5. Other risks
6. Results of interim work
7. Key dates
8. Fees and independence
9. Communication of audit matters with those charged with governance

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. New governance arrangements

- The new governance regulations have introduced further changes for LGPS with effect from April 2015 by requiring a Local Pension Board for each fund. The board will work with the administering authority to help ensure compliance and effective governance and administration of the scheme. In addition the regulations also establish a National Scheme Advisory Board and a funding cap.
- There is a potential for overlap for many schemes between existing Pension Committees and the new Local Pension Boards. The real challenge for administering authorities is to meet the statutory requirements, but in a way which delivers visible improvements in the governance of the funds.

### 2. Pensions Regulator

- The Public Services Pension Act also provides for the extension of the work of The Pensions Regulator to the LGPS from 1 April 2015.
- The Fund will need to monitor compliance with requirements set by the regulator.

### 3. Future structural reform

- In May 2014 DCLG consulted on the opportunities for collaboration, cost savings and efficiencies in the management of LGPS funds. While the outcome of this is still awaited there is clearly a growing momentum for structural change.
- In the meantime the growing use of shared arrangements is delivering real benefits to funds through reduced costs, increasing access to relevant expertise and improved quality.

### 4. Local government outsourcing

- As many councils look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.



## Our response

We will :

- continue our on-going dialogue with officers around the governance arrangements; and
- share good practice as it emerges.

We will

- share our experience of working with The Pensions Regulator; and
- discuss with officers any changes that have been made to existing practices for the fund to demonstrate compliance.

We will:

- share good practice in reducing administration costs through collaboration or other initiatives; and
- discuss with officers any proposals for structural change including the potential joint arrangements with London Pension Authority and the related impact on the Pension Fund.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the Pension Fund.

# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

## Developments and other requirements

### 1. LGPS 2014

- During 2013/14 funds have implemented LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

### 2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2015. However the Pension Fund needs to ensure on-going compliance with the Code

### 3. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets.

### 4. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

## Our response

### We will

- consider changes made to the pensions administration control environment in response to LGPS data requirements.
- review the key control changes to benefits and contributions as a result of the changes from the introduction of LGPS 2014.

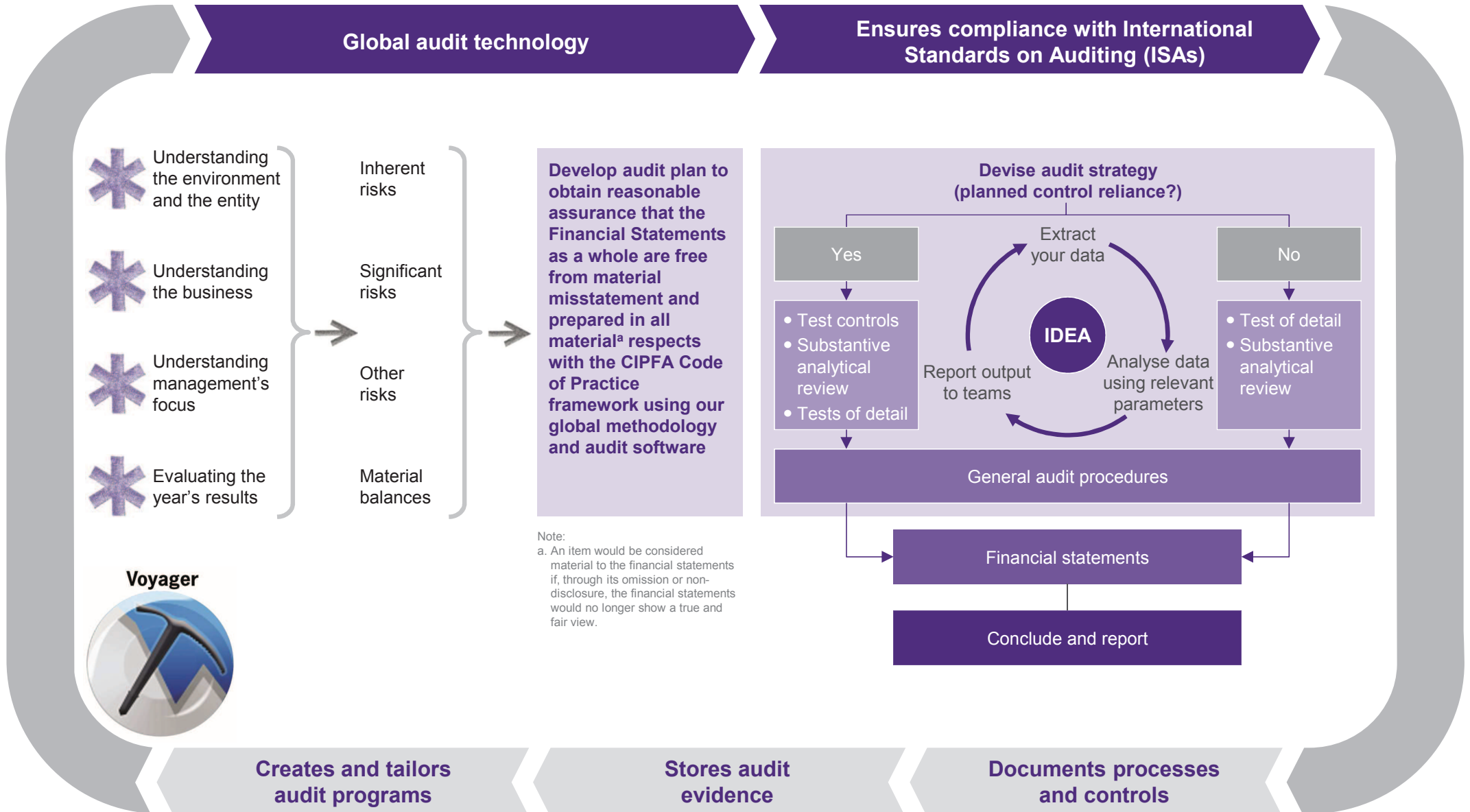
- We will ensure that the Pension Fund financial statements comply with the requirements of the Code.

### We will

- monitor any changes to the Pension Fund investment strategy through our regular meetings with management; and
- consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will discuss with officers any planned changes to the financial statements in response to this guidance.

# Our audit approach



# Significant risks identified

'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 outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire County Pension Fund , we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the split of responsibilities between the Pension Fund, its Fund Managers and the Custodian, provides a clear separation of duties reducing the risks relating to investment income</li> <li>• Management of the Fund do not have a financial interest in the entity, do not receive performance related pay, and do not give personal guarantees to the entity's debts .</li> </ul>
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>

## Significant risks identified cont'd

Significant risk	Description	Substantive audit procedures
Level 3 Investments – Valuation is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	<p><b>Work completed to date:</b></p> <p>We have carried out procedures and reviews sufficient to understand the pension fund's arrangements for gaining assurance over the valuation of these investments.</p> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"><li>• For a sample of investments, test valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31<sup>st</sup> March with reference to known movements in the intervening period</li><li>• To review the nature and basis of estimated values</li></ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	<ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> <li>Complete a predictive analytical review for different types of investments</li> <li>For direct property investments rationalise income against a list of properties for expected rental income.</li> </ul>
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	<ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> </ul>
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> <li>Test a sample of level 2 investments to independent information from custodian/manager on units and on unit prices where the custodian does not provide independent pricing confirmation</li> <li>For direct property investments agree values in total to valuer's report and undertake steps to gain reliance on the valuer as an expert.</li> </ul>

## Other risks identified continued

Other risks	Description	Audit Approach
Contributions	Recorded contributions not correct (Occurrence)	<p><b>Work completed to date:</b></p> <p>We have carried out procedures and reviews sufficient to understand the Pension Fund's arrangements for gaining assurance over recorded contributions.</p> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Controls testing over occurrence, completeness and accuracy of contributions,</li> <li>• Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.</li> </ul>
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p><b>Work completed to date:</b></p> <p>We have carried out procedures and reviews sufficient to understand the Pension Fund's arrangements for gaining assurance over benefit payments.</p> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Controls testing over completeness, accuracy and occurrence of benefit payments,</li> <li>• We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> </ul>
Member Data	Member data not correct. (Rights and Obligations)	<p><b>Work completed to date:</b></p> <p>We have carried out procedures and reviews sufficient to understand the Pension Fund's arrangements for gaining assurance over the accuracy of member data.</p> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Controls testing over annual/monthly reconciliations and verifications with individual members</li> <li>• Sample testing of changes to member data made during the year to source documentation.</li> </ul>



# Results of interim audit work

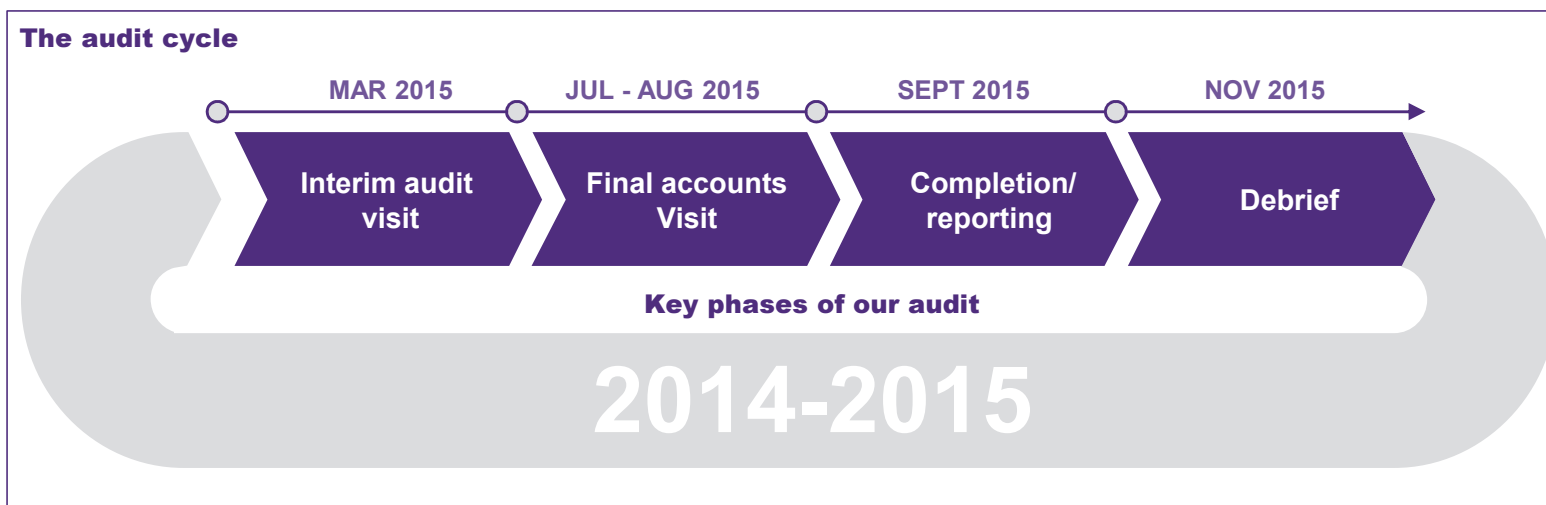
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed and findings</b>	<b>Conclusion</b>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Internal Audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Fund.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"><li>• Communication and enforcement of integrity and ethical values</li><li>• Commitment to competence</li><li>• Participation by those charged with governance</li><li>• Management's philosophy and operating style</li><li>• Organisational structure</li><li>• Assignment of authority and responsibility</li><li>• Human resource policies and practices</li></ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements</p>

## Results of interim audit work cont'd

	Work performed	Conclusion
<b>Review of information technology controls</b>	Our information systems specialists are in the process of completing their work, including a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.	Once our work has been completed, we will agree the findings with you in due course.
<b>Journal entry controls</b>	We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.	Our review of journal policies and procedures has not identified any issues. We will carry out additional work including testing on journals transactions for the full year, by extracting 'unusual' entries for further review.

# Key dates



Date	Activity
February 2015	Planning
March 2015	Interim site visit
March 2015	Presentation of audit plan to Audit Committee
July – August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Finance Staff
September 2015	Report audit findings to those charged with governance (Audit and Assurance Committee)
September 2015	Sign financial statements opinion

# Fees and independence

## Fees

	£
Pension Fund Scale Fee	34,169
IAS 19 Assurances	1,737
<b>Total fees (excluding VAT)</b>	<b>35,906</b>

### Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, the Fund, and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations

## Fees for other services

Service	Fees £
None	Nil

### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### 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:

- the in-charge 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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with 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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan 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](http://www.audit-commission.gov.uk)).

We have been appointed as the Council'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 Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council 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 Council 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 issue 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		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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## **Pension Fund Committee**

Meeting to be held on 27 March 2015

Electoral Division affected: None
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### **Transaction of Urgent Business**

Contact for further information:

Chris Mather, 01772 533559, Office of the Chief Executive,

[chris.mather@lancashire.gov.uk](mailto:chris.mather@lancashire.gov.uk)

#### **Executive Summary**

This report sets out an item that has been dealt with under the procedure for dealing with matters of Urgent Business.

#### **Recommendation**

The Committee is asked to note the report.

### **Background and Advice**

From time to time it is necessary for the Fund to transition assets from an existing investment manager or fund to another. In order to undertake such a transition, the Pension Fund has previously appointed a bench of transition managers who operate under a framework agreement and can be appointed through a mini competition process. The existing bench was appointed in December 2010 and the current agreement was due to expire on 31 January 2015.

A procurement exercise has been undertaken to ensure the Fund has a bench of transition managers after 31 January 2015. As the next meeting of the Committee was not until 27 March 2015 the County Treasurer, as Treasurer to the Pension Fund, has under the Council's Urgent Business Procedure approved the appointment of the following companies onto the Fund's transition bench with effect from 1 February 2015 for a period of two years with the option to extend this for a further two years:

- BlackRock Advisers (UK) Ltd;
- Citigroup Global Markets Ltd;
- Goldman Sachs International;
- Legal and General Investment Management Limited;
- Macquarie Capital (Europe) Ltd;
- Nomura International Plc;
- The Northern Trust Company; and
- Russell Implementation Services Ltd.

The chair and deputy chair of the Pension Fund Committee were consulted and supported the proposed action.

## **Consultations**

LCC Procurement Team

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

No significant risks have been identified.

### **Financial**

The appointment of the transition bench has no immediate cost to the County Council, as administering authority of Lancashire County Pension Fund. A transition manager will only be appointed for specific work when a transition is required. At this point a mini competition will be undertaken and the manager from the bench who proposes the best offer on a price and quality basis will be appointed.

### **Legal**

The County Council, as administering authority of Lancashire County Pension Fund, will enter into a framework agreement with the companies on the bench.

## **Local Government (Access to Information) Act 1985**

### **List of Background Papers**

Paper	Date	Contact/Directorate/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A



## **Pension Fund Committee**

Meeting to be held on 27 March 2015

Electoral Division affected: All
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### **Feedback on External Pension Fund Training Events Attended by Members**

Contact for further information:

Chris Mather, (01772) 533559, Office of the Chief Executive,

[Chris.mather@lancashire.gov.uk](mailto:Chris.mather@lancashire.gov.uk)

#### **Executive Summary**

This reports provides feedback on external Pension Fund training events attended by members of the Committee

#### **Recommendation**

The Committee is asked to note the report.

#### **Background and Advice**

The Pension Fund Committee at its meeting on 29 November 2013 approved a training plan for members of the committee. The purpose of the plan is to ensure best practice within the Fund, and to comply with the Public Service Pensions Act 2013. 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.

The training plan requires members 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.

The following external training events have been attended by members since the last meeting of the committee:

- **NAPF Investment Conference 'Living Longer, Investing Smarter' 11-13 March 2015, Edinburgh**  
The event was attended by County Councillor David Borrow
- **'LGPS Reform-Ethical, Efficient, Effective 2015' conference, 18 March 2015, London**  
The event was attended by County Councillor Barrie Yates and Councillors Edward Pope and Ron Whittle
- **'Local Authority Pension Fund Investment Strategies and Current Issues' conference, 19 March 2015, London**  
The event was attended by County Councillor David Borrow and Lorraine Beavers

Feedback on the external training events will be provided by the members at the meeting.

#### **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.

#### **Financial**

The Pension Fund was able to claim free places at these conferences. Any accommodation, travel and subsistence costs were met by the Pension Fund.

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

Paper	Date	Contact/Directorate/Tel
Scheme of Delegation item	19 January 2015	Chris Mather, OCE 01772 533559
N/A		