Lancashire County Council

Pension Fund Committee

Friday, 5th June, 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)

No.	Item	
1.	**Appointment of Chair for the Meeting** The chair and deputy chair are unable to attend the meeting. In the circumstances the clerk will invite the Committee to nominate a member of the Committee to chair the meeting.	
2.	**Apologies**	
3.	**Constitution: Chair and Deputy Chair; Membership; Terms of Reference**	(Pages 1 - 6)
4.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
5.	**Minutes of the Meeting held on 27 March 2015** To be confirmed, and signed by the chair.	(Pages 7 - 16)
6.	**Exclusion of Press and Public** The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.	

Lancashire County Council

Part II (Not open to Press and Public)

Part I (Open to Press and Public)

15. **Internal Audit Service Annual Report 2014/15 and Plan 2015/16** (Pages 239 - 250)

16. **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.

17. **Date of Next Meeting**

The next meeting of the Committee will be held on Friday 2 July 2015 at 10.00 a.m. at County Hall, Preston.

I Young
Director of Governance,
Finance and Public Services

County Hall
Preston

Pension Fund Committee
Meeting to be held on 5 June 2015

Electoral Division affected: None

Constitution: Chair, Deputy Chair and Terms of Reference

Contact for further information:
Chris Mather, 01772 533559, Democratic Services,
Chris.mather@lancashire.gov.uk

Executive Summary and Recommendation

The Committee is asked to note:

i. the appointment of County Councillors K Ellard and M Parkinson as Chair and Deputy Chair respectively of the Pension Fund Committee for the 2015/16 municipal year.

ii. the membership of the Pension Fund Committee.

iv. the Terms of Reference of the Pension Fund Committee.

Background

The County Council at its annual meeting on 21 May 2015 agreed that the Pension Fund Committee shall comprise 14 County Councillors (on the basis of 6 Labour members, 6 Conservative members, 1 Liberal Democrat member and 1 Independent member) and 7 co-opted voting members.

The following County Councillors have subsequently been nominated to serve on the Pension Fund Committee for the following year:

County Councillors (14):

M Barron	M Parkinson
L Beavers	A Schofield
D Borrow	K Sedgewick
G Dowding	S Serridge
K Ellard	D Westley
J Oakes	D Whipp
M Otter	B Yates

Lancashire County Council

The following voting co-optees have been nominated to serve on the Committee:

Voting co-opted members (7)

Lancashire Unitary Authorities:

Councillor M Smith (Blackpool Council)
Councillor R Whittle (Blackburn with Darwen Borough Council)

Lancashire District Councils:

Councillor P Leadbetter (Chorley Borough Council)
Councillor E Pope (West Lancashire Borough Council)

Trade Union representatives:

Mr P Crewe
Mr J Tattersall

Higher Education/Further Education establishments:

Mr A Milloy

A copy of the Committee's Terms of Reference are attached at Appendix 'A'.

Consultations

N/A

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		

Reason for inclusion in Part II, if appropriate

N/A

Pension Fund Committee

Composition and role

1. The Pension Fund Committee ("the Committee") comprises fourteen County Councilors 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 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 a Scheme of Delegation to the Director of the Lancashire County Pension Fund.

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,
   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.

11. 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.

12. To approve the policies and procedures for any internally managed Fund investments.

Procurement

13. 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.

Lancashire County Council

Pension Fund Committee

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

Present:

County Councillor Terry Burns (Chair)

County Councillors

L Beavers	J Oakes
D Borrow	M Otter
M Brindle	A Schofield
G Dowding	K Sedgewick
J Gibson	Crewe

Co-opted members

Bob Harvey, (Trade Union representative)
Alastair Milloy, (Blackpool and The Fylde College)
Councillor Edward Pope, (Lancashire Leaders' Group representative)
Councillor Ron Whittle, (Blackburn with Darwen Borough Council representative)

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

Announcements

It was reported that Mr Bob Harvey had been appointed to serve as a pensioner representative on the new Lancashire Local Pension Board. This meant that Mr Harvey would be resigning as a member of the Committee at the end of the meeting. It was noted that Mr Harvey had served as a Trade Union representative on the Committee since 1987 and the Committee thanked Mr Harvey for his long standing commitment to the Pension Fund.

It was reported that Mr Harvey would be replaced as a Trade Union representative on the Committee by Mr James Tatersall.

The Committee was informed that Mr Paul Crewe had filled the remaining Trade Union vacancy and that Alastair Milloy had filled the HE/FE sector vacancy on the Committee. Mr Crewe and Mr Milloy were welcomed to the Committee.

The Committee was also informed that Gill Kilpatrick, Treasurer to the Fund, was leaving the County Council. The Committee wished to place on record its appreciation of the work and support given by Gill as Treasurer to the Fund and it was agreed that the Committee's best wishes be extended to her for the future.

1. Apologies

Apologies were received from County Councillors M Parkinson and D Westley, and Councillors Paul Leadbetter and Mark Smith.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 28 November 2014

The Minutes of the meeting held on 28 November 2014 were presented.

Resolved: That the Minutes of the meeting held on 28 November 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 appropriate 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 31 December 2014, focussing on the key areas of:

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

The Committee was informed that a draft infrastructure strategy for the Fund would be presented to the July meeting.

Resolved: That the report be noted.

6. Investment Panel Report

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

The Committee received a report from the Investment Panel setting out the work of the Panel at its meetings held on 27 November 2014, 13 January and 20 February 2015. The report also included details of the equity manager annual reviews undertaken by the Panel on 11 and 12 November 2014 and on 13 March 2015.

The Committee's attention was specifically drawn to the following key areas considered by the Panel:

- The Investment and Market Context in which the Fund was operating;
- The proposed Eurostar project;
- Credit Portfolio rebalancing; and
- Items arising from manager reviews.

Resolved: That the report be noted.

7. Project Comet

(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 outcome of the Fund's bidding process (Project Comet) to acquire HM Government's 40% stake in Eurostar International Limited.

Members noted that the Investment Panel had overseen the bidding process in accordance with the authority delegated to it by the Committee, including the costs at risk and that the Panel had ultimately approved the final bid.

Whilst the Fund's bid was successful in reaching the final stage, it had finished 'runner-up' having been out-bid by the winning bidder. This was disappointing but the bidding process had been hugely valuable to the Fund's Investment Team in building knowledge, experience and relationships that were likely to be called upon again in future. It had demonstrated that the Fund was a serious and credible investor at the highest level and had the internal expertise to successfully manage external transaction teams.

There was a lengthy discussion on the bidding process including the level of fees incurred by the Fund. Whilst the Committee endorsed the approach taken by the Investment Panel on this occasion, Members stressed the need for robust governance particularly when bidding for a project of this size and nature. Officers were asked to review the Fund's governance arrangements including the relationship between the Investment Panel and the Committee to ensure maximum transparency, communication and understanding. Members agreed that the Fund also needed to ensure that the arrangements that it had in place for securing external advice in circumstances such as this were sufficiently robust.

Resolved:

i. That the cost of the bidding process, as set out in the report, be noted, and that the bid approach taken, including the assembling and procuring of external advisers at short notice be endorsed.

ii. That a review of the Fund's governance arrangements in relation to major direct investments be undertaken and a report be presented to a future meeting.

iii. That the Committee be provided with appropriate independent assurance in terms of the value for money provided by the fee structure used in this case in order to provide a baseline for any similar processes in future.

8. Creation of an Asset and Liability Management Partnership with the London Pension Fund Authority

(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 positive progress of discussions with the London Pension Fund Authority (LPFA) on the creation of an Asset and Liability Management Partnership in furtherance of the Committee's support for increased collaboration between LGPS Funds.

It was proposed that a high level business case be presented to the next meeting of the Committee on 5 June and that a special meeting of the Committee be held on 2 July at the same time as the LPFA Board meeting when both bodies would be asked to make a go/no go decision. It was also proposed to establish a member working group to provide support and direction to officers during the remaining period of discussions with the LPFA.

Whilst the progress was welcomed, Members stressed the need for them, as Trustees of the Fund, to be fully consulted on the proposals. It was important that Members were given maximum opportunity to discuss the proposals and to fully understand the implications for the Fund, its members and employees before any decision on whether to proceed with a collaborative relationship with the LPFA could be taken. It was suggested that a series of informal workshops involving a LPFA representative could be held around key aspects of the business plan that was being developed (Also see 'Update on the Establishment of the Lancashire Local Pension Board' item set out later in these minutes).

The Committee was assured that the Independent Advisers to the Fund would act solely on behalf of the Fund and they would not support any moves that would put the Fund at risk.

Resolved:

i. That the content of the report and the positive progress made in discussions with the LPFA be noted.

ii. That a special meeting of the Committee be held on 2 July 2015 in order to make a decision on whether or not to proceed further with the partnership.

iii. That a member working group comprising 2 Labour and 1 Conservative county councillors (names to be confirmed by political groups) and 1 co-opted member (Councillor E Pope) be established to provide support and direction to officers.

iv. That the proposal of the Director of the Pension Fund to provide regular email updates to all members of the Committee and to arrange member briefings at key stages in the process be noted.

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

9. Lancashire County Pension Fund - Strategic Plan 2014/15 - 2016/17

The Committee considered a report on a draft three year Strategic Plan for the Fund.

The Fund's Annual Governance Statement 2014 had identified a need to define more clearly the overall objectives and strategic planning framework for the Fund. The Committee was informed that given the dependence of the Fund on the three yearly actuarial valuation cycle as a driver for much of its activity, it was proposed to place a three year strategic plan at the centre of its planning framework.

A copy of the proposed plan was presented at Appendix 'A'. It was noted that the plan would be based on four areas of activity i.e. Governance, Asset and Liability, management, Administration and Communication.

Resolved: That the draft Lancashire Pension Fund Strategic Plan 2014/15 – 2016/17, as set out at Appendix 'A', be approved.

10. Pension Fund Budget Forecast 2015/16

The Committee considered a report setting out a Budget Forecast for the Fund for 2015/16.

In recent years the Committee had concentrated its attention on improving the monitoring of the overall performance of the Fund and ensuring that the Investment Strategy was being effectively implemented. These processes were 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 was to look at the impact of these activities on the overall financial position of the Fund. It was also important for the Committee to examine the costs of running the Fund and ensure that downward pressure continued to be exerted on costs.

To assist with this a Budget Forecast for the Fund for 2015/16 had been produced and was presented at Appendix 'A'. The report presented an income and expenditure forecast for 2015/16 compared to the forecast outturn for 2014/15 and actuals for 2013/14. It was noted that the format of the forecast was based on the new format for the Fund Account which provided for a greater degree of transparency around fees and the cost of running the Fund.

It was stressed that this was not a formal budget, there was no constitutional requirement for the Committee to approve a budget, and it was extremely difficult to estimate both the levels of incoming contributions and the levels of investment income and fund management costs as all of these could be significantly impacted by external factors. The Committee was informed that the forecast was an informed estimate for Members to consider when assessing the overall financial position of the Fund.

The Committee noted that a report on the fees paid to asset managers would be presented to a meeting later in the year. Members also requested details of the County Council's Pension Fund related costs that were charged to the Fund.

Resolved: That the budget forecast for the Fund for 2015/16 be welcomed and noted.

11. Update of the Governance Policy Statement and Statement of Investment Principles

The Committee considered a report on the updated Governance Policy Statement and Statement of investment Principles.

The revised Governance Policy Statement, as presented at Appendix ‘A’, reflected the various changes to the organisational structure of the County Council which impacted on the Fund, as well as the changes to the Committee's terms of reference in the light of the creation of the Local Pension Board.

The revised Statement of Investment Principles, as presented at Appendix ‘B’, incorporated the recommendations of the Working Group in relation to the Fund’s approach to this area of activity.

Resolved: That the updated Governance Policy Statement and the updated Statement of Investment Principles, as set out at Appendices ‘A’ and B’ respectively be approved.

12. Lancashire County Pension Fund Risk Register

The Committee considered a report on the six monthly review of the Fund’s risk register.

It was reported that the risk register had 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 were in place. The updated risk register was presented at Appendix ‘A’.

Officers were asked to consider a change to the format of the risk register so that the ‘high’ risk areas appeared together at the start of the register with the ‘low’ risk areas being moved to the end of the register. It was also suggested that the risk register item should appear earlier in the Committee agenda.

Resolved: That the updated risk register, as set out at Appendix ‘A’, be approved.

13. Responsible Investment

The Committee considered an update on the Fund’s ‘Responsible Investment’ related activities. It was noted that this report had replaced the ‘Shareholder voting and engagement’ report that was normally presented to the Committee.

The report provided 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. It was noted that during the period 1 October 2014 to 31 December 2014 the Fund had voted on 351 occasions and had opposed or abstained in 35% of votes. Further details were presented at Appendix ‘A. Members would also be able to discuss the implications and impact of the Fund’s voting activity at that meeting. The engagement report from LAPFF (Appendix 'B') also covered the quarter to 31 December 2014.

Details of actual and potential actions in relation to companies in which the Fund currently owned shares or had previously owned shares were presented.

The report also provided an update on the implementation of the actions agreed from the Socially Responsible Investment member working group, which completed its considerations towards the end of 2014. In particular, it was noted that the application to become an asset Owner signatory to United Nations Principles of Responsible Investment (UNPRI) had been formally approved and this acceptance was now recognised on the UNPRI website.

Resolved: That the report be noted.

14. Update on the Establishment of the Lancashire Local Pension Board

The Committee considered a progress report on the establishment of the Lancashire Local Pension Board.

It was reported that since the last meeting of the Committee work had concentrated on making sure appointments were made in line with the arrangements approved by the County Council so that a training programme for members of the Board could be delivered prior to the first meeting of the Board in July 2015. Details of the appointments made to date were presented.

It was agreed that the role and work of the new Board should be given due consideration as part of the planned workshops to discuss the arrangements and implications of a collaborative relationship with the London Pension Fund Authority mentioned earlier in the meeting.

Resolved: That the appointments to the Lancashire Local Pension Board be noted.

15. External Audit Lancashire County Pension Fund Annual Audit Plan 2014/15

The Committee considered the External Auditor's Annual Audit Plan for 2014/15 including the process, as well as the main risk areas which the audit work would focus on.

It was noted that the total audit fee was the same as that charged in 2013/14.

The Committee was informed that whilst work would focus on financial statements and information, the external auditor would keep a watching brief on the Fund's governance arrangements to ensure that measures were in place to mitigate risk.

Resolved: That the Audit Plan 2014/15 be noted.

16. Transaction of Urgent Business

The Committee received a report on a matter which had been dealt with under the Council's Urgent Business Procedure.

It was reported that a procurement exercise had been undertaken to appoint a bench of transition managers from 1 February 2015 for a period of two years with the option to extend for a further two years.

Resolved: That the report 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:

- 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

The members confirmed that the events were informative and provided a broad and detailed insight into investment strategies, as well as issues facing the Local Government Pension Scheme. Whilst some aspects of the events were technical in nature, attendance was considered to be worthwhile and the events were recommended to other members of the Committee.

It was also confirmed that the Lancashire Pension Fund had been mentioned on numerous occasions during the events and that many delegates had commented on the Fund's bid for Eurostar. This confirmed the views expressed earlier in the meeting about the Fund being recognised as a serious and credible investor at the highest level.

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

18. Urgent Business

None.

19. Date of Next Meeting

It was noted that the next meeting of the Committee would 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

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

Document is Restricted

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Pension Fund Committee
Meeting to be held on 5 June 2015

Electoral Division affected: None

Lancashire County Pension Fund – Report on Administering Authority Discretions
(Appendices 'A' to 'E' refer)

Contact for further information:
Diane Lister, Lancashire County Pension Fund, (01772) 534827.
diane.lister@lancashire.gov.uk

Executive Summary

The LGPS regulatory framework grants certain 'discretions' to administering authorities (AAs), which allow some areas of LGPS policy to be locally-determined.

There are many discretions, ranging from relatively trivial to those where the application of a local discretion could have a significant impact on scheme members, fund employers and the Fund itself.

Significant change to pension legislation, including changes to the LGPS regulatory framework, have prompted a review of existing policies and discretions. This report considers five key policy areas:

- Abatement of pensions (Appendix 'A' refers)
- Transfer in of pension rights (Appendix 'B' refers)
- Commutation of pensions (Appendix 'C' refers)
- Admissions and Terminations (Appendix 'D' refers); and
- Bulk Transfers (Appendix 'E' refers).

Recommendation

The Committee is asked:

i. To endorse the recommendations set out at Appendices A, B,C,D and E.

ii. That subject to 1. above being approved, to agree that the recommendations form the basis of a consultation exercise with fund employers and the Lancashire Local Pension Board prior to formal policy adoption by the Committee at its meeting scheduled to take place on 4 September 2015.

Background and Advice

Administering Authorities within the Local Government Pension Scheme need to maintain a range of discretionary policies, which it is appropriate are reviewed from time to time. Appendices 'A' to 'E' outline proposals in relation to five key policy areas. Subject to the Committee's agreement it is proposed to consult with employers on these proposals on the basis that the Fund is minded to implement them.

The key areas of change proposed are:

- abatement of pensions (Appendix 'A' refers) – pensions in excess of £30,000 per annum are abated where an individual is re-employed. This is in addition to the current policy to abate ill-health pensions where a pensioner is re-employed;

- transfer in of pension rights (Appendix 'B' refers) – transfers into the Fund continue to be accepted within the existing 12 month time limit. Decisions in respect of exceptions are now jointly made by the Fund and the relevant employer;

- commutation of pensions (Appendix 'C' refers) - small pension pots are to be commuted as standard practice. An exercise to commute existing 'small' pensions is to be considered pending advice from the Fund Actuary on the impact on Fund cashflow and liabilities;

- admissions and terminations (Appendix 'D' refers) - admissions are no longer accepted, unless these follow as a result of contracting-out by a scheme employer or there are exceptional circumstances. Small admissions are streamlined for ease of administration; and

- bulk transfers (Appendix 'E' refers) – bulk transfers are treated on a case by case basis and on the advice of the Fund Actuary

Consultations

A consultation exercise will be conducted with fund employers prior to formal policy adoption.

Implications:

Risk management

The recommendations contained within this report are intended to mitigate financial and reputational risk where possible. Overall the impact of adopting these revised policies should be fair, transparent and justifiable to the scheme member, the fund employer and the Fund itself.

Financial

The recommendations, whilst not solely focussing on financial implications, are intended where possible to make financial savings and reduce liabilities.

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

Abatement of Pensions

The Local Government Pension Scheme (LGPS) regulations allow an Administering Authority (AA) a broad discretion to abate (reduce) any pension in payment where a pensioner obtains further employment with any LGPS employer.

The AA has the discretion to reduce a pension such that the salary in the new employment plus the pension in payment does not exceed the salary the member earned prior to receiving a pension. Any such discretionary abatement ceases when the LGPS employment ends.

However, it should be noted that there is **no** discretion to abate a pension awarded under a flexible retirement agreement where the member is still in the same employment to which the flexible retirement relates.

Current Policy and Practice

The current policy applies abatement where it is required by statute to do so and in respect of ill-health retirements. The table below sets out current practice:

Retirement Type	Statutory Abatement	Discretionary Abatement	LCPF current Practice
Ill Health retirement (benefits are normally enhanced/reductions are waived)	No	Yes	Abatement applied
Redundancy/efficiency retirement with compensatory added years*	Yes**	Yes	Abatement applied **
Redundancy/efficiency retirement (reductions are waived)	No	Yes	No abatement
Retirement Augmented by employer (additional pension/service awarded)	No	Yes	No abatement
Early retirement where reductions waived by employer	No	yes	No abatement
Early retirement where reductions not waived	No	yes	No abatement
Normal Retirement (No reductions. Paid at State Pension Age or protected earliest reitirement age)	No	Yes	No abatement

*Compensatory added years are an historic benefit and are no longer applied
**Only the added years element is abated

Potential Change

The Fund pays out around £185m in pensions each year to more than 43,000 pensioners and dependants. At the last actuarial valuation the average annual pension in payment was £4,510.

Clearly, assessing and potentially abating all pensions in payment would be administratively impossible without significant additional resource and, given the average pension in payment described above, it would seem that the additional work would be without material financial gain to the Fund. It could also be confusing, distressing and detrimental for thousands of mature local government workers currently undertaking low paid, part time roles to supplement their income.

However, it would be possible to develop an abatement policy which would affect only certain pensioners such as former high earners, by using an annual pension threshold where for example only annual pensions exceeding £30,000* would be subject to abatement. This would remove the issues involved in applying abatement indiscriminately but would serve to mitigate reputational risk in terms of paying out pensions to former high earning local government employees who potentially retire with unreduced pension benefits and immediately secure further employment with another local government organisation i.e. the so called 'double-dippers'.

**there are currently 385 pensioners receiving a pension of at least £30,000 per annum, whose average salary at retirement was £68,000.*

Recommendation

That a policy be adopted where

- Abatement is applied to all pensions in payment where the annual pension (not including any AVC element) exceeds £30,000 (to be increased each year in line with inflation).

- Ill–health pensions continue to be abated.

NB if approved, the revised policy would apply to all pensions in payment. It is proposed that assessments will first be undertaken with effect from 1 April 2016 relating to the 2016/17 financial year.

Transfers-in to Lancashire County Pension Fund

The Local Government Pension Scheme (LGPS) regulations allow new members of the Scheme to transfer pension rights accrued elsewhere, i.e. from a previous employment, into the Fund.

Lancashire County Council as Administering Authority (AA) has the discretion whether or not to accept transfers into Lancashire County Pension Fund. However, the AA must accept transfers from other LGPS Funds as well as other public sector pension schemes, for example the NHS Pension Scheme. There is no discretion to accept/not accept transfers in this area. The majority of transfers into the Fund are from other public sector schemes (90% of transfers during 2013/14). Therefore, in reality, the discretion available to the Fund is limited to transfers-in from other (non-public sector) types of pension arrangements.

<u>Transfers-in 2013/14</u>

Type	Value £m	Number of transfers
public sector	6.4	400
non-public sector	0.6	40

The actual transfer-in involves a cash amount from the transferring scheme being paid into the Fund. The pension benefit this amount 'buys' within the Fund is actuarially calculated and the additional pension is added to the individual's 'pension pot'. The additional pension is calculated to ensure that the cash coming into the Fund covers the added liability of the additional benefit flowing out of the Fund when the member retires.

The LGPS regulations stipulate that the normal time period for the acceptance of transfers-in, is within 12 months of the new member's employment start date. However the regulations allow an extension of this 12 month limit at the discretion of the administering authority and the individual's employer. This is a new 'joint' discretion previously exercised by the employer alone.

Current Policy and Practice

Current Fund policy is generally to accept all transfers-in.

In addition, transfer requests made by a Scheme member within 12 months of retirement are referred to the employer to make a decision. This is because transfers-in increase liabilities in the Fund. These liabilities are offset by the amount paid by the previous transferring scheme. However, in some cases where an early or ill-health retirement occurs the additional cost is not covered and is ultimately payable by the employer either by an up-front payment to the Fund (known as 'pension strain') or longer term through increased contributions.

Potential Change

It would be possible not to accept non-public sector transfers-in going forward. However, the low volume of cases currently accepted would suggest that the impact on the Fund in terms of a potential reduction in liabilities would be immaterial. The impact on administration would also be minimal due to the low volumes experienced.

Also, for new local government employees such a change would discriminate between those able to transfer pension benefits arising from other public sector employment and those with pension benefits accrued elsewhere.

Recommendation

That a policy be adopted where:

- Requests to transfer into the Fund are generally accepted provided that the transfer is made within the expected 12 month time period, except that:

- cases where the scheme member might expect to retire within 12 months of the transfer are not automatically accepted. The decision to accept in these cases is made jointly, at the discretion of the Fund and the relevant Employer and;

- cases falling outside the 12 month time period are accepted where administrative issues have caused the delay or where exceptional circumstances apply. The decision to accept in these cases is made jointly, at the discretion of the Fund and the relevant Employer.

Commutation

The LGPS regulations allow the commutation of 'small pension pots' under various pieces of overriding legislation*. The new Freedom and Choice in Pensions legislation provides further flexibility in respect of commuting small pensions, the most notable being that some members of the Scheme can commute small pension pots from age 55 (previously age 60).

The LGPS regulations set out that the Fund may make the following payments:

1. A commutation payment (where the value of LGPS-only small pension pots must not exceed a lump sum payment of £10,000)
2. A trivial commutation lump sum (where the total actuarial value of all LGPS and non LGPS small pension pots does not exceed £30,000)
3. A trivial commutation lump sum death benefit (where the value of all LGPS death benefits does not exceed a lump sum payment of £30,000)

**The LGPS regulations set out that the above terms are defined, in the case of (2) and (3), within the Finance Act 2004 and, in the case of (1), within the Registered Pension Schemes (Authorised Payments) Regulations 2009.*

The principle of commutation relates to converting a 'small' pension entitlement into a one-off cash lump sum payment to be made by the Fund, effectively discharging any further liability.

Current Policy and Practice

The Fund's current policy is to commute small pensions where they meet the relevant criteria. However, in practice commutation has been both age limited and inflexible and consequently current practice, as opposed to the actual policy, has been to include reference to commutation within the normal retirement process but not to offer commutation in isolation. The information required to satisfy the trivial commutation lump sum criteria shown at 2. above is particularly difficult to obtain and assess.

Potential Change

In the light of the intention to increase flexibility provided by the new freedom and choice in pensions legislation, it would appear to be appropriate now to reinforce the Fund policy to commute small pensions where the relevant criteria are met. It should be noted that it would not be possible to 'impose' commutation as specific information must be obtained from the scheme member in order to commute.

In reinforcing commutation as the Fund's standard offer where the relevant criteria are met, there is no doubt that this would result in a reduction in administrative effort in terms of processing a commutation as opposed to processing an actual retirement, and including the additional ongoing effort involved in maintaining pensioner payroll records. In addition it is clear that discharging any future liability would also be beneficial to the Fund. Day to day processing of commutation payments as business as usual should not result in any significant cashflow issues.

However, current practice has resulted in a significant number (around 10,000) of pensioners and deferred pensioners with very small pension entitlements that could potentially be commuted. The Fund Actuary has been asked to consider the potential impact on both the Fund's cashflow and liabilities, of carrying out an exercise to commute these pensions. Clearly the cost of undertaking such an exercise would need to be weighed against the benefits of potentially discharging the ongoing liability in full but nonetheless the affected pensioners and deferred pensioners could be offered the option to commute in line with future practice.

It is also possible to commute pensions payable to a Child dependent. Children's pensions can be paid up to age 23 so long as the child is in higher education. Assumptions would need to be made in calculating a commuted children's pension as to how long they will be in higher education, but again it would be beneficial to the Fund to commute where possible.

Recommendation

That a policy be adopted where:

- Commutation is the Fund's standard offer when a member retires or leaves the Scheme, where the pension value satisfies the £10k commutation criteria described at 1. above

- All other retirement/leaver cases are offered the option to commute where possible i.e. where they satisfy the criteria described at 2. and 3. above.

- Child dependant pensions will be commuted where possible.

- Where a child is aged 16 or over and still in full time education, the commutation will be based on an assumption that the pension would be paid until the age of 23.

- In respect of certain protected members, it may be possible to pay an ill-health commutation, and the policy would continue to be that this provision be applied where possible.

In addition, following consideration of advice from the Fund Actuary, a one-off exercise will be undertaken with a view to commuting current pension and deferred pensions where they satisfy the criteria described at 1. above.

Admissions and Terminations

Certain employers and their staff are 'allowed' to participate in LGPS by virtue of being specifically designated. Other employers can be admitted to the scheme, at the discretion of the AA. 'Admissions and Terminations' is the term used to describe the process by which new employers gain entry to, and leave, LGPS.

Dealing with admissions or exits from LCPF consumes staffing resource and incurs other costs, and can create risk to the fund. It is therefore desirable to:

- reduce administrative costs borne by the fund;
- reduce the complexity of the current admissions process as far as possible; and
- put in place measures to manage risk.

In a typical year between 20 and 40 admissions or terminations may occur, at an estimated administrative cost of £60k to £100k. Recently the bulk of admissions have occurred due to schools contracting out catering or cleaning functions, usually involving very small numbers of LGPS members.

➢ Scheduled Employers and Admitted Bodies

There are over 200 active employers in the LCPF, ranging from the very large to the very small in terms of employee numbers . Employers are categorized into two types:

- 'Scheduled Employers'; and
- 'Admitted Bodies'

Scheduled employers have a statutory 'right' to participate in LGPS and include councils and academies.

Admitted bodies are 'allowed' to participate at the discretion of the AA and include organisations which contract with scheme employers following a contracting-out exercise , housing associations, universities and charities.

Admitted bodies gain entry to LCPF by means of an admission agreement; scheduled employers do not need an admission agreement.

Employers can also leave LGPS , for example when an admitted body's contract with a scheme employer ends. An admission agreement would end at the time of leaving so long as any debts due to LCPF are paid.

➢ Admission Agreements

An admitted body joins LGPS by means of an Admission Agreement – this is a formal legal document which spells out responsibilities, risk management arrangements and financial issues etc. and requires agreement between the parties involved.

- **Contracting out by Scheduled Employers**

Where scheduled employers contract work out to third parties, those staff who transfer under the contract have a right to remain with LGPS or otherwise be offered membership of a 'broadly comparable pension scheme'. In practice this means that whilst there is a wider element of discretion in allowing who to admit under admitted body status, LCPF to all intents and purposes **must** admit certain employers where this is requested by a scheduled employer.

- **Valuing Liabilities, Risks, and Setting Contribution Rates**

In dealing with admissions and departures from the fund, LGPS regulations require an assessment of employers' incoming and outgoing liabilities, and future contribution rates; historically this has been achieved through a very detailed process, the cost of which often bears little relation to number of employees or liabilities involved. This existing process works in such a way as to ensure that ceding employers either pass on (to the new employer), or guarantee, any existing ' liability risk ' and pay contributions at a level which will not increase liability risk in future. Clearly, this risk management process provides an element of security to the Fund.

Liability risk is a term used to describe the risk to the pension fund of an employer's pensions liabilities falling upon other employers, if the original employer becomes insolvent or otherwise unable to meet its commitments.

When a new employer is admitted, its liability risk is managed either by requiring a scheme employer to guarantee any liabilities or by requiring the admitted body to obtain an insurance bond which would cover any future shortfall in the event of insolvency.

- **Administrative Issues**

As stated previously, admissions cost the fund upwards of £60k pa in staff time and legal costs. Generally speaking actuarial costs are passed onto new employers . LCPF publishes detailed guidance documents to assist employers in understanding and managing the admissions process, and engages with employers regularly, however a number of persistent problems exist, such as:

- chasing employers to sign documents (time and resource);
- Employers wanting to change the LCPF standard admission agreement (time and legal costs); and
- Employers not keeping the AA up to date about planned contracting out exercises or the potential creation of new aspirant admission bodies (causing the AA to backdate admission agreements).

- **Outdated Admission Agreements**

In some instances existing admission agreements have become obsolete due to changes in LGPS regulations. Many of the older admission agreements do not contain provisions which require employers to provide security against their liability risk. It is the intention of the AA, following consultation, to draw up a new template admission agreement, specifying a requirement to provide security, which would not normally be subject to negotiation with individual employers on an admission-by-admission basis.

Given such a position it would seem unreasonable to 'impose' a new admission agreement on existing employers, however the proposed AA position will be that admitted employers either sign up to the new admission agreement, or consider whether they wish to remain in LCPF . Whilst this may appear a relatively assertive position, the AA does not wish to enter protracted negotiations but instead move to a standardized admission agreement, quickly and without prolonged debate or legal arguments. This course of action is required to reduce risk to the Fund.

Current LCPF policy and practice

This is generally to:

- accept admissions from aspirant admitted bodies so long as adequate risk management arrangements (largely insurance bonds or ceding employer guarantees) are put in place; and
- require a detailed actuarial calculation in respect of liabilities and contribution rates for any admission;
- absorb the costs of legal and administrative time in dealing with admissions and terminations;
- negotiate admission agreements with individual employers; and
- accept late admissions.

Potential Changes

- **Actuary's Proposal to Simplify Admissions and Terminations**

The LCPF actuary, Mercer, has proposed a new model to manage admissions which will simplify processes significantly, and reduce costs.

The proposed model put forward by Mercer would not necessarilysimplify admissions made by academies, however it is possible to consider 'pooling' academies for the purpose of admissions and terminations, with an added benefit that the introduction of a pooling arrangement could help individual academies manage their liability risk.

- **Passing on Costs to Employers and Moving to a Standard Admissions Model**

It is proposed that the recommendations below would help ensure that employers, rather than the Fund, meet the costs of the admissions process and additionally would provide some imperative for employers to actively engage in/support the wider objective of simplifying and speeding up administrative processes.

Recommendations

That a policy be adopted where:

- the Mercer proposal be adopted by LCPF;
- that entry to LCPF be restricted in future only to those employers whom the fund is required to admit; in practical terms this means excluding any new admissions except where these occur as a result of scheduled employers contracting out work;
- a philosophy of 'no changes to the fund's standard admission agreement' be applied unless exceptional circumstances apply;
- a charging framework for the processing of admission agreements be introduced;
- this charging framework to additionally reflect any costs associated with changing template admission agreements;
- LCPF refuse to accept backdated admission agreements unless exceptional circumstances apply; where this is the case the charging framework applying to employers will be twice as high as 'on time' admissions; and
- existing admitted employers with outdated admission agreements be required to sign up to the current template admission agreement.

Furthermore that the Fund consult with academies with a view to developing 'pooling' arrangements as described above.

Bulk Transfers

This term covers pensions issues surrounding the transfer of pension rights either:

- From the LGPS to another pension scheme ; or

- From one LGPS scheme to another LGPS scheme,

where the numbers of staff involved exceed 2 or 10 respectively.

Pension legislation is framed generally so as to protect members' pension rights , should these rights be transferred between schemes, due to decisions made by their employers, central government etc. In essence, the value of a person's pension rights in the old scheme must equal those transferred into the new scheme.

The transfer of pension rights ultimately involves cash moving from one pension scheme to another, and if a transfer, due to the numbers of staff involved, falls under the bulk transfer definition, a detailed calculation is required to be carried out by the respective funds' actuaries. In simple terms the transferring out scheme wishes to minimise cash paid out, whilst the receiving scheme would seek the opposite.

When bulk transfers occur, respective funds must agree on a basis of calculation, specifically each schemes' actuaries must agree a methodology between themselves and with the agreement of the schemes' managers.

Current Policy and Practice

Existing policy and practice is to treat each bulk transfer, with the agreement of parties involved, on a case-by-case basis.

Potential Change

Pensions legislation and regulations prescribe the bulk transfer philosophy, but not the mechanics of calculation. Due to the potential complexities and unique circumstances involved, it is not advisable to draw up a detailed bulk transfer policy, but rather than to state general principles.

Recommendation

To endorse current bulk transfer practice in accordance with regulations and law, but to state additionally the following principles:

- LCPF will work with its actuary to determine the terms and assumptions used as a starting position for any bulk transfer exercise

- LCPF will always seek to obtain, following actuarial advice, the best outcome for the fund and its members

- LCPF will seek to work with receiving schemes and their actuaries in a positive and constructive manner, seeking both to minimise its actuarial fees and time taken, and to obtain the best outcome for the fund and its members.

Pension Committee
Meeting to be held on 5 June 2015

Electoral Division affected: None

Infrastructure Investment Strategy Report
(Appendix 'A' refers)

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Executive Summary

Appendix 'A' provides a report outlining the proposed Infrastructure Investment Strategy for the Fund.

Recommendation

The Committee is asked to approve the Infrastructure Investment Strategy set out at Appendix 'A'.

Background and Advice

The Investment Panel has constructed an overarching Investment and Liability Strategy (Approved by Committee 12 December 2010), and over the last 2 years has added Asset class specific strategies for approval by the Committee. The attached document Appendix 'A' represents the final such report in this series for consideration.

Appendix 'A' sets out the details of the proposed Fund strategy.

Consultations

The Myner's principles require that the Pension Committee considers independent advice from varied sources.

Implications:

This item has the following implications, as indicated:

Risk management

Risk management and risk allocation are considered as part of the report and have been further considered by the Investment Panel (as outlined in the Investment Panel Report presented earlier in the Meeting).

Lancashire County Council

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

NA

INFRASTRUCTURE INVESTMENT STRATEGY PAPER

Contents

1. Introduction

1.1 This report presents an investment strategy for infrastructure investment within the lower volatility strategies allocation of the Fund.

1.2 The Pension Committee approved an allocation of 20% to 40% of the Fund to Lower Volatility Strategies in December 2010. These are strategies designed to deliver long term income streams to the Fund.

1.3 In its strategy, the Pension Committee recognised that the drivers of global growth may be outside the traditional developed world and sanctioned a more global based policy. But recognising the Fund's approach to social responsibility the Pension Committee also approved making an allocation to support local schemes that generate the type of return required of the investment allocation. This both global and local approach will be reflected in the infrastructure investment strategy.

1.4 The Pension Committee approved that the Fund should use the most cost effective and efficient methods to access the asset exposure it requires. The strategy envisaged that this would involve both the use of traditional fund manager led investments and direct involvement, which was expected to bring a substantial price advantage.

2. Infrastructure investment as an asset class

<u>What is Infrastructure?</u>

2.1 In the context of the Fund's investments, infrastructure is investing in those long-life assets that serve as a backbone for the provision of the essential services upon which the economic productivity of society depends. The attraction of these assets for the Fund is that they can generate long-term income streams that are likely to have a linkage with inflation.

These assets typically involve the movement of goods, the delivery of essential services, people and energy. Examples include:

Transportation assets

Trains, toll roads, bridges, tunnels, seaports and airports.

Power generation assets

Renewable energy assets (hydro, wind, solar, biomass, anaerobic digestion), gas, nuclear, coal and other power generating resources.

Regulated assets

Water treatment and distribution, electricity transmission, communications systems (towers, cable and satellite networks)

Energy assets

Oil and gas pipelines, processing plants, storage facilities and district heating systems.

Social infrastructure assets

Provision of schools, health-care facilities, hospitals

Infrastructure investment characteristics

2.2 Infrastructure investments typically include some or all of the following characteristics:

Essential services

Infrastructure assets are providing essential products or services to society and the economy

Capital intensive / High barriers to entry

It is typically difficult for competitors to enter the market. There may be high regulatory hurdles to climb, the capital costs may be significant, the asset may enjoy a privileged, advantageous location or have established economies of scale.

Underlying cash flows linked to inflation

Revenues are linked to inflation through regulatory or contract mechanisms. Or the asset occupies a market position that allows the owner to pass on price increases.

Scarcity value

The asset benefits from a monopolistic or quasi-monopolistic position or the asset may be difficult to replicate.

Long operational life

A long operational life enables the Fund to have a long term buy and hold policy mitigating reinvestment risk.

Stable predictable cash flows

Cash flows may be supported by regulatory frameworks, long term contracts, concessions or government subsidy. They may be predictable with little maintenance requirement. Others may involve availability based payment rather than usage.

Low correlation with other asset classes

The drivers of the asset cash-flows are not linked to demand or the financial markets generally.

2.3 Infrastructure assets are a varying mix of the above investment characteristics giving the investment class a wide spectrum of return profiles. At one end of the spectrum is corporate infrastructure where prices are market determined and, with limited government involvement or subsidy, returns show relatively high volatility.

2.4 At the other end of the spectrum, there are availability based assets, where the investor is paid an assured sum simply for making the asset available (e.g. public private partnerships (PPPs) providing healthcare facilities). Such investments will show the lowest volatility.

2.5 In between there are economic assets where prices are typically market determined with some element of regulation. Returns may be correlated with GDP. Also showing lower volatility there are regulated assets, such as utilities, where demand is inelastic and prices are subject to a greater level of regulation.

Accessing infrastructure investments

2.6 Like any investment project, infrastructure investment projects can be financed by any combination of debt and equity. The debt part of the financing typically pays an interest coupon while the equity holder receives the profits remaining. Cash distributions will also depend on arrangements for repaying the debt finance.

2.7 For the purpose of this infrastructure investment strategy paper, infrastructure investments are considered to be equity investments or investments structured with equity-like characteristics.

2.8 Debt issued by infrastructure investment projects is considered separately by the Fund as part of its bond and other credit investments strategy.

2.9 Infrastructure investments may be accessed through a number of routes:

a) Unlisted closed ended funds

Closed ended funds are co-mingled funds in a private equity model where a manager assembles a pool of investment capital to be deployed and returned after a period, typically between 10 and 15 years for an infrastructure fund.

The fee structure is typical of the private equity industry with a management fee of 1% to 1.5% per year of assets under management and a share of the profits (15% to 20% usually after attaining a certain hurdle return).

The advantages of this approach are that it accesses the expertise of an experienced asset manager with little in-house management burden. The Fund is invested in a diversified pool of assets.

The disadvantages of this approach apart from cost are that the investor has no control, it does not know what assets the manager will acquire, gearing will typically be permitted within certain limits, and there is a forced exit at the end of the fund's life.

As infrastructure assets are assets generating long-term income streams, a fixed life fund may be seen as incompatible. However, this structure does allow a number of specialist managers to add value to infrastructure assets over and above their steady-state discounted cash-flow valuation. This is achieved by, for example, merging two regional distribution systems or pipelines or building out/assembling a portfolio of renewable energy assets. The combination is worth more than the sum of the parts and justifies the higher fees that such managers seek for a more active involvement.

b) Unlisted open ended funds

Open ended funds are co-mingled funds run by a manager where new investments and redemptions are accommodated at any time.

Fee structures are typically 1% to 1.5% per year of assets under management with or without a performance bonus, although there is industry pressure to reduce these fees. Compared with closed ended funds, the investment strategy is more typically buy and hold, so there is less focus on adding value over and above the running cash yield. The management fee can then take a significant portion of the running yield.

The advantage of open-ended funds as compared to closed-ended fund is that the incoming investor can see what assets it is buying into.

Open-ended are more liquid that closed-ended funds, in that the investor can decide to redeem its investment. However, significant redemptions by major investors can lead to funds being locked up while the manager organises the sale of assets to meet redemptions. The investor has no control over this process and can suffer if the manager is forced to dispose of the most saleable assets to meet redemptions.

c) Co-investments

Co-investments are investments sought by managers of funds to invest alongside the funds above. These are typically with no fee and no profit share. Managers of funds seek such investment to help finance acquisitions that might otherwise be too large for the fund that they are managing or as a way of averaging down fees for major investors in the fund.

d) Listed companies

These are publically listed companies that are invested in infrastructure assets, such as regulated utilities or other portfolios of infrastructure assets (e.g. wind farms).

Fee structures are less easy to understand in listed companies. For listed companies with portfolios of assets typically sponsored by an asset manager, fees are as high if not higher than unlisted funds above. For operating businesses, such as regulated utilities, management fees may be less but balanced against the cost of maintaining a public listing and dealing with a large diverse shareholder base.

Listed infrastructure companies trade at a discount or premium to their net asset values which brings an added level of volatility and means that returns may be more correlated with the results of equity investment generally.

e) Direct investment

Direct investment is where the Fund owns or controls the infrastructure asset directly, either on its own or in conjunction with a number of other investors (an investment consortium or club).

With direct investment, the Fund must put in place appropriate corporate governance arrangements to manage its holding and represent its interests. This can be the appointment of an external asset manager or the use of non-executive directors that represent the Fund's interests on the Board. Direct ownership generally has a significant cost advantage over co-mingled fund routes.

With direct investment, the Fund retains control over where it invests and for how long. The Fund decides if it wishes to put any leverage in place. Direct investment allows the Fund to take a long-term view of its investment, for example, enabling it to support the long term capital investment needs of companies that it has invested in.

3. The Fund's existing infrastructure portfolio

The Fund's experience to date

3.1 The Investment Panel allocated 6% of the Fund to infrastructure investment in 2011. This has been deployed in creating a portfolio of closed end infrastructure funds as well as some opportunistic direct investments in renewable energy assets:

	Investment Value (31.12.14)	Return since inception	
		Absolute	Benchmark
	£m	% p.a.	% p.a.
Fund investments			
Arclight V	33.96	6.50%	
Arclight VI			
CD US Solar Fund	16.77	23.46%	
CD Clean Energy and Infrastructure	31.55	3.97%	
EQT	13.45	-23.46%	
Global Infrastructure Partners	15.15	24.13%	
Highstar	29.29	-1.83%	
Icon LP	7.75	35.29%	
Icon II	21.38	-6.98%	
ISQ	2.68		
	171.99		
Direct investments			
CD Red Rose	85.25	28.27%	
CD Red Rose 2 (Methane Power)	8.34	10.12%	
CD Cape Byron	67.00	10.26%	
	160.59		
Total	332.58	21.71%	8.00%
Percentage of Fund	6.05%		

NB: in addition the Fund has uncalled fund investment commitments of £239m but it is anticipated that significant sums will be returned from existing funds as these calls are received over the next five years.

3.2 The portfolio of closed end fund investments has been built out with the assistance of the consultancy arm of Russell Investments. It represents a diversified portfolio of funds. It is spread across industry sectors, across deal sizes and across the UK, Europe and the USA. One common feature of the funds selected is that they are typically run by small experienced specialist independent teams that know their industry sector well and have managed funds through the ups and downs of economic cycles.

3.3 Some open-ended funds were considered as part of the fund selection process, but none were retained because of disappointing performance relative to cost and legacy issues of investments in the portfolio.

3.4 The portfolio has recorded a 21.7% per year gross return from inception. Net return is estimated to be around 16% per year. While this is relatively early in the life cycle of the investment, this is well ahead of the 8% per year benchmark return.

3.5 Some funds are recording losses (notably EQT), but this is a timing effect at this stage. EQT was the last fund to be invested in. The first part of the investment period involves the drawdown of fees on commitments to cover manager expenses while the initial investments are completed. These losses are recovered later as investments are made and start to accrue valuation gains.

3.6 To date the Fund has not invested through the co-investment route, but it has a number of protocols in place with managers which should generate co-investment opportunities in the future (three co-investment opportunities are under discussion at the time of writing).

3.7 The direct investments were acquired opportunistically from receivers of over-geared investment vehicles. Red Rose is a diversified portfolio of landfill gas sites generating electricity across the UK and USA with some long term take-off contracts and some market price risk. With a strong management team and in-house engineering resource, the financial results have been very positive. Its distribution yield is currently 14.4% per year and the Fund expects to have received 58% of its original investment back in the four years ending December 2015.

3.8 Cape Byron comprises two biomass power stations in Australia burning sugar cane waste and timber to generate electricity. The investment case assumes a net internal rates of return of 12.5% per year. Cash distributions are expected to begin in 2016.

3.9 Red Rose and Cape Byron are managed by the clean energy team of the Fund's private equity manager Capital Dynamics in bespoke fund structures individually negotiated and designed for a long term hold.

Eurostar

3.10 Between December 2014 and February 2015, the Fund worked on a bid for the 40% stake in Eurostar that was being sold by HM Government. Eurostar represents an economic infrastructure investment operating without state support but occupying a quasi-monopoly position in running trains between the UK and the rest of Europe. It is profitable and offers the prospect of growing profits as the network is increased. Under the shareholders' agreement at least half the net profits are to be distributed as dividends.

3.11 The Fund managed a full transaction team comprising a corporate finance partners, accountants, specialist transport consultancies, actuaries, insurance experts and lawyers.

3.12 The Fund was unfortunately out-bid for Eurostar with the winning bidder accepting an estimated IRR of around 13% compared with 14% per year used in the Fund's valuation. The Fund would have been unable to match the winning bid as the valuation exceeded 10% of the value of the Fund (before any syndication).

3.13 The feedback from HM Government's advisers was that the Fund's bid was considered to be very credible and of high quality. The experience has shown that the Fund can successfully manage complex transaction teams.

3.14 The transaction also underlined the efficiency of direct investment. The Eurostar investment would have represented an investment of £530m (before syndication). The costs of managing such an investment would have been limited officer time and the employment of one or two senior executives in non-executive director roles. If a similar amount had been invested using a funds based approach, annual management fees would have been of the order of £6m per year compared with an estimated £300,000 per year to manage the direct holding.

3.15 The disadvantage of direct investment, is that the Fund needs to commit transaction fees upfront with no guarantee of success. The failed deal cost of the Eurostar bid was in the order of £1m. If following a programme of direct investment with a probability of success on each investment of say 25%, then the average cost of acquiring one Eurostar-type investment would be £4m (including 3 failed deals costing £3m). While these failed deal costs may appear a significant cost in absolute terms, eventually acquiring an investment asset that avoids annual management fees of £6m a year, makes the direct investment strategy very cost effective.

4. Planned future infrastructure portfolio and allocation

Investment strategy going forward

4.1 The Fund has successfully deployed 6% of the Fund in infrastructure assets. The Fund has sought out a diversified portfolio of income producing infrastructure assets accepting some economic risk. This has produced net returns over the first four years of investment of around 16% per year.

4.2 By comparison funds investing in PPPs with availability-based cash-flows, considered to the least volatile investments in the sector, are expected to return net inflation +4.5%. So such funds are currently returning around 5.6% per year.

4.3 In order to meet the current benchmark return of 8% per year, the Fund needs to continue to accept some economic risk in its infrastructure portfolio. By maintaining a diversified portfolio of infrastructure investments taking some economic risk, the Fund is likely to continue to generate returns that are in excess of its benchmark return.

4.4 In terms of fund versus direct investments, it is proposed that direct investment be preferred over fund investments. The experience of Red Rose, Cape Byron and Eurostar shows that the Fund has the expertise to manage the acquisition process and put in appropriate corporate governance afterwards.

4.5 However, the use of funds will need to be continued to access specialist expertise and provide geographical diversification.

4.6 In accordance with the overall Fund investment strategy, the infrastructure mandate is global. However, it is proposed that direct investments are only considered in jurisdictions where the Investment Panel is satisfied that there are transparent and reliable legal systems and markets.

4.7 It is proposed that the target of the infrastructure allocation should be a split weighted towards direct investment:

Direct investment	Two thirds
Fund- based investments	One third

Direct investment portfolio

4.8 It is proposed that the Fund should actively build a portfolio of direct investments in regulated and economic infrastructure where the investment case indicates that the asset will achieve at least the benchmark return of 8% per year even using a pessimistic set of assumptions. In the case of Eurostar, for example, the base case valuation assumed a 14% per year return while the pessimistic case was 8.5% per year.

4.9 To realise this strategy, the Fund may have to take part in competitive bids which means committing fees to a transaction team without certainty of success. It is proposed that the Investment Panel approve prospective bids in advance to committing any transaction team expenses.

4.10 It is impossible to determine in advance the maximum individual bid size that the Fund should make. Each asset is unique. For example, the Red Rose investment may appear a large concentration of risk in a single asset, but in reality it is a diversified portfolio spread across the UK and USA with exposure to contracted, regulated and market pricing regimes.

4.11 It is proposed:

- The Investment Panel approve any proposed direct investment on the basis of an investment "teaser" document prior to the Fund committing any significant resources to due diligence or launching a bid;

- The Fund is authorised to engage in competitive bidding situations with the risk of failed transaction fees being incurred;

- The Fund may purchase stakes in listed infrastructure companies on a buy and hold basis;

- Direct investments in economic and regulated infrastructure will be expected to produce a net return of at least 8% per year even applying pessimistic projection assumptions;

- The Investment Panel has discretion to determine which jurisdictions are suitable for investment;

- The Fund will seek to include a local investment element in its direct investment portfolio. If considering competing options, all other things being equal, the Fund will favour the more local option. The Fund will also consider direct investments in County of Lancashire that meet the financial return criteria but may be of a scale considered too small for investment if elsewhere;

- Investments denominated in foreign currencies will only be hedged at an investment level in exceptional circumstances to be determined by the Chief Investment Officer;

- No external gearing or leverage is to be used at an investment level. Investments themselves are likely to have some borrowings within the company;

- The Fund will ensure effective corporate governance of its investments through the use of internal or external asset managers or the appointment of Fund representatives on the board of directors;

- The Fund may take both controlling and minority stakes in companies. With significant minority stakes the Fund would expect to have appropriate non-executive board representation. The Fund will seek individuals with relevant industry knowledge and experience to represent it as non-executive directors on company boards. Where the Investment Panel approves, Fund Officers may serve as non-executive directors where they have the requisite commercial experience or are representing the Fund's interests to the company.

Fund-based infrastructure investment portfolio

4.12 It is proposed that the portfolio of infrastructure funds should focus on providing a global exposure to economic and regulated infrastructure complementing areas where the Fund has found direct investment opportunities.

4.13 The portfolio will also continue to seek out specialist expert managers in different market segments that have a history of adding value in addition to the running yield of the assets acquired.

4.14 New infrastructure fund commitments will be approved individually by the Investment Panel.

4.15 It is proposed that the portfolio concentrate on building relationships with a small number of managers with a view to obtaining co-investment rights, which average down fee costs.

4.16 Co-investment is typically offered on a project by project basis, which means individual approvals may be small and more numerous relative to the total fund commitment.

4.17 Where co-investment is obtained that no more than doubles the Fund's exposure to a particular project, then limited due diligence will be undertaken to ensure that the project fits with the risk profile and investment philosophy of the investment manager, also that the fund is performing as expected and the management structure in place is stable. If such assurance is obtained to the satisfaction of the Pensions Director, he may approve the co-investment without reference to the Investment Panel. In all other cases, the Investment Panel should approve the co-investment.

The allocation to infrastructure

4.18 This paper does not seek to propose what overall infrastructure allocation should be put in place. That is a role for the Investment Panel after reviewing the risk and return profiles of all investment classes. See Investment Panel Report earlier in the agenda pack, where the Investment Panel agreed the following

i. the Infrastructure Investment Strategy be approved, with a target allocation of 10%-15% of the Fund.

ii. within this range, a target weighting of Two thirds Direct investment, and One third Fund-based investment be agreed.

iii. the Director of the Fund be authorised to approve co-investment in approved funds and in limited circumstances, as set out in the Infrastructure Investment Strategy.

4.19 But with bond coupons historically very low, the infrastructure net returns are attractive (benchmark 8% per year, actual from inception 16% including cash distributions and some inflation linkage). Investment in infrastructure is similar to investing in property. Both are real assets offering returns that are a combination of a bond-like income component and some equity capital growth.

4.20 The Fund's successful deployment of 6% of the Fund to infrastructure has produced some of the best asset class returns. The Fund has successfully created a diversified portfolio of infrastructure assets with some economic risk that are producing returns well in excess of benchmark. The Fund has also shown itself capable of managing the direct investment process successfully.

4.21 Property currently has 15% of the Fund allocated to it. This paper would propose that the Investment Panel consider increasing the allocation of the Fund to infrastructure placing it at the same level of exposure as property.

4.22 The table below sets out the target direct investments and fund portfolio values for a 6%, 10% and 15% allocation of the total Fund along with the current infrastructure portfolio:

Value of Fund			£5,600m		
Percentage allocation to infrastructure		Actual	6%	10%	15%
		£m	£m	£m	£m
Total Infrastructure Allocation		332	336	560	840
	Weighting				
Direct Investment Portfolio	66%	160	222	370	554
Fund Portfolio	33%	172	114	190	286

An allocation of 15% to infrastructure would enable the Fund to build a portfolio of direct investments with a value circa £550m. If a typical transaction size was tens of millions of pounds, this allocation would enable the Fund to build a reasonably diverse portfolio of direct investments (circa 10).

Pension Fund Committee
Meeting to be held on 5 June 2015

Electoral Division affected: None

Lancashire County Pension Fund – Annual Governance Statement 2014/15
(Appendix 'A' refers)

Contact for further information:
George Graham, Lancashire County Pension Fund Service, (01772) 538102.
george.graham@lancashire.gov.uk

Executive Summary

This report presents for the Committee's approval the Annual Governance Statement for the Lancashire County Pension Fund. This statement has been produced to ensure that members of the Committee in their role as "those charged with governance" in relation to the Fund are able to review and consider the adequacy of the Fund's overall governance arrangements in order to provide assurance as part of the process of preparing the Fund's report and accounts.

This separate statement is prepared as the overall statement prepared by the County Council cannot cover the activities of the Fund in sufficient detail to provide the necessary assurance.

Recommendation

The Committee is recommended to approve the Annual Governance Statement for the Lancashire County Pension Fund set out at Appendix 'A' for signature by the Chair and the Director of the Fund.

Background and Advice

Last year the Pension Fund Committee for the first time approved a separate Annual Governance Statement for the Fund. This was in response to a report from the External Auditors, Grant Thornton, on benchmarking work they had undertaken on the Fund's governance arrangements following the publication of their national review of the governance of LGPS funds in November 2013

This report highlighted the importance of the annual review of the Fund's governance arrangements and control framework. In this area the LCPF was one of over 70% of funds where no reference to the operations of the Fund was made in the Annual Governance Statement of the Administering Authority (the County Council). It was also one of 97% of funds where the Fund did not produce a separate Annual Governance Statement. In response to this a separate statement was prepared for 2013/14.

Lancashire County Council

Importantly LGPS funds are not separate legal entities from their administering authority; hence the investments of the LCPF are made in the name of Lancashire County Council as administering authority for the Lancashire County Pension Fund. However, the Pension Fund is a substantial entity in its own right regardless of its legal status and it would be appropriate for any entity of this scale to carry out an annual review of its governance arrangements and control framework in order that "those charged with governance", in this case elected members, can be satisfied with the adequacy of the control environment in place. The statement attached at Appendix 'A' fulfils this function.

The process for compiling the statement has been undertaken by the Director of the Fund who has responsibility for ensuring the delivery of the County Council's functions as administering authority for the Fund. In order to compile the statement he has relied on assurance statements provided by each senior manager who has responsibility for an element of the operation of the Fund which assess and examine performance against the various elements of the control framework as applied specifically to the running of the Fund. In addition the statement reflects the conclusions drawn by the Chief Internal Auditor from her work in relation to the Fund during the year, which are reported elsewhere on the agenda for this meeting of the Committee.

Consultations

Not applicable

Implications:

This item has the following implications, as indicated:

Risk management

A sound Annual Governance Statement which reflects the reality of the operation of the Fund represents a key assurance for members that the control framework is operating appropriately to manage risk.

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

Paper	Date	Contact/Service/Tel
"Coming of Age: Development of the Local Government Pension Scheme" Grant Thornton	November 2013	George Graham Lancashire County Pension Fund Service (01772) 538102

Reason for inclusion in Part II, if appropriate

N/A

Appendix A

Lancashire County Pension Fund –

Annual Governance Statement 2014/15

Introduction

The Lancashire County Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund.

At 31st March 2015 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 153,203 members across 218 organisations with active members and a range of other organisations with only deferred or pensioner members. The Fund is one of the largest funds within the LGPS.

While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Given both the scale of the Pension Fund and the very different nature of its operations from those of Lancashire County Council more generally it is appropriate to conduct a separate annual review of the governance arrangements of the Pension Fund and this statement sets out that review.

The Pension Fund's Responsibilities

The Pension Fund is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that what is, in effect, pensioners' money provided in large part from the public purse is safeguarded and properly accounted for. The Fund has a responsibility under local government legislation to make arrangements which secure continuous improvement in the way in which its functions are delivered.

In discharging this overall responsibility the Pension Fund is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including arrangements for the management of risk.

The Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS. This statement has regard to relevant standards such as the Myners' principles. The Governance Policy Statement is available through the following link

http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework *"Delivering Good Governance in Local Government"*. The code is available from the County Council's website at the following link

http://www3.lancashire.gov.uk/corporate/atoz/a_to_z/service.asp?u_id=1821&tab=1

This statement sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance and also meets the requirements of the Accounts and Audit (England) Regulations which require all relevant bodies to prepare an annual governance statement.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs stakeholders, including both fund members and employers. It enables the Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot, particularly in the investment context, eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Fund's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2014.

The Fund's Governance Framework

The key elements of the systems and processes that comprise the Fund's governance framework are:

The identification and communication of the Fund's purpose objectives and intended outcomes to Fund members and employers.

The Fund has an established planning process focussed around the triennial actuarial review and the various teams providing services to the Fund produce annual service plans within the County Council's overall business planning framework.

Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements

Senior Managers review new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and propose any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee meets regularly and considers the various plans and strategies developed in order to meet the strategic objectives of the Fund and to monitor progress on the delivery of the strategic objectives.

All reports considered by the Pension Fund Committee identify how the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.

Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the 4 dimensions of the running of a pension fund. These are reflected in the tasks included in the various team service plans for the year progress against which is measured through the County Council's overall performance management framework, which includes processes for monitoring and managing both individual and team performance.

Reports on the performance of the Investment Strategy (and consequently the results achieved by the Investment Management Team) are reported to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk and an appropriate level of fees.

A six monthly report on the performance of the administration service is presented to the Pension Fund Committee each year and made available to all Fund members and stakeholders. This report shows, amongst other things, performance against target for a range of industry standard process targets.

A programme of ongoing review of both procedures and processes is maintained and the cost of the administration service charged to the Fund is maintained below the lower quartile cost of comparable authorities as published by the Department of Communities and Local Government.

Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication.

Clear job descriptions exist for all staff involved in the management of the Fund and the delivery of services to Fund members and employers, and together with appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken within a defined framework of procedural governance. Matters reserved for the Pension Fund Committee and Senior officers are defined in the Governance Policy Statement and more widely (for example in relation to staffing matters) in the County Council's Constitution.

Development communication and embedding codes of conduct, definition of the standards of behaviour for members and staff.

These matters are defined in law and the various codes of conduct and protocols contained within the County Council's constitution. Staff are reminded of the requirements of these codes on a regular basis, while specific training in relation to matters such as declarations of interest is provided to elected members following each set of County Council elections.

Review of the effectiveness of the Fund's decision making framework including delegation arrangements and robustness of data.

The interaction between the Pension Fund Committee and the Investment Panel, including levels of delegation, has been reviewed and revised to better meet the needs of the Fund in terms of effective delivery of the Investment Strategy, and this is reflected in specific reporting arrangements in relation to investment activity. These arrangements will be reviewed in the light of the new statutory and regulatory framework that will be put in place by April 2015.

The development of a more liability aware investment strategy and changes in the arrangements for data collection from fund employers will increase the amount and quality of information available to support decision making and therefore serve to strengthen the decision making process.

Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which define how decisions are taken and the processes and controls required to manage risks.

At the top level these requirements are set out in the Governance Policy Statement and within the County Council's Constitution. These are reviewed on a regular basis and are supported by a range of detailed materials appropriate to specific activities.

The management of risk is central to the Fund's activities and efforts have been made to formalise the Fund's risk register as well as increase awareness of risk in various contexts including:

- Investment decision making
- Project Management and Delivery
- Data Quality
- Fund Employer Risks

Fulfilling the core functions of an Audit Committee

In relation to the Fund this role is performed by Lancashire County Council's Audit and Governance Committee, which conducts an annual review of its effectiveness in undertaking this role.

The ensuring of compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful

The key area of compliance from an operational point of view is with the various Local Government Pension Scheme Regulations covering both the structure and benefits payable by the Fund and the investment of funds.

Compliance with the Scheme Regulations is ensured by a dedicated technical team and the use of a pensions administration system specifically designed for the LGPS.

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided both by the Fund's custodian and an Investment Compliance Team which is managerially independently from the Investment Management Team.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider County Council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.

The basic system of financial control mirrors that of Lancashire County Council, and is centred on principles of appropriate segregation of duties, management supervision, delegation and accountability.

Managers undertake maintenance of and input into the system, including review and reporting of actual performance against plans and budgets in the context of investments, administration and accounting.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

The Fund participates in the National Fraud Initiative, previously managed by the Audit Commission and actively investigates all data matches found as a result of this process. The results of this work are reported to the Pension Fund Committee. More generally Lancashire County Council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.

Whistle blowing and receiving and investigating complaints from the public

The Fund is covered by the County Council's whistle blowing policy, the effectiveness of which is reported to the Audit and Governance Committee annually.

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the County Council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually in the Annual Administration Report.

Identifying the development needs of members and senior officers in relation to their roles and supporting them through appropriate training.

Elected members undertake training needs analysis linked to the CIPFA Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at specific areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic based training relating to the decision at hand is provided. The delivery of this programme is the responsibility of the Head of Investment Compliance.

All staff are subject to an annual appraisal process which identifies specific training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have ethical obligations to undertake Continuing Professional Development relevant to their role.

Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Newsletters for active, deferred and pensioner members;
- Campaign materials focussed around scheme changes;
- Workshops, conferences and guidance materials provided to employers
- The Fund's website, which contains an increasing transactional capability.
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation.
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

The Incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a limited number of "partnerships", which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. However, for all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's Statement "The Role of the Chief Finance Officer in Local Government", and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, however, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. During 2014/15 the County Treasurer, as the County Council's Chief Finance Officer, was separately appointed by the Full Council as Treasurer to the Lancashire County Pension Fund and consequently the Chief Officer responsible for fulfilling the County Council's duties as administering authority. Following a restructure of the County Council's management from 1st April 2015 the functions of Chief Finance Officer have passed to the Director of Financial Resources while the responsibility for fulfilling the County Council's functions as administering authority have passed to the Director of the Lancashire County Pension Fund.

The Fund seeks to comply with the requirements of CIPFA's Knowledge and Skills Framework. Training is ongoing and will continue to be focussed on the needs identified through an analysis of training needs.

The Fund has, in line with the relevant LGPS regulations taken steps to separate its banking arrangements from those of the County Council and these have been reviewed by both internal and external auditors and been seen to be satisfactory. The Fund is also continuing to develop the way in which it uses its accounting system in order to gain greater efficiency in back office operations and make tasks such as accounts preparation easier.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the senior managers responsible for the delivery of the Fund's various activities, who have a responsibility for the maintenance and development of the governance environment, the Chief Internal Auditor's annual report, and also reports of the external auditor and other review agencies such as the Pensions' Regulator and Pensions' Ombudsman.

The key planned activities of the Fund during 2014/15 were:

- To work with the Pension Fund Committee to define more clearly the overall objectives and strategic planning framework for the Fund;

- To review and refresh, as necessary, those elements of the Fund's policy framework that have not yet been subject to review as part of the process of introducing LGPS 2014.

- To review the Fund's governance arrangements in the light of the Government's proposals for reform as part of LGPS 2014, including preparation for the new role for the Pensions' Regulator.

- To work with members of the Pension Fund Committee and officers involved in the running of the Fund to ensure that they are able to comply with the requirements set out in the CIPFA Knowledge and Skills Framework.

- To develop and begin the implementation of a more "liability aware" strategy for the management of the Fund's investments, in particular reflecting the individual circumstances of employing organisations;

- To embed the processes associated with the Fund's risk register in the management of the Fund.

- To review the transparency and scale of charges made by the County Council for services provided to the Fund.

- To produce a formal Compliance Manual for the Fund consolidating currently disparate guidance notes and memoranda.

- To formalise the arrangements for the management of the Fund's internal cash holdings by County Council staff into a clear investment mandate.

The Committee has overseen each of these processes and has continued the Governance arrangements of its predecessor which delegate executive authority to officers in appropriate circumstances with effective accountability and scrutiny arrangements. This process has embedded the arrangements agreed by the previous Pension Fund Committee which are set out in the Governance Policy Statement. In particular the Committee has reviewed and approved a formalisation of the Fund's overall arrangements for the management of the different categories of risk to which it is exposed.

During the Year changes were made to the Fund's overall governance arrangements to accommodate the creation of the new statutory Local Pension Board as an oversight body. This resulted in the discontinuation of the Pension Fund Administration Sub Committee, which oversaw a range of administration related matters.

The Investment Panel ensures that appropriate due diligence is undertaken on new investments and ensures that they comply with the LGPS Investment Regulations. The Panel is chaired by the Treasurer and includes the Fund's two Independent

Investment Advisers. The Panel continues to operate under delegated authority from the Pension Fund Committee.

Lancashire County Council's Democratic Services Team is responsible for supporting the Committee and its chair in managing Committee, Sub Committee and Investment Panel meetings. The County Secretary and Solicitor (from 1st April 2015 the Director of Finance, Governance and Public Services) as the County Council's Monitoring Officer carries the same responsibilities in relation to the Fund.

The Fund's Internal Audit Service is provided by the County Council's Internal Audit Service and the Chief Internal Auditor (from 1st April 2015 the Head of Service – Internal Audit) was during the year managerially accountable to the County Treasurer, and from 1st April 2015 will be managerially accountable to the Director of Legal and Democratic Services. The Chief Internal Auditor provides both a separate annual audit plan and annual report to the Pension Fund Committee, which are subject to approval by the Committee. The work of Internal Audit is carried out:

- In accordance with the standards set out in relevant professional guidance promulgated by CIPFA and the Institute of Internal Auditors and the requirements of International Public Sector Auditing Standards.

- Informed by an analysis of the risks to which the Fund is exposed. The Internal audit plan is developed with and agreed by the Chief Internal Auditor and the various senior managers responsible for aspects of the Fund's operations.

- During the year the Chief Internal Auditor's reports include Internal Audit's opinion on the adequacy and effectiveness of the Fund's system of control.

The Chief Auditor's Annual Report for 2014/15 indicates that she is able to provide substantial assurance over the controls operated by the Fund.

External audit of the Fund is provided by Grant Thornton who were appointed by the Audit Commission as a consequence of being appointed as auditor for Lancashire County Council.

- The work is performed to comply with international auditing standards.

- The auditors take a risk based approach to audit planning as set out in the Code of Audit Practice. Grant Thornton will report on the audit of the Fund's financial statements.

- The audit will include a review of the system of internal control and the Annual Governance Statement within the context of the conduct of those reviews relating to the County Council.

- Grant Thornton were appointed for five years following a procurement process managed by the Audit Commission.

Actions Planned for 2015/16

The following specific actions are proposed for completion during 2014/15.

- A decision on whether to proceed with the development of a formalised collaborative arrangement with the London Pension Fund Authority that could require fundamental changes to the Fund's Governance arrangements.
- A review of the Fund's governance arrangements in the light of both the proposed formal collaboration and the creation of the new Local Pension Board.
- The further review of the Fund's policies and discretions in the light of LGPS 2014.
- The development of new routes for engagement with both fund employers and fund members across a wider range of issues.
- The formalisation of employer risk assessment activity within the Fund's overall governance arrangements.

Signed

County Councillor Kevin Ellard	George Graham
Chair of the Pension Fund Committee	Director
	Lancashire County Pension Fund

Date:

Pension Fund Committee
Meeting to be held on 5 June 2015

Electoral Division affected:
All

Your Pension Service - Annual Administration Report
(Appendix 'A' refers)

Contact for further information:
Diane Lister (01772) 534827, Your Pension Service
Diane.lister@lancashire. gov.uk

Executive Summary

This annual administration report is produced in accordance with the Service Level Agreement (SLA) for the provision of pension administration services to Lancashire County Pension Fund. The report describes the performance of Your Pension Service against the standards set out in the SLA during 2014/15.

Recommendation

The Committee is asked to note the 2014/15 Administration Report as presented at Appendix 'A'.

Background and Advice

The Pension Fund Committee is required to receive regular reports from the Director, Lancashire County pension Fund on the administration of the Fund to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers, that the Fund is being run on an efficient and effective basis.

A Service Level Agreement (SLA) exists between Lancashire County Council and the service provider; Your Pension Service. The SLA contains specific service level standards and corresponding service level targets. A report is attached at Appendix 'A' to inform the Committee of the Service's performance against the standards and targets set over the year to 31 March 2015.

Over the year, Your Pension Service met all SLA standards and targets with an overall performance of 98%. This is a significant achievement given the scale of change following the introduction of the new LGPS 2014 CARE scheme and the one-off work involved in the County Council's VR programme.

Consultations

N/A

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/Ext
N/A		

Appendix A

LANCASHIRE COUNTY PENSION FUND

Annual Administration Report 2015

Administered by

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1. INTRODUCTION

Purpose

This annual administration report is produced in accordance with the Service Level Agreement (SLA) for the provision of pension administration services to Lancashire Pension Fund. The report describes the performance of Your Pension Service (YPS) against the standards set out in the SLA during the year.

Review of the Year

2014 has been yet another busy year of embedding the new LGPS 2014. This meant continuing to host further roadshow and drop in sessions to raise awareness of the new scheme to members and engaging with employers to ensure the efficient use of the new EPIC system, thus continuing the YPS e communication ethos.
The "My Pension Online" facility was also promoted at every opportunity resulting in a 27% increase in sign- ups to the service. This was in part due to holding a number of drop in sessions to assist members in getting online.

Annual Plan – 2014/15

Due | Completed

Responsibility Your Pension Service (YPS)

Event	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Application of Pension Increases		Completed										
Issue Annual Benefit Statement to Active Members						Completed						
Issue Annual Benefit Statement to Def Members				Completed								
Issue P60s to Pensioners	Completed											
Issue Newsletter	Completed											
Complete HMRC Scheme Returns										Completed		
Provide FRS17 data											Completed	

2. PERFORMANCE

Annual Benefit Statements

Over the year the service produced over 108,600 online benefit statements for active and deferred scheme members. Annual newsletters were also posted online alongside the statements. Email alerts were also issued to all scheme members who signed up to the "My Pension Online" facility to promote the annual benefit statements and pensions surgeries.

Membership

Membership of the fund has increased overall by 1.48% over the year.

LGPS

	31.3.2014	Net changes	31.3.2015
Actives	54,744	-565	54,179
Deferreds	53,895	1,918	55,813
Pensioners	42,278	933	43,211
Total	150,917	2,286	153,203

PERFORMANCE STANDARDS

Target Hit

Target Missed

Service Level Agreements (LGPS Members)

During the reporting period 61,669 individual calculations/enquiries were completed, of which 60,632 met the performance standard; an overall performance of 98% was achieved.

LGPS Performance Standard	Cases received	Cases completed	Within SLA	% Within SLA	Target	Cases outstanding
Estimate benefits within 10 working days	4,202	4,103	3,915	95%	90%	99
Payment of retirement benefits within 10 working days	1,951	1,882	1,806	96%	90%	69
Payment of death benefits within 10 working days	2,891	2,790	2,753	99%	90%	101
Implement change in pensioner circumstance by payment due date	42,347	41,682	41,265	99%	95%	665
Respond to general correspondence within 10 working days of receipt	2,485	2,397	2,315	97%	90%	88
Action transfers out within 10 working days	1,157	1,138	1,046	92%	90%	19
Action transfers in within 10 working days	761	752	715	95%	90%	9
Pay refunds within 10 working days	338	317	302	95%	90%	21
Provide leaver statement within 10 days	3,891	3,697	3,579	97%	90%	194
Amend personal records within 10 working days	857	855	850	99%	95%	2
VR Estimates	1,762	1,740	1,740	100%	100%	22
VR Payments	350	346	346	100%	100%	4
	62,992	61,669	60,632	98%	95%	1,293

3. CUSTOMER SERVICE

Partnership Events

During the year the service's dedicated Partnerships Team undertook a variety of events, courses and presentations. In addition the Team visited a number of employers to support, maintain and improve working relationships.

In addition to the annual pension surgeries the Team continued to deliver LGPS 2014 roadshows due to demand. The introduction of My Pension Online drop in sessions proved successful and there was an increase in sign up to the service.

Employer training events were hosted with payroll and HR practitioners present from employers across Lancashire. The services annual practitioners' conference was held at Woodlands conference centre in Chorley on 20th October. The event reflected on the previous year and the effects of 2014 Scheme changes, including a demonstration of the website and a question and answer session with the Management Team with an opportunity for employers to share experiences and give feedback.

AskPensions

A dedicated Pension's Helpdesk is the first point of contact for both Scheme members and Employers. Over the year 94% of calls were successfully answered against a target of 90%

4. LEGISLATIVE CHANGE

On 1 April 2014, the new Local Government Pension Scheme (LGPS) came into effect being a career average revalued earnings (CARE) scheme and replaced the final salary scheme.

The new scheme –

- has a normal pension age equal to state pension age (minimum age 65)
- gives a pension for each year at a rate of 1/49th of pensionable pay received in that year
- provides increased flexibility for members wishing to retire early
- allows members to pay reduced contributions as an alternative to opting out (though benefits build up at a slower rate)
- provides for previous years' CARE benefits to be inflation proofed in line with the Consumer Prices Index while the member is still paying in
- requires members to have at least 2 years' membership to qualify for pension benefits

Additionally, protection is given to members who were paying in prior to 1 April 2014.
On 28 January 2015, amendment regulations were laid before Parliament which, came into effect on 1 April 2015.

These regulations set up a national scheme advisory board to advise the government on the desirability of changes to the LGPS. Provision was made for each fund to set up a local pension board to assist it with the effective and efficient management and administration of the Scheme.

5. APPEALS

Members who disagree with decisions taken by their employer or administering authority may appeal using the Internal Dispute Resolution Procedure (IDRP) under the LGPS rules.

The IDRP is a formal appeal procedure which contains two stages. The first stage allows the person to ask the body who originally made the decision to review it, i.e. either the employer or the administering authority. The second stage allows the person, if they are not satisfied with the outcome at the first stage, to ask the Appeals Officer at the administering authority to review the disagreement. The Appeals Officer for Lancashire County Council is the Director of the Lancashire Pension Fund.
During the year, 9 second stage appeals were received, which mainly concerned the Scheme's ill health retirement provisions and transfers into the scheme. The Appeals Officer dismissed 7 and upheld 2 of these appeals.

6. e-DEVELOPMENT

Lancashire EPIC

Since 1 April 2014 LGPS employers have been submitting monthly files to Your Pension Service, which replace many of the forms that they used to complete, and enable us to accurately post and reconcile contributions and pensionable pay to individual member records. YPS use an internally designed system called "EPIC" to do this. EPIC has helped YPS to ensure that member data is accurate and up to date, and that every member receives their correct pension pot entitlement.

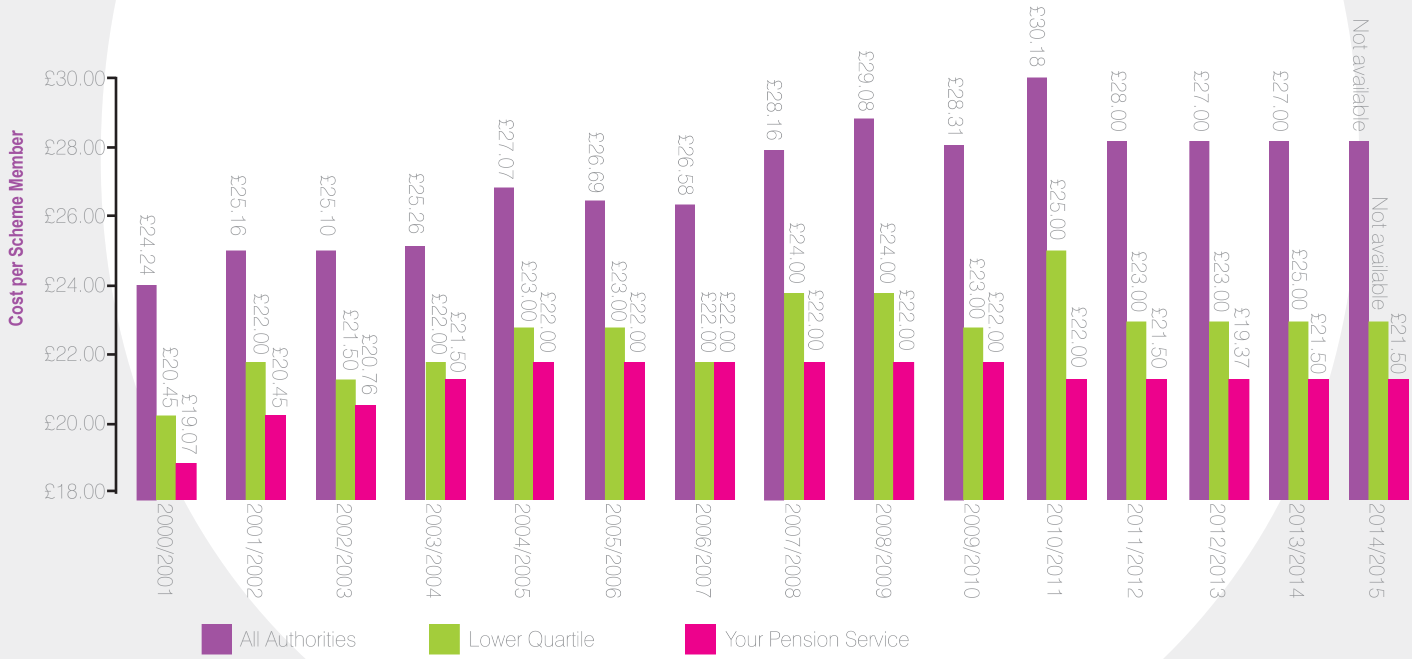
This has been a huge change in the way we do things, both for employers and for YPS. We are happy to report that we have received data for 98.7% of active membership. YPS are currently pushing employers to submit all files needed for the 2014/5 financial year, as this data is required for benefit statements that will be issued in August 2015

E communications

YPS is committed to electronic communications. Our primary method of issuing benefit statements and pensioner P60s is using our My Pension Online system. We are working towards making even more member communications online, to improve our service to members.

7. CHARGES

Your Pension Service makes a charge to the Pension Fund on a per member basis which is restricted to the lower quartile as reported in national benchmarking returns. This charge is currently set at £21.50 per member as against a benchmark of £25.00. The ongoing level of charge to the Fund will be kept under review.



Pension Fund Committee
Meeting to be held on 5 June 2015

Electoral Division affected: None

Responsible Investment
(Appendices 'A', 'B', 'C' and 'D' refer)

Contact for further information:
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Executive Summary

This report provides the Pension Fund Committee with updated information on Responsible Investment, an agenda which spans activities associated with fulfilling the Fund's commitment to being a good asset owner.

The report presents the Committee with:
- latest information from Pensions and Investment Research Consultants Ltd (PIRC) in its capacity as the Fund's Governance Adviser (Appendix A);
- a quarterly update from the Local Authority Pension Fund Forum (LAPFF) on engagement activities undertaken on behalf of Forum members (Appendix B);
- details of actual and potential actions (legal cases) connected with companies in which the Fund is currently or was previously a shareholder;
- progress against the actions agreed by the Member Working Group on Responsible Investment.

Recommendation

The Committee is asked:

1. To note the report.

2. To give consideration to Committee members participating in the forthcoming LAPFF mentoring scheme.

Background and Advice

Lancashire County Pension Fund aspires to be a good asset owner and is in the process of developing its approach to Responsible Investment in line with the following definition from 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

Lancashire County Council

responsibilities attached to assets to protect and enhance shareholder value over the long term – primarily through voting and engagement.

The Fund's current approach to Responsible Investment is set out within its Statement of Investment Principles and features four key strands of activity:

1. Voting Globally
2. Engagement Through Partnerships
3. Shareholder Litigation
4. Active Investing

Working across these strands, the Fund is aiming to ensure an investment approach which considers relevant Environmental, Social and Governance (ESG) factors as part of its identification of new and sustainable investment opportunities. The Fund is also seeking to be an active asset owner, an aspiration which recognises that engagement activity is linked to risk mitigation and value creation. Working collaboratively, in partnership and via the targeted use of agents, the Fund's engagement activities are intended to encourage best practice and performance gains.

This report provides Committee members with up to date information on the work undertaken against each activity strand and gives details of specific matters of note.

1. Voting Globally

To ensure effective and consistent use of its voting rights as a shareholder in companies worldwide, the Fund employs Pensions and Investment Research Consultants Ltd (PIRC) as its agent. PIRC vote on behalf of the Fund at shareholder meetings.

Unless the Fund instructs an exception, all voting is in accordance with standing guidelines which capture PIRCs independent judgement on what constitutes good corporate governance practice (UK Shareholder Voting Guidelines 2015).
PIRC recommend clients do not support resolutions which fall short of best governance practice and give particular focus and attention to promoting independent representation on company boards, separating the roles of CEO and Chairman and ensuring remuneration proposals are aligned with shareholders' interests.

PIRC continually analyse investee companies across a range of considerations including:

- composition and effectiveness of the board
- quality of stewardship including protection of shareholder interests
- sufficiency of risk management and financial controls
- accurate and compliant reporting and accounting practices
- adequacy of environmental, sustainability and employment policies
- disclosure of quantifiable environmental reporting

and issue voting recommendations intended to encourage companies to adhere to high standards of corporate governance and social responsibility. If the Fund so wishes, it can instruct PIRC to cast a vote which does not follow the PIRC recommendation.

Quarterly reports are received from PIRC which provide a retrospective summary of votes cast on behalf of the Fund. The most recent quarterly report is attached at Appendix A and covers the period from 1 January to 31 March 2015. An extract showing the geographical coverage of voting activity in the period is provided below:

Number of Votes by Region

	For	Abstain	Oppose	Non-Voting	Withhold	Total
UK & BRITISH OVERSEAS	32	3	3	0	0	38
EUROPE & GLOBAL EU	103	24	38	20	0	185
USA & CANADA	124	12	34	0	19	189
ASIA	16	0	0	0	0	16
JAPAN	6	0	2	0	0	8
SOUTH AMERICA	3	1	1	0	0	5
TOTAL	**284**	**40**	**78**	**20**	**19**	**441**
	64%	9%	18%	5%	4%	100%

The Fund was party to 441 resolutions during the period, of which 284 votes (64%) supported shareholder resolutions and 118 (27%) opposed or abstained. Institutional investors commonly use abstention to signal a negative view on a proposal without actively opposing it. Within certain foreign jurisdictions, shareholders either vote in favour of a resolution or do not vote at all (described as a vote being withheld). There were 19 instances (4%) where votes were withheld in the period.

A more detailed summary of voting by category for the largest markets (UK and US) is set out below:

United Kingdom	For	Abstain	Oppose	Total
Annual Reports	3	0	3	6
Auditors	3	1	0	4
Corporate Actions	1	0	0	1
Corporate Donations	0	2	0	2
Directors	15	0	0	15
Dividend	2	0	0	2
Miscellaneous	2	0	0	2
Share Issue/Re-purchase	6	0	0	6
Total	**32**	**3**	**3**	**38**
	84%	8%	8%	100%

USA & Canada	For	Abstain	Oppose	Withheld	Total
All Employee Schemes	3	0	1	0	4
Annual Reports	4	0	0	0	4
Articles of Association	10	0	1	0	11
Auditors	9	4	0	0	13
Corporate Actions	2	0	0	0	2
Directors	81	6	19	19	125
Dividend	1	0	0	0	1
Executive Pay Schemes	0	0	1	0	1
Miscellaneous	0	0	2	0	2
Non- Exec Director Fees	1	0	0	0	1
Say on Pay	1	0	10	0	11
	For	Abstain	Oppose	Withheld	Total
Share Capital Restructuring	2	0	0	0	2
Shareholder Resolution	10	2	0	0	12
Total	**124**	**12**	**34**	**19**	**189**
	66%	6%	18%	10%	100%

Section 3 of the quarterly report provides a commentary on the rationale for each case of opposition or abstention.

2. Engagement through Partnerships

Through engagement, the Fund is ultimately seeking to influence investee companies to adopt good corporate governance practices and socially responsible policies which make them less vulnerable to risks and more profitable in the longer term. The breadth of investments held and finite officer resources mean engagement activities to date have focussed on working through partnerships which bring additional capacity and are likely to achieve impact. Specifically, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds.

Working collaboratively via LAPFF offers a valuable opportunity to gain experience and insight from other funds and puts Lancashire's support behind campaigns targeted at the companies invested in collectively by local authority pension schemes in the UK. Joint actions wield far greater influence and create a much stronger impetus for change than working alone and also help to fulfil the Fund's commitment (as a recent signatory of the United Nations Principles of Responsible Investment) to working together to further the 6 principles of Responsible Investment. As part of developing its approach to RI it is intended that the Fund will increase its involvement with LAPFF and explore the opportunities associated with membership of the forum.

From 2015, LAPFF is seeking to offer its members the benefit of a mentoring scheme intended to provide additional support to investment officers and managers within the local authority pensions sector. The scheme will be widened to include councillors (as trustee equivalents) if there is a sufficient demand for this. Further details of the scheme are attached at Appendix C and a copy of the application form at Appendix D. The Committee is asked to consider whether the opportunity for one or more members to participate in the LAPFF mentoring scheme is something they would like to pursue either now or in the future.

Details of engagement activities undertaken by LAPFF are set out in the latest engagement report at Appendix B which reflects the period from 1 January 2015 to 31 March 2015. Of greatest note was a recommendation (by the Boards of BP and Shell) that shareholders should support ‘strategic resilience' resolutions filed by LAPFF members as partners within the 'Aiming for A' coalition. It is unprecedented in the UK for a company to recommend support for a shareholder resolution and reflects the positive impact of engagement activity by the coalition on a campaign aimed at improving carbon disclosure and gaining a commitment to greater environmental sustainability through research, development and forward investment. While the Fund would have been supportive of these resolutions as it did not have holdings in either company it was unable to vote on these resolutions.

3. Shareholder Litigation

The Fund is committed to remaining informed about the extent to which asset values may have been diminished through financial misconduct and will take action to safeguard the financial interests of members by seeking to recover losses through shareholder litigation. Class action settlements in the USA typically enforce both financial reparations and corporate governance reforms which are designed to minimize the risk of future misconduct. Litigation offers a route of last resort by which the Fund can continue to actively engage with investee companies.

The Fund retains two US law firms - Barrack, Rodos and Bacine (BR&B) and Robbins Geller Rudman and Dowd (RGRD). Both firms provide a securities litigation monitoring service which ensures prospective actions are known about and the Fund's interest (level of loss) can be estimated in order to inform a decision on the most appropriate form of action before the deadline for registering an interest expires. These services are provided to the Fund at no cost.

United States

Under US law, any shareholder subject to loss is automatically entered into and will benefit from a class action without having to file an individual claim. BR& B and RGRD monitor and identify class actions where the Fund was potentially subject to loss and ensure a proof of claim is filed for each case. Occasionally the Fund may be asked to participate in a class action, and/or to apply to become the lead or co-lead plaintiff, something which attaches greater and more onerous responsibilities. A decision on the appropriateness of agreeing to do so would be considered carefully on a case by case basis.

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.	08/12/2010	03/08/2011	27.71
Verisign, Inc.	25/06/2012	25/10/2012	246.21
Intuitive Surgical, Inc.	19/10/2011	18/04/2013	251.54
Barrick Gold Corp.	07/05/2009	23/05/2013	364.67
Prospect Capital Corporation	14/09/2009	06/05/2014	450.97
CenturyLink, Inc.	08/08/2012	14/02/2013	521.63
ITT Educational Services, Inc.	24/04/2008	25/02/2013	760.06
Weight Watchers International, Inc.	14/02/2012	30/10/2013	2,265.97
Petroleo Brasileiro S.A. Petrobras	07/01/2010	26/11/2014	6,158.91

United Kingdom

Unlike class actions in the US, securities claims in the UK require investors to file actions individually in order to benefit from a successful group action (they must be named as a claimant on an issued Claim Form). Actions are much less prevalent in the UK than equivalent class actions in the US.

Royal Bank of Scotland

As part of a large group of institutional investors, the Fund is a claimant in a group action relating to alleged misrepresentation by Royal Bank of Scotland Group Plc (RBS) under which it is argued that investors suffered losses in connection with a Rights Issue in 2008.

Monthly updates on the pre-trial progress of the RBS case are received from the law firm representing the group. Since the previous meeting of the Committee, a 6th Case Management Conference (CMC) has taken place at the High Court in London (Tuesday 17 March 2015). The outcome was reportedly very positive for claimants with progress having been made on each of the applications submitted namely, on the nature and speed of RBS's disclosure, on a timeframe for RBS to provide further information on their case, and on an agreement regarding disclosures by the Director Defendants.

A further (7th) CMC is scheduled for 28-30 July 2015 and the trial date is set for 7 December 2016 with an anticipated trial window of 25 weeks.

Voting, engagement and litigation are all activities undertaken **after** a decision to invest has been made. They form part of a fiduciary commitment to maximising financial returns through actively seeking to reduce risk exposure though the adoption of socially responsible policies, forward investments in sustainability and high standards of corporate governance by investee companies. The fourth strand in the Fund's approach to RI focusses on activity undertaken **before** an investment takes place. It relates to how ESG characteristics feature in the identification of potential opportunities and in the process of selecting between shortlisted investments.

4. Active Investing

The term active investing implies a conscious effort to select a particular type of investment on the basis that it possesses certain desirable characteristics. The Fund has a track record of investing in opportunities with strong ESG characteristics and currently has holdings in both alternative energy and clean energy as follows:

- £12 million invested in a UK solar co-operative;
- £14 million invested in a separate Solar Energy Fund;
- Almost £100m invested in the recovery of methane from landfill gas sites and coal mines (for generation of electricity);
- £55m invested in biomass electricity generating plants;
- £30 million committed to a clean energy fund focussed on wind energy assets.

In addition, the Fund is promoting the installation of photo-voltaic panels across all suitable roofs within its £435m commercial property portfolio. 17 installations have been agreed with tenants, represents a +£3m investment in solar panels. £180m has been committed to a social housing partnership of which £42 million has already been invested.

The Fund's approach to actively seeking investments with ESG characteristics (and to taking other actions in line with being a responsible asset owner) is an area of its RI strategy which requires further development. Specifically, it is important for the Fund to develop a clearer statement about its aspirations with regard to RI and the approach it will take to achieve them. The Members Working Group on Responsible Investment made a series of recommendations for specific actions which included (action 5a) the development of an RI Policy for the Fund. The recruitment of a Financial Policy Officer has brought the additional capacity required to undertake the work involved which, it is recognised, will need to consider the extent to which Fund is seeking to apply ESG criteria to the full range of its investment choices, or to focus efforts on specific aspects of its portfolio such as its public equity holdings and infrastructure.

As an initial step, a mapping exercise is underway to capture the range of personnel and processes currently involved in identifying, analysing and selecting between potential investment options in order to understand the ways in which ESG characteristics are already being included within selection and decision-making. Based on findings, it will be considered whether (and how) ESG considerations could be integrated

- to a greater extent;
- in a more consistent and systematic way going forward.

Any adverse consequences, practical difficulties or increased costs associated with implementing a different approach will also be identified for consideration.

Whilst this initial work is underway, the Committee will be made aware of new investments as they are committed, and where appropriate, it will be highlighted how investment return requirements are being complemented by ESG considerations.

Other developments

Members Working Group on RI: Action Plan

An updated version of the action plan reflecting the work of the Member Working Group on RI is set out below. The action plan provides further details on progress made against each action and identifies whether they have been concluded, are underway currently, are in planning or are on hold pending related developments.

RI Action Plan

Area	Action	Update on actions taken since previous Pension Fund Committee meeting and in planning currently	Status
Fiduciary Duty			
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.			
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.	*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 developed.*	Concluded
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 disinvestment 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.			

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Area	**Action**	**Update on actions taken since previous Pension Fund Committee meeting and in planning currently**	**Status**
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.	*The recruitment of a Financial Policy Officer has brought the additional capacity needed to facilitate the further development of an RI policy for the Fund.* *The RI policy will set out the aspirations of the fund in relation to any use of any positive or negative filters in either the identification of future investment options or the consideration of divestment. Any filter which is not clearly and directly aligned with the Fund's primary fiduciary objective of maximising financial returns from investment will be subject to stakeholder consultation.* *An approach to stakeholder consultation and possible methods for undertaking it will be addressed as part of the work under action 5a below.*	Under planning as part of action 5a
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 disinvestment. 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 disinvestment was not an option which should be pursued by the Fund at this moment.			
Action 3	No action required.		Concluded

Area	Action	Update on actions taken since previous Pension Fund Committee meeting and in planning currently	Status
Existing Investment Activity			
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.			
Action 4	Reduce carbon footprint of LCPF property portfolio wherever possible	*Consideration will be given to how the carbon footprint of the current property portfolio can be captured in order to facilitate the identification of opportunities for reduction going forward.* *Will foreseeably be related to and affected by action 7 below.*	Under planning
Governance and Policy			
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.			
Action 5a	Create a Responsible Investment Policy for the Fund	*The recruitment of a Financial Policy Officer has brought the additional capacity needed to facilitate the further development of an RI policy for the Fund.* *Achieving a policy which is of practical benefit to the Fund and its stakeholders going forward and which contributes to the fulfilment of commitments made as a signatory of UNPRI will involve a number of steps* *- a more detailed position statement on the Fund's aspirations in relation to RI* *- the identification of practical approaches by which these aspirations will be fulfilled* *- the design of any new agreements/documents and reporting/monitoring approaches needed (minimal bureaucracy being a key aim)*	Under planning

Area	Action	Update on actions taken since previous Pension Fund Committee meeting and in planning currently	Status
		- the agreement by key personnel (e.g. internal investment managers, external fund managers, expert advisors, and agents) of any practical/operational changes or new approaches/ requirements placed on them in order to comply with/deliver the approach set out within the RI Policy	
Action 5b	Consider signing up to the UN PRI initiative	*LCPF became an Asset Owner signatory on 10 March 2015, and is recognised on the UNPRI website.*	Concluded
Outcome 6			
A proposal for revised SRI wording within the SIP should be produced.			
Action 6	Rewrite Statement of Investment Principles section on RI/ ESG	*Revised wording in relation to responsible investment was incorporated into the revision of the Statement of Investment Principles approved by the Pension Fund Committee on 27 March 2015. Any further changes as the Responsible Investment approach develops will be incorporated accordingly.*	Concluded

Analysis and Monitoring			
Outcome 7			
Investigate the options for procuring/ signing up to an SRI/ ESG monitoring tool/ service.			
Action 7	Procure/ sign up to RI/ ESG monitoring tool/ service e.g. RobecoSAM	*Discussions have begun with potential providers, but further progress 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.*	Pending - subject to development / clarification of RI aspirations as part of 5a above
Outcome 8			
Formalise SRI/ ESG discussions with external investment managers as part of ongoing engagement.			
Action 8	Create structured framework for ongoing discussions with external investment managers.	*Action 8 (Engagement) will be addressed as part of Action 5a above.* *The development of an RI Policy will include consideration of what is practical and desirable in terms of a more structured approach and will identify any changes/additional requirements this places upon key personnel (including external investment managers) or existing processes in preparation for discussion and agreement.* *The RI Policy (when drafted) will reflect the approach and advice on engaging with external fund managers set out within the NAPF publication "Incorporating ESG considerations into investment decisions" (This document was a PF Committee agenda item in March 2015).*	Under planning

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 which impact on shareholder value.

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 the recovery of losses incurred by the Fund but, should the claim be lost, 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 which is 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 the case is successful the LCPF will be required to pay the amounts owing for Legal Services under the Conditional Fee Agreement (insofar as not recovered from RBS) and to 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

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Lancashire County Pension Fund

PROXY VOTING REVIEW

PERIOD 1st January 2015 TO 31st March 2015

Contents

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1 Resolution Analysis

- Number of resolutions voted: 392 (note that it MAY include non-voting items).
- Number of resolutions opposed by client: 72

1.1 Number of meetings voted by geographical location

Location	Number of Meetings Voted
UK & BRITISH OVERSEAS	3
EUROPE & GLOBAL EU	12
USA & CANADA	12
ASIA	2
JAPAN	1
SOUTH AMERICA	2
TOTAL	32

1.2 Number of Resolutions by Vote Categories

Vote Categories	Number of Resolutions
For	284
Abstain	40
Oppose	78
Non-Voting	20
Not Supported	0
Withhold	19
US Frequency Vote on Pay	0
Withdrawn	0
TOTAL	441

1.3 List of meetings not voted and reasons why

Company	Meeting Date	Type	Comment
GREENE KING PLC	13-01-2015	EGM	No shares held
SHAW COMMUNICATIONS INC.	14-01-2015	AGM	No shares held
CARLSBERG AS	26-03-2015	AGM	No shares

1.4 Number of Votes by Region

	For	Abstain	Oppose	Non-Voting	Not Supported	Withhold	Withdrawn	US Frequency Vote on Pay	Total
UK & BRITISH OVERSEAS	32	3	3	0	0	0	0	0	38
EUROPE & GLOBAL EU	103	24	38	20	0	0	0	0	185
USA & CANADA	124	12	34	0	0	19	0	0	189
ASIA	16	0	0	0	0	0	0	0	16
JAPAN	6	0	2	0	0	0	0	0	8
SOUTH AMERICA	3	1	1	0	0	0	0	0	5
TOTAL	284	40	78	20	0	19	0	0	441

1.5 Votes Made in the UK Per Resolution Category

	UK						
	For	Abstain	Oppose	Non-Voting	Not Supported	Withheld	Withdrawn
All Employee Schemes	0	0	0	0	0	0	0
Annual Reports	3	0	3	0	0	0	0
Articles of Association	0	0	0	0	0	0	0
Auditors	3	1	0	0	0	0	0
Corporate Actions	1	0	0	0	0	0	0
Corporate Donations	0	2	0	0	0	0	0
Debt & Loans	0	0	0	0	0	0	0
Directors	15	0	0	0	0	0	0
Dividend	2	0	0	0	0	0	0
Executive Pay Schemes	0	0	0	0	0	0	0
Miscellaneous	2	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	6	0	0	0	0	0	0
Shareholder Resolution	0	0	0	0	0	0	0

1.6 Votes Made in the US Per Resolution Category

US/Global US & Canada

	For	Abstain	Oppose	Non-Voting	Not Supported	Withheld	Withdrawn
All Employee Schemes	3	0	1	0	0	0	0
Annual Reports	4	0	0	0	0	0	0
Articles of Association	10	0	1	0	0	0	0
Auditors	9	4	0	0	0	0	0
Corporate Actions	2	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	81	6	19	0	0	19	0
Dividend	1	0	0	0	0	0	0
Executive Pay Schemes	0	0	1	0	0	0	0
Miscellaneous	0	0	2	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	1	0	10	0	0	0	0
Share Capital Restructuring	2	0	0	0	0	0	0
Share Issue/Re-purchase	0	0	0	0	0	0	0
Shareholder Resolution	10	2	0	0	0	0	0

1.7 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	0	0	0	0	0
Annual Reports	5	1	5	0	0	0	0
Articles of Association	0	0	4	0	0	0	0
Auditors	4	3	2	0	0	0	0
Corporate Actions	1	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	24	5	13	0	0	0	0
Dividend	4	0	0	0	0	0	0
Executive Pay Schemes	0	0	0	0	0	0	0
Miscellaneous	2	0	0	0	0	0	0
NED Fees	4	0	0	0	0	0	0
Non-Voting	16	2	7	18	0	0	0
Say on Pay	0	0	1	0	0	0	0
Share Capital Restructuring	3	0	0	0	0	0	0
Share Issue/Re-purchase	7	0	0	0	0	0	0
Shareholder Resolution	1	4	0	0	0	0	0

1.8 Geographic Breakdown of Meetings All Supported

SZ

Meetings	All For	AGM	EGM
0	0	0	0

AS

Meetings	All For	AGM	EGM
2	2	2	0

UK

Meetings	All For	AGM	EGM
3	1	0	1

EU

Meetings	All For	AGM	EGM
12	1	0	1

SA

Meetings	All For	AGM	EGM
2	0	0	0

GL

Meetings	All For	AGM	EGM
0	0	0	0

JP

Meetings	All For	AGM	EGM
1	0	0	0

US

Meetings	All For	AGM	EGM
12	0	0	0

1.9 List of all meetings voted

Company	Meeting Date	Type	Resolutions	For	Abstain	Oppose
MEDTRONIC INC	06-01-2015	EGM	4	3	0	1
WH SMITH PLC	21-01-2015	AGM	17	14	1	2
INTUIT INC.	22-01-2015	AGM	12	7	0	5
VISA INC	28-01-2015	AGM	20	19	0	1
IMPERIAL TOBACCO GROUP PLC	28-01-2015	AGM	20	17	2	1
IMPERIAL TOBACCO GROUP PLC	28-01-2015	EGM	1	1	0	0
DAVIDE CAMPARI SPA	28-01-2015	EGM	1	0	0	1
MONSANTO COMPANY	30-01-2015	AGM	14	11	1	2
DOLBY LABORATORIES INC	03-02-2015	AGM	12	5	1	6
ACCENTURE PLC	04-02-2015	AGM	18	11	0	7
TD AMERITRADE HOLDING CORPORATION	12-02-2015	AGM	6	2	0	4
JYSKE BANK	24-02-2015	EGM	3	0	0	3
ROCHE HOLDING AG	03-03-2015	AGM	25	16	2	7
TE CONNECTIVITY LTD	03-03-2015	AGM	36	31	0	5
QUALCOMM INCORPORATED	09-03-2015	AGM	18	10	0	8
FRANKLIN RESOURCES INC	11-03-2015	AGM	12	5	1	6
THE WALT DISNEY COMPANY	12-03-2015	AGM	14	6	0	8
SAMSUNG ELECTRONICS CO LTD	13-03-2015	AGM	6	6	0	0
CRH PLC	19-03-2015	EGM	1	1	0	0
SCHINDLER HOLDING AG	20-03-2015	AGM	23	13	2	8
JAPAN TOBACCO INC	20-03-2015	AGM	8	6	0	2
SK HYNIX	20-03-2015	AGM	10	10	0	0
ORION CORP	24-03-2015	AGM	15	6	1	1
JYSKE BANK	24-03-2015	AGM	8	2	3	1
SVENSKA HANDELSBANKEN	25-03-2015	AGM	26	9	6	3
THE TORONTO-DOMINION BANK	26-03-2015	AGM	23	16	1	6

CARLSBERG AS	26-03-2015	AGM	16	13	1	1
BM&F BOVESPA SA	30-03-2015	EGM	1	0	1	0
BM&F BOVESPA SA	30-03-2015	AGM	4	3	0	1
BANK OF MONTREAL	31-03-2015	AGM	18	9	8	1

2 Notable Oppose Vote Results With Analysis

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

MEDTRONIC INC EGM - 06-01-2015

4. *To approve any motion to adjourn the Medtronic, Inc. special meeting to another time or place if necessary or appropriate to solicit additional proxies*
The Board requests authority to adjourn the special meeting until a later date or dates, if necessary, in order to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger.
An oppose vote is recommended to any adjournment or postponement of meetings if a sufficient number of votes are present to constitute a quorum. It is considered that where a quorum is present, the vote outcome should be considered representative of shareholder opinion.

Vote Recommendation: *Oppose* Results: For: 88.5, Abstain: 0.6, Oppose/Withhold: 10.9,

INTUIT INC. AGM - 22-01-2015

3. *Advisory vote to approve 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: CEB. Based upon this rating it is recommended that shareholders oppose.

Vote Recommendation: *Oppose* Results: For: 85.7, Abstain: 0.2, Oppose/Withhold: 14.1,

IMPERIAL TOBACCO GROUP PLC AGM - 28-01-2015

20. *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: 88.3, Abstain: 0.5, Oppose/Withhold: 11.2,

MONSANTO COMPANY AGM - 30-01-2015

4. *Shareholder Resolution: Lobbying Report*
Proposed by: Andrew Behar, CEO, As You Sow Foundation. The proponent is seeking a report, updated annually, disclosing (i) Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications; (ii) Payments by Monsanto used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient; and (iii) Monsanto's membership in and payments to any tax-exempt organization that writes and endorses model legislation. Description of the decision making process and oversight by management and the Board for making payments described in sections ii and iii above. The proponent argues that the company has not fully disclosed its trade association memberships, nor payments and the portions used for lobbying on its website. The board argues that it follows federal laws and regulations and any additional information would not benefit shareholders but instead add costs and burden to the company. Shareholders are advised to support the proposal as the additional disclosure will help to promote an environment of open disclosure and transparency.

Vote Recommendation: *For* Results: For: 22.3, Abstain: 8.9, Oppose/Withhold: 68.8,

5. *Shareholder Resolution: Shareowner Proxy Access*
Proposed by: John Harrington. The proponent is asking the board to amend its bylaws and adopt a "proxy access" procedure whereby Monsanto shall include shareholder-nominated candidates in its proxy materials for nomination to the board. In order to put a candidate forward the nominator must (a) have beneficially owned 3% or more of Monsanto's outstanding common stock continuously for at least three years before submitting the nomination; (b) give Monsanto written notice within the time period identified in Monsanto's bylaws and (c) certify that (i) it will assume liability stemming from any legal violation arising out of its communications with (company) shareholders, including the Disclosure and Statement; (ii) it will comply with all applicable laws if it uses soliciting material other than Monsanto's proxy materials; and (iii) to the best of its knowledge, the required shares were acquired in the ordinary course of business and not to change or influence control at Monsanto. The proponent argues the board has failed to identify key environmental and social issues which can be seen by its below median ranking in comparison to its peers. The board argues the proposal would undermine the work done by the governance committee. Shareholder are advised to support the proposal as it would allow for greater shareholder democracy in the nomination of new Board members and would facilitate greater independence in the oversight of the company.

Vote Recommendation: *For* Results: For: 52.9, Abstain: 1.0, Oppose/Withhold: 46.1,

6. *Shareholder Resolution: Introduce an Independent Chairman*
Proposed by: Grace Holden. Shareowners of Monsanto Company ("Monsanto") request the Board of Directors to adopt a policy, and amend the bylaws as necessary, to require the Chair of the Board of Directors to be an independent member of the Board. The proponent argues that introducing an independent Chair would allow for a more objective oversight which would provide balance to the board between the NEDs and Executives. The board argues that the rule would cause unnecessary restraint on the board in deciding the best leadership structure of the company at any given time. Support for this resolution is recommended as it is considered best practice for the Chief Executive responsible for the running of the business and the Chairman responsible for the functioning of the Board.

Vote Recommendation: *For* Results: For: 19.2, Abstain: 0.5, Oppose/Withhold: 80.4,

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ACCENTURE PLC AGM - 04-02-2015

1j. *Elect Wulf von Schimmelmann*
Non-Executive Director. Not considered independent as he has served on the Board for more than nine years. There is insufficient independence on the board.

Vote Recommendation: *Oppose* Results: For: 89.4, Abstain: 0.5, Oppose/Withhold: 10.1,

TE CONNECTIVITY LTD AGM - 03-03-2015

2. *Elect Thomas J. Lynch as Chairman of the Board of Directors.*
It is not considered to be best practice for the positions of CEO and Chairman to be combined therefore an oppose vote is recommended.

Vote Recommendation: *Oppose* Results: For: 70.7, Abstain: 1.1, Oppose/Withhold: 28.2,

10. *Amend Articles: regarding the vote standard for shareholder resolutions and elections.*
The Board of Directors proposes that article 17, paragraph 1 of the articles of association be amended to provide that when determining whether a shareholder resolution has passed or a person has been elected by shareholders to a particular position, abstentions and broker non-votes will no longer be taken into account (i.e., they will be disregarded and have no effect). Shareholders currently pass resolutions and carry out elections with an absolute majority of the share votes represented at the meeting, with abstentions and broker non-votes counting as votes "against." Under the proposed amendment to the articles of association, shareholders will pass resolutions and carry out elections with a relative majority of the votes cast, and abstentions and broker non-votes will be disregarded and have no effect. The amendment is not considered in the best interest of shareholders as an abstention may be used to indicate the voting individual's ambivalence about the measure, or mild disapproval that does not rise to the level of active opposition. A person may also abstain when they do not feel adequately informed about the issue at hand. Based on the above points shareholders are advised to oppose.

Vote Recommendation: *Oppose* Results: For: 88.1, Abstain: 0.9, Oppose/Withhold: 11.0,

17. *Approve renewal of authorised capital and related amendment to articles of association*
The Board of Directors proposes that its authority to issue shares out of the company's authorized capital be re-approved and extended for an additional period ending two years after the date of the Annual General Meeting. The Board of Directors believes it is advisable and in the best interests of the company to authorize the Board of Directors to be reauthorized to issue new authorized capital in accordance with the provisions of the Swiss Code and the articles of association. The maximum amount the board can issue is limited to 50% of the share capital at the time of the increase. It is noted that as the company is listed on the NYSE the maximum number of shares eligible for issuance is set at 20%. The company states that it will adhere to the listing rule and therefore the limit is considered acceptable within our guidelines.

Vote Recommendation: *For* Results: For: 65.0, Abstain: 1.0, Oppose/Withhold: 34.0,

19. *Approve any adjournments or postponements of the Annual General Meeting*
The Board requests authority to adjourn the meeting until a later date or dates, if necessary, in order to permit further solicitation of proxies if there are not sufficient

votes to approve any agenda item. An oppose vote is recommended to any adjournment or postponement of meetings if a sufficient number of votes are present to constitute a quorum. It is considered that where a quorum is present, the vote outcome should be considered representative of shareholder opinion.

Vote Recommendation: *Oppose* Results: For: 67.0, Abstain: 0.9, Oppose/Withhold: 32.2,

QUALCOMM INCORPORATED AGM - 09-03-2015

4. *Advisory vote on executive compensation*
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 BEB. Based upon this rating an oppose vote is recommended.

Vote Recommendation: *Oppose* Results: For: 57.4, Abstain: 0.6, Oppose/Withhold: 42.0,

THE WALT DISNEY COMPANY AGM - 12-03-2015

3. *Advisory vote on Executive Remuneration*
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: CDB. Based on this rating, it is recommended that shareholders Oppose.

Vote Recommendation: *Oppose* Results: For: 83.6, Abstain: 0.8, Oppose/Withhold: 15.7,

4. *Shareholder Resolution: Introduce an independent chairman rule*
Proposed by: James McRitchie. Shareholders request that the Board of Directors adopt a policy, and amend other governing documents as necessary, to require the Chair of the Board of Directors to be an independent member of the Board. It is requested that this new policy shall apply prospectively, with the next CEO, so as not to violate any contractual obligation at the time this resolution is adopted. The roles of the Chief Executive Officer and Chairman are combined. It is considered best practice for these positions to be separated with a Chief Executive responsible for the running of the business and the Chairman responsible for the functioning of the Board. The introduction of an independent Chairman rule would be beneficial to the company and enhance long term shareholder value. There should be a clear separation of roles between the Chief Executive Officer and the Chairman by establishing the post of Chairman as always independent. A vote in favour is recommended.

Vote Recommendation: *For* Results: For: 28.5, Abstain: 0.5, Oppose/Withhold: 71.0,

5. *Shareholder Resolution: Limit Accelerated Executive Pay*
Proposed by William Steiner. Shareholders request that the Board of Directors adopt a policy that in the event of a change in control, there shall be no acceleration of vesting of any equity award granted to any senior executive. This would apply if the board's Compensation Committee provide in an applicable grant or purchase

agreement that any unvested award will vest on a partial, pro rata basis up to the time of the senior executive's termination, with such qualifications for an award as the Committee may determine. This resolution shall be implemented as so not to affect any contractual rights in existence on the date this proposal is adopted. It is not considered best practice to support the acceleration of unvested stock pursuant to a change in control where there is no reference to performance. As such a vote for this proposal is recommended.

Vote Recommendation: *For* Results: For: 24.1, Abstain: 0.6, Oppose/Withhold: 75.4,

3 Oppose/Abstain Votes With Analysis

MEDTRONIC INC EGM - 06-01-2015

4. *To approve any motion to adjourn the Medtronic, Inc. special meeting to another time or place if necessary or appropriate to solicit additional proxies*
The Board requests authority to adjourn the special meeting until a later date or dates, if necessary, in order to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger.
An oppose vote is recommended to any adjournment or postponement of meetings if a sufficient number of votes are present to constitute a quorum. It is considered that where a quorum is present, the vote outcome should be considered representative of shareholder opinion.

Vote Recommendation: *Oppose* Results: For: 88.5, Abstain: 0.6, Oppose/Withhold: 10.9,

WH SMITH PLC AGM - 21-01-2015

2. *Approve the Remuneration Report*
Variable CEO pay during the year is considered excessive as it represents more than 200% of his salary. The CEO pay over the last five years is not considered in line with Company's financial performance over the same period. Payments made to the previous CEO, Kate Swann hav not been fully explained, especially with regard to the amounts paid. In total, she received approximately £7,721,000 during the year following the vesting of different incentive awards during the year. Changes in policy include an increase in CEO maximum potential award from 150% to 160% of salary, which gives him the opportunity to receive an additional 20% of salary in total, including the potential matching award.
Rating: D.

Vote Recommendation: *Oppose* Results: For: 98.4, Abstain: 0.1, Oppose/Withhold: 1.4,

3. *Approve Remuneration Policy*
Disclosure is acceptable.
Maximum potential award under all incentive schemes is excessive as it can amount up to 520% of salary for the CEO. The ratio CEO pay to average employee pay is also deemed excessive. The use of a long-term share matching plan, the Co-Investment Plan (CIP), is inappropriate. The design of the Long-Term Incentive Plan is not considered adequate: performance period is not considered sufficiently long-term, performance conditions are not interdependent and the use of dividend as performance indicator is not best practice.
There are important issues with regard to the contract policy. No mitigation statement has been made. There are also important concerns over the level of upside discretion granted to the Board for recruitment and termination payments.
Rating: AEC.

Vote Recommendation: *Oppose* Results: For: 98.3, Abstain: 0.3, Oppose/Withhold: 1.4,

13. *Approve Political Donations*
The Board is seeking authority to (a) make political donations to political parties or independent election candidates not exceeding £50,000 in total; (b) make political donations to political organisations other than political parties not exceeding £50,000 in total; and (c) incur political expenditure not exceeding £50,000 in total. The

authority to expire at the next Annual General Meeting or 29 February 2016, whichever is the earlier. 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: 96.8, Abstain: 1.1, Oppose/Withhold: 2.1,

INTUIT INC. AGM - 22-01-2015

1a. *Re-elect William V. Campbell*
Non-Executive Chairman. Not independent as he is the former President and CEO of the company. There is insufficient independent representation on the board for the plurality plus voting standard which requires a two third independence threshold.

Vote Recommendation: *Oppose* Results: For: 95.6, Abstain: 0.1, Oppose/Withhold: 4.3,

1b. *Re-elect Scott D. Cook*
Non-Executive Director. Not considered independent as Mr. Cook is the Founder of the company, a past Executive and beneficial owner of 4.59% of the outstanding share capital. There is insufficient independent representation on the board for the plurality plus voting standard which requires a two third independence threshold.

Vote Recommendation: *Oppose* Results: For: 96.1, Abstain: 0.1, Oppose/Withhold: 3.8,

1e. *Re-elect Edward A. Kangas*
Independent Non-Executive Director. However, he is Chair of the Remuneration Committee, the report of which falls well below best practice according to guidelines, as demonstrated by an E-grade balance rating. An Oppose vote is recommended.

Vote Recommendation: *Oppose* Results: For: 92.5, Abstain: 0.1, Oppose/Withhold: 7.4,

1g. *Re-elect Dennis D. Powell*
Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the board for the plurality plus voting standard which requires a two third independence threshold.

Vote Recommendation: *Oppose* Results: For: 98.5, Abstain: 0.3, Oppose/Withhold: 1.3,

3. *Advisory vote to approve 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: CEB. Based upon this rating it is recommended that shareholders oppose.

Vote Recommendation: *Oppose* Results: For: 85.7, Abstain: 0.2, Oppose/Withhold: 14.1,

VISA INC AGM - 28-01-2015

3. *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: BDB (for 2013 it was: ADC). Based upon this rating an oppose vote is recommended.

Vote Recommendation: *Oppose* Results: For: 96.3, Abstain: 0.3, Oppose/Withhold: 3.4,

IMPERIAL TOBACCO GROUP PLC AGM - 28-01-2015

3. *Approve Remuneration Policy*
Disclosure is acceptable.
Maximum potential award for the CEO under all incentive schemes is considered highly excessive at 550% of her salary. The LTIP awards are currently based on the achievement of TSR, EPS and Revenue targets. The performance conditions under the LTIP are not operating concurrently: the three performance measures are applied independently and can vest regardless of the performance in respect to other elements. The LTIP is not subject to the achievement of non-financial parameters. The vesting period is three years which is not considered sufficiently long-term, although a two-year holding period has been introduced.
There are no major concerns over the contract policy, although the Committee can exercise upside discretion when determining severance payments. Adequate clawback and malus mechanisms are in place.
The changes introduced to the policy are considered globally positive. However, the overall potential pay package is still considered excessive and the features of the LTIP are still considered sufficiently adequate.
Rating: BDC.

Vote Recommendation: *Oppose* Results: For: 92.4, Abstain: 1.2, Oppose/Withhold: 6.4,

14. *Re-appoint the auditors: PricewaterhouseCoopers LLP*
Non-audit fees represent approximately 59% of audit fees during the year under review and approximately 37% 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: 96.6, Abstain: 1.9, Oppose/Withhold: 1.5,

16. *Approve Political Donations*
The Board is seeking authority to make political donations to political parties, to political organisations other than political parties, or to independent election candidates, as defined in sections 363 and 364 of the Companies Act 2006, not exceeding £100,000 in total; and ii. incur political expenditure, as defined in section 365 of the Companies Act 2006, not exceeding £100,000 in total. This equates to £200,000 in aggregate, which is deemed to be excessive. However, it is noted that the Company did not make any political donations during the year under review. An abstain vote is recommended.

Vote Recommendation: *Abstain* Results: For: 97.8, Abstain: 1.3, Oppose/Withhold: 0.9,

DAVIDE CAMPARI SPA EGM - 28-01-2015

1. *Amend Articles: Article 6 - Voting Rights*

Pursuant the Law Decree n. 91/2014, it is proposed to amend the Company's bylaws (Article 6) in order for the Company to be able to issue shares with double voting rights.
Voting rights structures other than the one-share one-vote principle are considered against best practice, as risk and control are disproportionate. In addition, this resolution will be voted under simple majority, which is a deviation from Italian Law, introduced with the Law Decree n.91/2014 and is considered another frustration of the rights of minority shareholders. Based on these concerns, opposition is recommended.

Vote Recommendation: *Oppose*

MONSANTO COMPANY AGM - 30-01-2015

2. *Appoint the auditors*

Deloitte & Touche LLP proposed. The non-audit fees were 30.51% of audit and audit-related fees during the year under review. Non-audit fees over a three-year period were approximately 27.51% of audit and audit-related fees. There are concerns that this level of non-audit fees creates a potential for conflict of interest on the part of the independent auditor.

Vote Recommendation: *Abstain* Results: For: 98.7, Abstain: 0.4, Oppose/Withhold: 0.9,

3. *Advisory vote to approve executive compensation.*

As a result of SEC legislation (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 voting outcome for this resolution reflects the balance of the opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: BDB. Based upon this rating an oppose vote is recommended.

Vote Recommendation: *Oppose* Results: For: 96.5, Abstain: 0.6, Oppose/Withhold: 2.9,

1c. *Re-elect Hugh Grant*

Chairman & Chief Executive Officer. Combined roles at the top of the company. It is considered the best practice for these positions to be separated with a Chief Executive responsible for the running of the business and the Chairman responsible for the functioning of the Board. On this basis an Oppose vote is recommended.

Vote Recommendation: *Oppose* Results: For: 96.2, Abstain: 0.7, Oppose/Withhold: 3.1,

DOLBY LABORATORIES INC AGM - 03-02-2015

3. *Approve compensation of Executive Officers.*
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 the opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: CDA. Based upon this rating an oppose vote is recommended.

Vote Recommendation: *Oppose*

4. *Appoint the auditors*
KPMG LLP proposed. The non-audit fees were 47.61% of audit and audit related fees during the year under review. Non-audit fees over a three-year period were approximately 37.99% of audit and audit related fees.

Vote Recommendation: *Abstain*

2. *Amend the Dolby Laboratories, Inc. 2005 Stock Plan.*
Shareholders are being asked to approve the amendment to the Dolby Laboratories, Inc. 2005 Stock Plan to: (i) authorize an additional 9 million shares of its Class A Common Stock for issuance under the Plan, (ii) re-approve the menu of performance-based compensation measures previously established under the Plan, as is required to be done every five years under Section 162(m) of the Internal Revenue Code of 1986. The Plan is an “omnibus” plan, which means that bundled within the same official plan there are various incentive plan elements aimed at rewarding different groups of employees, officers and executives. These plans permit the granting of options, stock appreciation rights, restricted stock, restricted stock units, restricted performance shares, restricted performance units, management incentive awards and other cash awards.
The plan currently has an average burn rate of 5.4% along with an Overhang of 15.5%. There are concerns with the Plan as performance targets for awards granted under the plan that are performance based are not disclosed which prevents shareholder assessment whether future payouts will be commensurate with performance. In addition, the overhang of 15.5% is considered overly dilutive and the maximum cap for all awards in aggregate is considered potentially excessive. On this basis an Oppose vote is recommended.

Vote Recommendation: *Oppose*

ACCENTURE PLC AGM - 04-02-2015

1b. *Elect Dina Dublon*
Non-Executive Director. Not considered independent as she has served on the Board for more than nine years. There is insufficient independence on the board.

Vote Recommendation: *Oppose* Results: For: 98.7, Abstain: 0.5, Oppose/Withhold: 0.8,

1d. *Elect William L. Kimsey*
Non-Executive Director. Not considered independent as he has been on the Board for more than nine years. There is insufficient independence on the board.

Vote Recommendation: *Oppose* Results: For: 98.7, Abstain: 0.5, Oppose/Withhold: 0.8,

1e. *Elect Marjorie Magner*
Lead Director. Not considered independent as she has been on the Board for more than nine years. There is insufficient independence on the board.

Vote Recommendation: *Oppose* Results: For: 99.0, Abstain: 0.5, Oppose/Withhold: 0.5,

1f. *Elect Blythe J. McGarvie*
Non-Executive Director. Not considered independent as she has been on the Board for more than nine years. There is insufficient independence on the board.

Vote Recommendation: *Oppose* Results: For: 98.2, Abstain: 0.5, Oppose/Withhold: 1.2,

1g. *Elect Pierre Nanterme*
Chairman & Chief Executive Officer. Combined roles at the top of the company. It is considered best practice for these positions to be separated with a Chief Executive responsible for the running of the business and the Chairman responsible for the functioning of the Board. An oppose vote is recommended.

Vote Recommendation: *Oppose* Results: For: 96.3, Abstain: 0.8, Oppose/Withhold: 3.0,

2. *Advisory vote on Executive Compensation*
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 the opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: DDA. Based upon this rating an oppose vote is recommended.

Vote Recommendation: *Oppose* Results: For: 95.8, Abstain: 0.6, Oppose/Withhold: 3.7,

1j. *Elect Wulf von Schimmelmann*
Non-Executive Director. Not considered independent as he has served on the Board for more than nine years. There is insufficient independence on the board.

Vote Recommendation: *Oppose* Results: For: 89.4, Abstain: 0.5, Oppose/Withhold: 10.1,

TD AMERITRADE HOLDING CORPORATION AGM - 12-02-2015

2. *Approve Executive Compensation.*
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: CDB. Based on this rating, it is recommended that shareholder oppose.

Vote Recommendation: *Oppose*

JYSKE BANK EGM - 24-02-2015

1. *Amend Article 14: Election of a shareholder committee external to the Supervisory Board.*
The Board proposes to amend Article 14 of the Bylaws relating to the election of a shareholder committee external to the Supervisory Board. The Company states that these amendments are due to a change in the shareholder structure.
Shareholders committee represents geographical electoral regions. There are governance concerns with process of selecting the Board in this manner. In particular, the shareholders committee represents only regional banks and does not include representatives of other shareholders or any independent representatives. In addition to concerns over the nomination process, as the board of directors is generally drawn only from the shareholder committee members themselves, this system implies that there will not be sufficient independent representation on the Board. On these grounds, opposition is recommended.

Vote Recommendation: *Oppose*

2. *Amend articles 15 and 16: Board proposal to determine the size of the Supervisory Board*
The Board proposes to amend Article 15 and 16 of the Bylaws regarding the number of directors that the shareholder committee can appoint for the Board and, indirectly . It is proposed that the shareholder committee elect six members of the Supervisory Board from its number. Each geographical electoral region has one member of the Supervisory Board elected by all members of the shareholders committee but among members associated with the particular geographical electoral region.
There are governance concerns with process of selecting the Board in this manner, namely that there is likely never to be sufficient independent representation on the Supervisory Board. On this basis, opposition is recommended.

Vote Recommendation: *Oppose*

3. *Amend Article 16: The Supervisory Board shall elect its Chairman and Deputy Chairman.*
The Board proposes to amend Article 16 of the Bylaws relating to election of the Chairman and the Deputy Chairman of the Supervisory Board. The Board proposes to amend the Bylaws in order to allow the Supervisory Board to elect its Chairman and Deputy Chairman. Although it would be welcomed that shareholders could elect Chairman and Vice Chairman directly, this system is in use in most countries across European markets. However, due to the concerns over the nomination process to the board, opposition is recommended.

Vote Recommendation: *Oppose*

NOVARTIS AG AGM - 27-02-2015

6.2. *Approve total compensation for members of the Executive Committee*
The Company has proposed a prospective remuneration proposal, which means that the proposed amount will not be the actual amount to be paid, but only the total remuneration cap. The voting outcome of this resolution will be binding for the Company.
It is proposed to fix the remuneration of members of the Executive Committee until next AGM at CHF 84 million (CHF 69 million were paid for the year under review). This proposal includes fixed and variable remuneration components.
There are concerns that the variable remuneration component may produce excessive payout, up to 450% of the fixed salary at target, in lack of quantifiable targets. On this basis, opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 93.7, Abstain: 0.3, Oppose/Withhold: 6.0,

6.3. *Approve the 2014 compensation report*
It is proposed to approve the remuneration report of the Company for 2014 with an advisory vote. Submitting a separate advisory resolution on the Company's remuneration structure is not provided for by the Ordinance Against Excessive Payments but it is recommended by the local Corporate Governance Code.
The Company does not disclose quantified targets for either component of the variable remuneration, which prevents shareholders from making an informed assessment of variable remuneration . The CEO's total variable remuneration during the year under review exceeded four times his fixed salary, which is deemed excessive. It is noted that the remuneration structure at the Company provides for the variable remuneration component to correspond to 450% of the fixed salary at target, which is deemed excessive. Severance payments are capped at 12 months of salary. The board cannot award discretionary payments to executives, which is welcomed. There are claw back clauses in place which is welcomed.
Despite some positive features of the compensation structure (such as malus and claw back applicable on any incentive compensation paid to members of the Executive Committee), there are concerns that the variable remuneration component is excessive. In addition, the Company does not disclose quantified performance criteria, which is against best practice. On this ground, opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 90.9, Abstain: 0.9, Oppose/Withhold: 8.1,

7.1. *Re-elect Joerg Reinhardt*
Non-Executive Chairman. Not considered to be independent as he has been Chief Operating Officer of the company previously before moving with Bayer HealthCare AG. There is sufficient independent representation on the Board. However, due to his previous executive responsibilities, abstention is recommended.

Vote Recommendation: *Abstain* Results: For: 99.3, Abstain: 0.3, Oppose/Withhold: 0.4,

7.6. *Re-elect Pierre Landolt*
Non-Executive Director. Not considered to be independent as Mr. Landolt is Chairman of Emasan AG, a shareholder of the Company with 3.3% of the total share capital. In addition he served on the Board for more than nine years and there are concerns over his potential aggregate time commitments. There is sufficient independent representation on the Board. However, given the concerns over potential time commitments, abstention is recommended.

Vote Recommendation: *Abstain* Results: For: 97.7, Abstain: 0.3, Oppose/Withhold: 2.0,

8.1. *Re-elect Srikant Datar to be a member of the Compensation Committee*
In terms of good corporate governance, it is considered to be best practice that the compensation committee consists exclusively of independent members. Support is granted to independent directors, while opposition will be recommended for non-independent directors.
This director is not considered to be independent. Opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 97.7, Abstain: 0.3, Oppose/Withhold: 2.0,

B. *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. Opposition is recommended.

Vote Recommendation: *Oppose*

ROCHE HOLDING AG AGM - 03-03-2015

2.1. *Approve bonus for Corporate Executive Committee members*
It is proposed to approve, with a binding vote, the total amount of the bonus for members of the Executive Committee. The bonus is proposed to be CHF 10.4 million (for the CEO it will consist of shares blocked for 10 years). The Company has not submitted the compensation structure to advisory vote. However, analysis of this resolution will take into account also the general remuneration structure at the Company. There are concerns with this respect: excessiveness and risk of discretionary payments, given the presence of the Chairman (who receives variable remuneration) on the Remuneration Committee. In addition, the Company has not disclosed the achievement of the targets on which the bonuses were based. On this basis, opposition would be recommended.

Vote Recommendation: *Oppose* Results: For: 99.1, Abstain: 0.6, Oppose/Withhold: 0.2,

2.2. *Approve bonus to Chairman of the Board of Directors*
The Chairman of the Board of Directors is non-executive, yet it is proposed to award him a bonus to be paid in shares. Awarding variable short-term remuneration to non-executive directors is against best practice. The bonus corresponds to shares blocked for 10 years and amounts to CHF 558,000 for the incoming Chairman (Mr. Franz), approximately 17% of his total remuneration. The former Chairman Mr. Huber receive approximately EUR 3 million in bonuses. Besides and beyond excessiveness concerns, variable bonuses per se are not considered to be an appropriate way of compensating non-executive directors.

Vote Recommendation: *Oppose* Results: For: 99.6, Abstain: 0.1, Oppose/Withhold: 0.3,

3. *Discharge the Board*
Standard proposal. The membership of board committees raises concerns, regarding the excessive alignment with the interest of the shareholder agreement which controls the share capital. Members of the shareholder agreement sit on the remuneration and nomination committee. This may lead to a decision-making process that takes overly into account the interests of the controlling shareholder agreement. Abstention would be recommended.

Vote Recommendation: *Abstain* Results: For: 99.8, Abstain: 0.1, Oppose/Withhold: 0.0,

5.1. *Re-elect Dr Christoph Franz as Chairman*
Independent Non-Executive Chairman. There are concerns with respect to his remuneration structure, which lead to an abstain recommendation.

Vote Recommendation: *Abstain* Results: For: 99.9, Abstain: 0.0, Oppose/Withhold: 0.0,

5.2. *Re-elect Dr Christoph Franz as a member of the Remuneration Committee*
As part of the Remuneration Committee, the Chairman would be able to have a direct impact on his own remuneration. Opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 99.8, Abstain: 0.1, Oppose/Withhold: 0.1,

5.3. *Re-elect Mr André Hoffmann*
Non-Executive Vice Chairman. Not considered to be independent as Mr. Hoffman is a representative of the founding family, which holds 45.01% of the Company's issued share capital through a shareholder pool, also Mr. Hoffmann has served on the Board for more than nine years. There are also concerns over his aggregate time commitment. In addition, he sits also on the Remuneration and Nomination committees, which raises concerns over the overlap of interests of the controlling shareholder with remuneration practices, as well as the appointment of directors on the Board. Opposition is thus recommended

Vote Recommendation: *Oppose* Results: For: 100.0, Abstain: 0.0, Oppose/Withhold: 0.0,

5.4. *Re-elect Mr André Hoffmann as a member of the Remuneration Committee*
It is considered that the Remuneration Committee should include exclusively independent members. This director is not considered to be independent. Opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 99.8, Abstain: 0.1, Oppose/Withhold: 0.1,

7. *Approval of the total amount of future remuneration for the Corporate Executive Committee*
The Company has proposed a prospective remuneration proposal, which means that the proposed amount will not be the actual amount to be paid, but only the total remuneration cap. The voting outcome of this resolution will be binding for the Company.
It is proposed to fix the remuneration of members of the Executive Committee until next AGM at CHF 37 million (CHF 20 million were paid for the year under review).
The Company has not submitted its remuneration structure to an advisory vote, which is recommended by the local Corporate Governance Code. This proposal includes fixed and variable remuneration components. There are concerns with respect to the remuneration structure for Executives at the Company: the total variable remuneration at target exceeds 200% of the fixed salary and is based on undisclosed performance criteria and targets. This raises concerns over the actual link of pay with performance. On this basis, opposition is recommended.

Vote Recommendation: *Oppose* Results: For: 99.7, Abstain: 0.1, Oppose/Withhold: 0.3,

9. *Appoint the auditors*
KPMG AG proposed. Non-audit fees were approximately 9.27% of audit fees during the year under review. Non-audit fees over a three year basis were approximately 7.77% of audit fees. The level of non-audit fees does not raise concerns. However, the auditors' term exceeds 10 years, which may create potential for conflict of interest on the part of the independent auditor. Opposition is thus recommended.

Vote Recommendation: *Oppose* Results: For: 98.7, Abstain: 1.3, Oppose/Withhold: 0.0,

TE CONNECTIVITY LTD AGM - 03-03-2015

1d. *Elect Thomas J. Lynch*
Chairman and Chief Executive Officer. 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: 96.6, Abstain: 1.0, Oppose/Withhold: 2.4,

2. *Elect Thomas J. Lynch as Chairman of the Board of Directors.*
It is not considered to be best practice for the positions of CEO and Chairman to be combined therefore an oppose vote is recommended.

Vote Recommendation: *Oppose* Results: For: 70.7, Abstain: 1.1, Oppose/Withhold: 28.2,

12. *Advisory vote on Executive Compensation*
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: BDC. Based upon this rating, an oppose vote is recommended.

Vote Recommendation: *Oppose* Results: For: 94.4, Abstain: 1.2, Oppose/Withhold: 4.4,

10. *Amend Articles: regarding the vote standard for shareholder resolutions and elections.*
The Board of Directors proposes that article 17, paragraph 1 of the articles of association be amended to provide that when determining whether a shareholder resolution has passed or a person has been elected by shareholders to a particular position, abstentions and broker non-votes will no longer be taken into account (i.e., they will be disregarded and have no effect). Shareholders currently pass resolutions and carry out elections with an absolute majority of the share votes represented at the meeting, with abstentions and broker non-votes counting as votes "against." Under the proposed amendment to the articles of association, shareholders will pass resolutions and carry out elections with a relative majority of the votes cast, and abstentions and broker non-votes will be disregarded and have no effect. The amendment is not considered in the best interest of shareholders as an abstention may be used to indicate the voting individual's ambivalence about the measure, or mild disapproval that does not rise to the level of active opposition. A person may also abstain when they do not feel adequately informed about the issue at hand. Based on the above points shareholders are advised to oppose.

Vote Recommendation: *Oppose* Results: For: 88.1, Abstain: 0.9, Oppose/Withhold: 11.0,

19. *Approve any adjournments or postponements of the Annual General Meeting*
The Board requests authority to adjourn the meeting until a later date or dates, if necessary, in order to permit further solicitation of proxies if there are not sufficient votes to approve any agenda item. An oppose vote is recommended to any adjournment or postponement of meetings if a sufficient number of votes are present to constitute a quorum. It is considered that where a quorum is present, the vote outcome should be considered representative of shareholder opinion.

Vote Recommendation: *Oppose* Results: For: 67.0, Abstain: 0.9, Oppose/Withhold: 32.2,

QUALCOMM INCORPORATED AGM - 09-03-2015

4. *Advisory vote on executive compensation*
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 BEB. Based upon this rating an oppose vote is recommended.

Vote Recommendation: *Oppose* Results: For: 57.4, Abstain: 0.6, Oppose/Withhold: 42.0,

FRANKLIN RESOURCES INC AGM - 11-03-2015

1a. *Elect Peter K. Barker*
Non-Executive Director. Not considered independent as until February 2013 he was Chairman of JPMorgan Chase & Co., the supplier of various services to the Company. In addition, his brother is a Partner at Fragomen Del Ray, Bersen and Loewy, LLP; the Company has used the services of Fragomen since 2008. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 96.8, Abstain: 0.3, Oppose/Withhold: 2.9,

1c. *Elect Charles E. Johnson*
Non-Executive Director. Not considered independent as he is the brother of Gregory E. Johnson President, CEO and Chairman. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 96.8, Abstain: 0.3, Oppose/Withhold: 2.9,

1d. *Elect Gregory E. Johnson*
Chairman, Chief Executive Officer and President. It is not considered to be best practice for these positions to be combined, and there should be separate positions with a Chief Executive responsible for the running of the business and the Chairman responsible for the functioning of the Board. He is the son of Charles B. Johnson, Former Executive Chairman and the nephew of Rupert H. Johnson, Vice Chairman of the Board. On this basis shareholders are advised to oppose.

Vote Recommendation: *Oppose* Results: For: 98.7, Abstain: 0.4, Oppose/Withhold: 0.9,

1g. *Elect Chutta Ratnathicam*
Non-Executive Director. 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: 99.2, Abstain: 0.3, Oppose/Withhold: 0.5,

1h. *Elect Laura Stein*
Non-Executive Director. 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: 98.9, Abstain: 0.3, Oppose/Withhold: 0.8,

2. *Appoint the auditors*
Ernst & Young LLP proposed. The non-audit fees were 37.36% of audit and audit related fees during the year under review. Non-audit fees over a three year basis were 20.95% of audit and audit related fees. This level of non-audit fees raises concerns over the independence of the external auditor.

Vote Recommendation: *Abstain* Results: For: 98.9, Abstain: 0.4, Oppose/Withhold: 0.7,

3. *Re-approve the material terms of the performance goals under the 2002 Universal Stock Incentive Plan*
The Board of Directors has put forward a resolution, requesting stockholders to re-approve the material terms of the performance goals under the 2002 Universal Stock Incentive Plan, in order to maintain corporate income tax deductions. The Company's performance-based compensatory consist of stock options, stock appreciation rights, stock units, performance shares and restricted stock units. While the company is only seeking shareholder approval for tax deductibility purposes; it is noted that under the plan the committee has the discretion to award stock options and restricted stock which have no performance goals attached apart from continued employment. In addition, performance shares have no specific targets with the compensation committee having full discretion over the conditions of the award. Finally LTIPs are not considered an effective means of incentivising performance. These schemes are not considered to be properly long term and are subject to manipulation due to their discretionary nature. As a result an oppose vote is recommended.

Vote Recommendation: *Oppose* Results: For: 98.5, Abstain: 0.3, Oppose/Withhold: 1.2,

THE WALT DISNEY COMPANY AGM - 12-03-2015

1b. *Elect John S. Chen*
Non-Executive Director. Not considered independent as he has served on the Board for more than nine years. There is insufficient independence on the Board.

Vote Recommendation: *Oppose* Results: For: 97.6, Abstain: 0.2, Oppose/Withhold: 2.2,

1d. *Elect Robert A. Iger*
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. On this basis an oppose vote is recommended.

Vote Recommendation: *Oppose* Results: For: 98.0, Abstain: 0.6, Oppose/Withhold: 1.4,

1e. *Elect Fred H. Langhammer*
Non-Executive Director. Not considered independent as he has served on the Board for more than nine years. There is insufficient independence on the Board.

Vote Recommendation: *Oppose* Results: For: 95.1, Abstain: 0.2, Oppose/Withhold: 4.7,

1f. *Elect Aylwin B. Lewis*
Non-Executive Director. Not considered independent as he has been on the Board for more than nine years. There is insufficient independence on the Board.

Vote Recommendation: *Oppose* Results: For: 94.0, Abstain: 0.2, Oppose/Withhold: 5.8,

1g. *Elect Monica C. Lozano*
Non-Executive Director. Not considered independent as she has served on the Board for over nine years. Furthermore, she was not independent on appointment; Ms Lozano is the daughter of Ignacio Lozano Jr. who was a board member at the time that the board approved her appointment, in 2000. There is insufficient independence on the Board.

Vote Recommendation: *Oppose* Results: For: 94.6, Abstain: 0.2, Oppose/Withhold: 5.2,

1h. *Elect Robert W. Matschullat*
Non-Executive Director. Not considered independent as he has served on the board for more than nine years. There is insufficient independence on the Board.

Vote Recommendation: *Oppose* Results: For: 98.5, Abstain: 0.2, Oppose/Withhold: 1.3,

1j. *Elect Orin C. Smith*
Lead Director. Not considered independent as he has served on the board for more than nine years. There is insufficient independence on the Board.

Vote Recommendation: *Oppose* Results: For: 98.3, Abstain: 0.3, Oppose/Withhold: 1.3,

3. *Advisory vote on Executive Remuneration*
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: CDB. Based on this rating, it is recommended that shareholders Oppose.

Vote Recommendation: *Oppose* Results: For: 83.6, Abstain: 0.8, Oppose/Withhold: 15.7,

SCHINDLER HOLDING AG AGM - 20-03-2015

4.3. *Approve the variable compensation of the Board of Directors.*
It is proposed to approve the retrospective variable remuneration for the Board of Directors. The voting outcome of this resolution will be binding for the Company.
It is proposed to approve the aggregate remuneration for the Board for last year, which amounts to CHF 6.5 million. Total variable remuneration (only for Executive Directors) amounts to CHF 6.496 million which corresponds to 118% of the aggregate fixed salary excluding pensions. The Company has not disclosed the targets for variable remuneration, which raises concerns over discretionary payments during next year. The Company discloses individual allocated remuneration for the Executive Chairman and other executives, which is welcomed. As per the Company's Bylaws, should this resolution be rejected, the remuneration allocated during the previous year will be subject to claw back.
The proposed amount is within the amount approved at the last AGM. However, the Company has not submitted an advisory vote on the 2014 Remuneration Base (as recommended by the local Corporate Governance Code) and does not state in the Bylaws what is the process in case this proposal were rejected by shareholders. On these grounds, and based on the lack of target disclosure and excessive variable remuneration it is recommended to oppose.

Vote Recommendation: *Oppose* Results: For: 89.9, Abstain: 2.5, Oppose/Withhold: 7.6,

4.4. *Approve the variable compensation of the members of the Group Executive Committee.*
It is proposed to approve the retrospective variable remuneration for the Executive Committee. The voting outcome of this resolution will be binding for the Company. It is proposed to approve the aggregate remuneration for the Board for last year, which amounts to CHF 11.53 million. Total variable remuneration amounts to CHF 10.35 million which corresponds to 219% of the aggregate fixed salary excluding pension contributions which is deemed excessive. In addition, there are concerns over the level of pension contributions, which reached 50% in the case of the CEO and are reported under fixed salary. The Company has not disclosed the targets for variable remuneration, which raises concerns over discretionary payments during next year. The Company discloses individual remuneration for the CEO which is welcomed. As per the Company's Bylaws, should this resolution be rejected, the remuneration allocated during the previous year will be subject to claw back.
The proposed amount is within the amount approved at the last AGM. However, the Company has not submitted an advisory vote on the 2014 Remuneration Base (as recommended by the local Corporate Governance Code) and does not state in the Bylaws what is the process in case this proposal were rejected by shareholders. On these grounds, and based on the lack of target disclosure and excessive variable remuneration it is recommended to oppose.

Vote Recommendation: *Oppose* Results: For: 91.1, Abstain: 1.5, Oppose/Withhold: 7.4,

5.2. *Re-elect Alfred N. Schindler*
Executive Chairman. He has holdings for 69.9% of the Company's share capital under a shareholders' agreement along with Luc Bonnard and Carole Vischer. 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 supervisory and executive roles in one person, along with major shareholding voting power, represents a concentration of power that is potentially detrimental to Board balance, effective debate, and Board appraisal. Opposition is thus recommended.

Vote Recommendation: *Oppose* Results: For: 99.1, Abstain: 0.5, Oppose/Withhold: 0.4,

5.3.1. *Re-elect Prof. Dr. Pius Baschera as member of the Board of Directors and as member of the Compensation Committee.*
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: 98.5, Abstain: 0.5, Oppose/Withhold: 1.0,

5.3.2. *Re-elect Dr. Rudolf W. Fischer as member of the Board of Directors and as member of the Compensation Committee*
Executive Director. Electing executive directors to the Compensation Committee is against the spirit of the Ordinance and would allow this candidate to have an impact on determining his own total remuneration. Opposition is thus recommended.

Vote Recommendation: *Oppose* Results: For: 90.7, Abstain: 0.5, Oppose/Withhold: 8.8,

5.3.3. *Re-elect Rolf Schweiger as member of the Board of Directors and as member of the Compensation Committee*
Independent Non-Executive Director. There are concerns over his potential aggregate time commitments.

Vote Recommendation: *Abstain* Results: For: 98.4, Abstain: 0.6, Oppose/Withhold: 1.0,

5.4.2. *Re-elect Carole Vischer*
Non-Executive Director. Not considered to be independent as she is a family member of the shareholder agreement which holds 69.9% of the Company's issued share capital. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 98.7, Abstain: 0.8, Oppose/Withhold: 0.5,

5.4.3. *Re-elect Luc Bonnard*
Non-Executive Vice-Chairman. Not considered to be independent as he belongs to the Bonnard family. The company's major shareholders are Schindler and Bonnard families who hold 69.9% of the Company's issued share capital. He has also held several positions in the company since 1972. There is insufficient independent representation on the Board.

Vote Recommendation: *Oppose* Results: For: 99.0, Abstain: 0.5, Oppose/Withhold: 0.5,

5.4.5. *Re-elect Anthony Nightingale*
Independent Non-Executive Director. There are concerns over his potential aggregate time commitments.

Vote Recommendation: *Abstain* Results: For: 98.3, Abstain: 1.2, Oppose/Withhold: 0.5,

5.6. *Appoint the auditors*
Ernst & Young Ltd. proposed. Non-audit fees were approximately 15.5% of audit fees during the year under review. Non-audit fees over a three year aggregate basis were approximately 25.4% of audit fees. There are concerns that this level of non-audit fees creates a potential for conflict of interest on the part of the independent auditor. In addition, the auditors' term exceeds 10 years, which raises further concerns for potential conflicts of interest. Opposition is thus recommended.

Vote Recommendation: *Oppose* Results: For: 98.9, Abstain: 0.5, Oppose/Withhold: 0.5,

JAPAN TOBACCO INC AGM - 20-03-2015

2.1. *Elect Nakamura Futoshi*
The traditional governance structure for Japanese companies (Kansayaku) involves the appointment of corporate auditors. Large Japanese companies are required to form a board of corporate auditors with powers to examine board activities and oversee financial reports. Such companies are required by law to appoint at least three statutory auditors to the corporate audit board. At least half the corporate auditors must qualify as 'outsiders'. The definition of 'outsider' prohibits appointment of a corporate auditor whom the company has employed at any time in any capacity. PIRC's own definition of independence may go beyond the regulatory minimum. Japan's Companies Act of 2005 requires that the majority of a board of corporate auditors must be outsiders. Beyond this legal minimum, it is considered to be best practice that boards of corporate auditors should be composed wholly of outsiders. New appointments are therefore considered in the context of their affect on the balance of independence where disclosure allows.
This proposal: It is considered that two of the four candidates are independent. The corporate auditor board will be 50% independent in our view following the Annual Meeting. Inside Corporate Auditor. Not considered to be independent. Opposition is recommended.

Vote Recommendation: *Oppose*

2.2. *Elect Kojima Tomotaka*
Outside Corporate Auditor. Not considered to be independent.

Vote Recommendation: *Oppose*

ORION CORP AGM - 24-03-2015

12. *Elect the Board and the Chairman*
It is common practice for Board members in Finland to be elected to the Board using a slate system. Slate elections are evaluated taking into consideration the balance of independent representation on the Board. An oppose vote is recommended where an insufficient number of independent directors are included.
It is proposed to re-elect all of the current Board. Hannu Syrjanen is proposed as Chairman. There is insufficient independent representation on the Board, including the candidate Chairman.

Vote Recommendation: *Oppose*

14. *Appoint the auditors*
PricewaterhouseCoopers Oy proposed. Non-audit fees were approximately 44.13% of audit fees during the year under review. Non-audit fees over a three year basis were approximately 43.75% of audit fees. There are concerns that this level of non-audit fees creates a potential for conflict of interest on the part of the independent auditor. In addition, the auditors' tenure is six years, which is not considered best practice. An abstain vote on the resolution is thus recommended.

Vote Recommendation: *Abstain*

JYSKE BANK AGM - 24-03-2015

E. *Elect Members of Committee of Representatives for Electoral Region East*
It is proposed to elect members to the Shareholders Committee as representatives of Region East. It is regrettable that the Company has bundled these elections. In addition, there are concerns over this nomination process and the level of independence on the Board if the shareholders committee represents only regional banks and the Board of Directors is drawn mostly from among the Shareholder Committee members. Opposition would be normally be recommended. However, as opposition is not a valid voting option for this resolution, abstention is recommended.

Vote Recommendation: *Abstain*

D. *Approve Remuneration Policy*
It is proposed to approve the remuneration report with a binding vote.
There is lack of disclosure with respect of targets and measurable criteria for variable remuneration, which prevents shareholders from making an informed assessment.

The CEO's total variable remuneration during the year under review has not been disclosed and there are concerns that the variable component may be overpaying for underperformance, in absence of quantified targets. The Vice CEO is entitled to 24 months' notice plus two years' severance in case of termination, and 12 months' notice plus one years' severance in case of resignation. This exceeds best practice. The Board can award discretionary payments to executives, which raises concerns. There are no claw back clauses in place which is against best practice. Based on potential excessiveness, absence of claw back, unclear and excessive severance, as well as poor disclosure overall, opposition is recommended.

Vote Recommendation: *Oppose*

F. *Re-elect Rina Asmussen*
Non-Executive Director. Not considered to be independent as she has been on the Board of BRFKredit prior to the acquisition by the Company. Jyske Bank and BRFkredit have entered into an agreement on joint funding during the year under review. There is insufficient independent representation on the Board. As opposition is not a valid voting option for this resolution, abstention is recommended.

Vote Recommendation: *Abstain*

G. *Appoint the auditors*
Deloitte proposed. Non-audit fees were approximately 80% of audit fees during the year under review. Non-audit fees over a three year basis were approximately 76.92% of audit fees. There are concerns that this level of non-audit fees creates a potential for conflict of interest on the part of the independent auditor. In addition, the tenure of the auditor is nine years, which is not considered to be best practice. On these grounds, opposition would normally be recommended. However, as oppose is not a valid voting option at this meeting, abstention is recommended.

Vote Recommendation: *Abstain*

TRYG AS AGM - 25-03-2015

6d. *Authorise Share Repurchase*
Authority to allow the Board to repurchase shares within legal boundaries. The repurchase is limited to 10% of share capital, however the authority will be in force for five years, which exceeds guidelines. Opposition is recommended.

Vote Recommendation: *Oppose*

6e. *Allow for the presentation of the annual reports to be in English*
It is proposed that the annual report will be published and presented in English only as of financial year 2015, leaving to the Supervisory Board the discretionary power of whether to prepare a Danish translation. After the Danish Parliament has amended the Danish Company Act, effective 1 January 2014, allowing Danish listed companies to publish their filings in English only, many Danish companies are moving towards English-only disclosure. However, it is reasonable to expect disclosure in the language of the country where the company is located. Abstention is therefore recommended.

Vote Recommendation: *Abstain*

6f. *The Supervisory Board's proposal to change the rules concerning use of proxy at the Annual General Meeting*
It is proposed to amend the Company's Bylaws, according to a change in the Danish Companies Act. Authority to remove a paragraph from Article 17, subarticle 4, 2nd full stop, which describes the proxy solicitation limited to one year and a specific AGM. The proposal is in line with the Danish Companies Act, which removed the limitation, however it is not considered best practice to grant proxy for an undefined period. Opposition is recommended.

Vote Recommendation: *Oppose*

8. *Appoint the auditors*
Deloitte Statsautoriseret Revisionspartnerselskab proposed. Non-audit fees were approximately 266% of audit fees during the year under review. Non-audit fees over a three year basis were approximately 100% of audit fees. There are concerns that this level of non-audit fees creates a potential for conflict of interest on the part of the independent auditor. In addition, the tenure of the auditor is seven years, which it is considered to entail potential conflict of interest that would impair the auditor's independence. On these grounds, opposition is recommended. However, as opposition is not a valid voting option for this resolution, abstention is recommended.

Vote Recommendation: *Abstain*

7h. *Elect Carl-Viggo Ostlund*
Non-Executive Director candidate. Biographical information on this Director is not considered to be sufficient. Therefore opposition is recommended. However, as opposition is not a valid voting option for this resolution, abstention is recommended.

Vote Recommendation: *Abstain*

7a. *Elect an unannounced member from Tryghedsgruppen to the Board*
It is proposed to elect a new member to the Board. No biographical information has been disclosed, however the candidate represents Tryghedsgruppen, which is the majority owner of Tryg, and as such is not considered to be independent. There is insufficient independent representation on the Board. As opposition is not a valid voting option for this resolution, abstention is recommended.

Vote Recommendation: *Abstain*

7b. *Elect an unannounced member from Tryghedsgruppen to the Board*
It is proposed to elect a new member to the Board. No biographical information has been disclosed, however the candidate represents Tryghedsgruppen, which is the majority owner of Tryg, and as such is not considered to be independent. There is insufficient independent representation on the Board. As opposition is not a valid voting option for this resolution, abstention is recommended.

Vote Recommendation: *Abstain*

7c. *Elect an unannounced member from Tryghedsgruppen to the Board*
It is proposed to elect a new member to the Board. No biographical information has been disclosed, however the candidate represents Tryghedsgruppen, which is the majority owner of Tryg, and as such is not considered to be independent. There is insufficient independent representation on the Board. As opposition is not a valid voting option for this resolution, abstention is recommended.

Vote Recommendation: *Abstain*

7d. *Elect an unannounced member from Tryghedsgruppen to the Board*
It is proposed to elect a new member to the Board. No biographical information has been disclosed, however the candidate represents Tryghedsgruppen, which is the majority owner of Tryg, and as such is not considered to be independent. There is insufficient independent representation on the Board. As opposition is not a valid voting option for this resolution, abstention is recommended.

Vote Recommendation: *Abstain*

SVENSKA HANDELSBANKEN AGM - 25-03-2015

8. *Receive the Annual Report*
Disclosure is acceptable and the report was made available sufficiently before the meeting. However, the Company has been involved in alleged improper use of corporate resources; namely SCA's corporate jet. Handelsbanken is one of SCA's major shareholders. Said involvement led the Chairman of Handelsbanken Mr. Nyren to resign and was replaced by the CEO, Mr. Boman, who is candidate as Chairman at this AGM. It is considered that the Company should have discussed publicly appropriate use of corporate resources or acceptance of excessive gifts, which is however covered by their ethical guidelines. There seem to be insufficient checks and balances that could prevent such alleged improper use of resources from happening again.

Vote Recommendation: *Abstain*

10. *Discharge the Board and the Group Chief Executive*
In accordance with the Swedish Companies Act ch. 7 para. 11 Swedish companies offer the Board of Directors and President a discharge from liability for the financial year. However, the Company has been involved in alleged improper use of corporate resources; namely SCA's corporate jet. Handelsbanken is one of SCA's major shareholders. Said involvement led the Chairman of Handelsbanken Mr. Nyren to resign and was replaced by the CEO, Mr. Boman, who is candidate as Chairman at this AGM. It is considered that the Company should have discussed appropriate use of corporate resources or acceptance of excessive gifts, which is however covered by their ethical guidelines. There seem to be insufficient checks and balances that could prevent such alleged improper use of resources from happening again.

Vote Recommendation: *Abstain*

17. *Re-elect the Board of Directors*
It is common practice for Board members in Sweden to be elected using a slate system. Slate elections are evaluated taking into consideration the balance of independent representation on the Board. An oppose vote is recommended where an insufficient number of independent Directors are included.
All of the Board members are proposed for re-election with the exception of Mr Sverker Martin-Lof and Mr Jan Johansson. As they will not stand for re-election, the nomination committee proposes the election of Ms Lise Kaae and Mr Frank Vang-Jensen as new members of the Board. Mr. Vang-Jensen is also the appointed CEO. The Nomination Committee also proposes the election of Par Boman as Chairman of the Board.
There is insufficient independent representation on the Board. In addition, it is not considered that this re-election offers a concrete solution to the improper practice that led to the so called corporate jet scandal. Opposition is recommended on this ground.

Vote Recommendation: *Oppose*

18. *Appoint the auditors*
KPMG and Ernst&Young proposed. Non-audit fees were approximately 6.25% of audit fees in aggregate during the year under review. Non-audit fees over a three year basis were approximately 2.58% of audit fees in aggregate. The level of non-audit fees does not raise concerns. However, the auditors' terms exceed 10 years, which may create potential for conflict of interest on the part of the independent auditors. Opposition is thus recommended.

Vote Recommendation: *Oppose*

19. *Approve Remuneration Policy*
It is proposed to approve the remuneration policy with a binding vote.
There is lack of disclosure with respect to the components of individual remuneration for Executives, which prevents shareholders from making an informed assessment. Although officially there is no variable compensation (only a profit-sharing scheme), the Board can decide to award special bonuses upon discretion, which raises concerns over the transparency of the remuneration structure. In addition, the Company reports pension contributions together with fixed salary, while they may be considered bonuses unrelated to performance, depending on the weight versus salary, as noted by the European Banking Authority among others. There are no severance agreements in place, however notice can reach 24 months' salary, which is deemed excessive. Based on excessive notice and Board discretion, opposition is advised.

Vote Recommendation: *Oppose*

22. *Shareholder proposal: An investigation assignment for the Board*
Proposed by Thorwald Arvidsson. Section 12 of the Bylaws provides for a voting rights limitation of 10 per cent. It is proposed to give mandate to the Board to investigate the matter and propose additions to the Bylaws with this respect. Although sound in principle, this mandate is unclear as of the intended outcome. Abstention is recommended.

Vote Recommendation: *Abstain*

23. *Shareholder proposal: Assign the Board to contact the government*
Resolution proposed by Thorwald Arvidsson. It is proposed to delegate the Board to write the Swedish government and ask to investigate the abolishment of different voting powers within the Swedish Company's Act. Adherence to the one-share, one-vote principle is considered best practice and should be encouraged. However, writing to the Swedish government may be seen as lobbying and may involve governance concerns. On this basis, abstention is recommended.

Vote Recommendation: *Abstain*

24. *Shareholder proposal: Assign the Board the task of taking to form a shareholders' association for the Bank.*
Resolution proposed by Thorwald Arvidsson. It is proposed to delegate the Board to create a Shareholder's association within the Company. It is not clear what would be the functions and the role of this association. The Company has already a Nomination Committee where major and minority shareholders are represented. Abstention is recommended.

Vote Recommendation: *Abstain*

25. *Shareholder proposal: A special examination pursuant to Chapter 10, Section 21 of the Swedish Companies Act*
Resolution proposed by Thorwald Arvidsson. It is proposed to appoint a special examiner for executive remuneration at the Company. It is unclear what would be the boundaries for the action of the examiner. Abstention is recommended.

Vote Recommendation: *Abstain*

THE TORONTO-DOMINION BANK AGM - 26-03-2015

C. *Advisory vote on executive compensation*
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: CDC. Based on this rating, it is recommended that shareholders oppose.

Vote Recommendation: *Oppose*

G. *Shareholder Resolution: Credit Card Business Practices and Social Responsibility*
Proposed by: Mouvement d'éducation et de défense des actionnaires (MÉDAC). The proponent request that the Bank disclose, at the next annual meeting, the policy it intends to adopt to avoid further legal proceedings for abusive business and pricing practices in the credit card market.
Following legal action by Option Consommateurs in 2003 regarding credit card policy breaches, the proponent is concerned that if this were to happen again it would lead to reputational harm on the bank and its shareholders. The board argues that the bank already has a policy in place and the bank is committed to conducting its affairs to the highest standards of ethics, integrity, honesty, fairness and professionalism.
The bank manages and mitigates the risks associated with these proceedings through proactive regulatory relationship management and a robust litigation management function. Where it may have fallen short of its own high expectations, it aims to learn from those situations. The company provides extensive details of its many governance and risk management policies and practices in various public disclosures, including in the annual report, as well as on the bank's website at www.td.com. The company does not believe that the annual shareholder meeting is an appropriate venue for the disclosure of such policies and practices.
The company has raised a valid point in stating that it already reviews these risks in extensive detail which can be found in the annual report and on the company website. On this basis shareholders are advised to abstain.

Vote Recommendation: *Abstain*

CARLSBERG AS AGM - 26-03-2015

6. *Appoint the auditors*
KPMG proposed. Non-audit fees were approximately 45.83% of audit fees during the year under review. Non-audit fees over a three year basis were approximately 58.67% of audit fees. There are concerns that this level of non-audit fees creates a potential for conflict of interest on the part of the independent auditor. The tenure of the auditor is less than five years, which meets guidelines. However, opposition is recommended based on the concerns over the level of non-audit fees and its implications over the independence of the auditor. As oppose is not a valid voting option at this meeting, abstention is recommended.

Vote Recommendation: *Abstain*

4a. *Approve Remuneration Policy*
It is proposed to approve the remuneration report with a binding vote.
There is fair disclosure with respect of targets and measurable criteria for variable remuneration, which meets market practice. However, measurable criteria are disclosed for long term incentives but not for the annual bonus. The CEO's total variable remuneration during the year under review corresponded to 124% of his fixed salary although it may be overpaying for underperformance, in absence of quantified targets. Severance payments does not seem to be capped, although the Company states that they are in line with market practice in Denmark, without qualifying further. The Board has discretion to decide the actual amount of long term incentives that will be awarded, which raises concerns. There are no claw back clauses in place which is against best practice. Based on limited disclosure on contracts and the absence of claw back clauses, as well as potential discretionary awards by the Board, opposition is recommended.

Vote Recommendation: *Oppose*

BM&F BOVESPA SA EGM - 30-03-2015

1. *Amend Articles 5, 22, 29, 47, 50, 22, 32, 30, 45, 46 and 51 of the Bylaws*
Authority to amend articles 5, 22, 29, 47, 50, 22, 32, 30, 45, 46 and 51 of the Bylaws. These articles regulate the capital stock amount, definition of Independent Director and the Risk Committee. It is regrettable that the Company has bundled such amendments instead of submit them separately.
In particular, the Board proposes to increase from 5% to 7% of share capital or voting rights the limit for a director to be considered independent (whether such stake is held directly or the director is connected with such shareholder). This is in accordance with Article 7, by which the Company limits the voting rights exercisable by a shareholder to 7% of the share capital or voting rights. However, neither limitation of voting rights exercisable at a meeting (against the one share, one vote principle) nor the proposed maximum holdings are considered to be on target, in terms of good corporate governance. It is considered that a shareholder should be considered significant if in possess of at least 1% of the share capital or voting rights. On this basis, abstention is recommended.

Vote Recommendation: *Abstain*

BM&F BOVESPA SA AGM - 30-03-2015

4. *Approve Remuneration Policy*
It is proposed to approve compensation for Directors and Management for 2015. It is regrettable that the Company bundled two compensations so different in nature.
It is proposed to cap the remuneration for the Board at BRL 8.3 billion in aggregate, including long term incentives (against best practice) and for Executives at RBL 37.56 billion. The proposed variable remuneration for executives correspond to up to seven time the fixed portion, which is deemed excessive. The Company offers also pension contributions to one executive at the Company, yet the value of pension contributions correspond to approximately 20% of the total aggregate executive compensation. No individual disclosure was made available. Pension contributions of this weight are considered to be an excessive supplementary compensation unrelated to performance and as such they raise serious concerns over the Company's remuneration structure. There is lack of disclosure with respect of targets and measurable criteria for variable remuneration, which prevents shareholders from making an informed assessment. Based on excessive caps against lack of disclosure for quantifiable targets an oppose vote is recommended.

Vote Recommendation: *Oppose*

BANK OF MONTREAL AGM - 31-03-2015

1c. *Elect George A. Cope*
Non-Executive Director. 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: *Abstain*

1g. *Elect Ronald H. Farmer*
Non-Executive Director. 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: *Abstain*

1i. *Elect Lorraine Mitchelmore*
Non-Executive Director. There are concerns regarding her aggregate time commitments.

Vote Recommendation: *Abstain*

1j. *Elect Philip S. Orsino*
Non-Executive Director. 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: *Abstain*

1k. *Elect Martha C. Piper*
Non-Executive Director. Not considered independent as she has been on the Board for more than nine years. There is insufficient independent representation on the Board.

Vote Recommendation: *Abstain*

1l. *Elect J. Robert S. Prichard*
Non-Executive Chairman. Not considered independent as he has served on the Board for more than nine years. In addition, there are concerns regarding his aggregate time commitments. There is insufficient independent representation on the Board.

Vote Recommendation: *Abstain*

2. *Appoint the auditors*
KPMG LLP proposed. The non-audit fees were 6.94% of audit and audit related fees during the year under review. Non-audit fees over a three year basis were 7.08% of audit and audit related fees. The current auditor has been in place for more than ten years. There are concerns that failure to regularly rotate the audit firm can compromise the independence of the auditor. An abstain vote is recommended.

Vote Recommendation: *Abstain*

3. *Advisory vote on executive compensation*
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: CDB. Based on this rating, it is recommended that shareholders oppose.

Vote Recommendation: *Oppose*

5. *Shareholder Proposal 2: Abolish stock options over a five-year period and replace them with a form of compensation based on the institution's long term performance*
Proposed by The Mouvement d'éducation et de défense des actionnaires (MÉDAC). The Proponent requests the Board of Directors to abolish stock options as a means of compensation and replace them with a form of compensation focused on the Company's long-term performance. The Proponent argues that variable compensation promotes excessive risk taking and these awards contributed to a constant increase in compensation. The Board recommends shareholders oppose the proposal and supports that the Company's executive compensation program has a balance mix of compensation consisting of short, mid and long-term incentives. Long-term incentives include deferred share units and stock options encouraging alignment between management and shareholders interests. In addition, the Board argues that in 2014, stock options were reduced to no more than than 10 percent of variable compensation and these awards were available only to executive and senior vice president.
It is viewed that stock options can potentially be an inappropriate form of long-term incentive on the basis that rises in shareprice may be due to factors external to the management's control, such as macroeconomic or regulatory factors, and also because increases in share price which are below acceptable performance levels can lead to significant payouts. However, only a small portion of the compensation package is made of stock-options, and the Board has been reducing its use. As the proponent does not ask for a meaningful alternative to stock options, such as performance-based restricted share grants, an abstain vote is recommended.

Vote Recommendation: *Abstain*

4 Appendix

The regions are categorised as follows:

ASIA	China; Hong Kong; Indonesia; India; South Korea; Laos; Macao; Malaysia; Philippines; Singapore; Thailand; Taiwan; Papua New Guinea; Vietnam
SANZA	Australia; New Zealand; South Africa
EUROPE/GLOBAL EU	Albania; Austria; Belgium; Bosnia; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; France; Finland; Germany; Greece; Hungary; Ireland; Italy; Latvia; Liechtenstein; Lithuania; Luxembourg; Moldova; Monaco; Montenegro; Netherlands; Norway; Poland; Portugal; Spain; Sweden; Switzerland
JAPAN	Japan
USA/CANADA	USA; Canada; Bermuda
UK/BRIT OVERSEAS	UK; Cayman Islands; Gibraltar; Guernsey; Jersey
SOUTH AMERICA	Argentina; Bolivia; Brazil; Chile; Colombia; Costa Rica; Cuba; Ecuador; El Salvador; Guatemala; Honduras; Mexico; Nicaragua; Panama; Paraguay; Peru; Uruguay; Venezuela
REST OF WORLD	Any Country not listed above

The following is a list of commonly used acronyms and definitions.

Acronym	Description
AGM	Annual General Meeting
CEO	Chief Executive Officer
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation
EGM	Extraordinary General Meeting
EPS	Earnings Per Share
FY	Financial Year
KPI	Key Performance Indicators - financial or other measures of a company's performance
LTIP	Long Term Incentive Plan - Equity based remuneration scheme which provids stock awards to recipients
NED	Non-Executive Director
NEO	Named Executive Officer - Used in the US to refer to the five highest paid executives
PLC	Publicly Listed Company
PSP	Performance Share Plan
ROCE	Return on Capital Employed
SID	Senior Independent Director
SOP	Stock Option Plan - Scheme which grants stock options to recipients
TSR	Total Shareholder Return - Stock price appreciation plus dividends

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Regulated by the Financial Conduct Authority
Version 1

Local Authority Pension Fund Forum

QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2015

Local Authority Pension Fund Forum

Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, LAPFF brings together a diverse range of local authority pension funds in the UK with combined assets of over £150 billion, www.lapfforum.org.

ACHIEVEMENTS

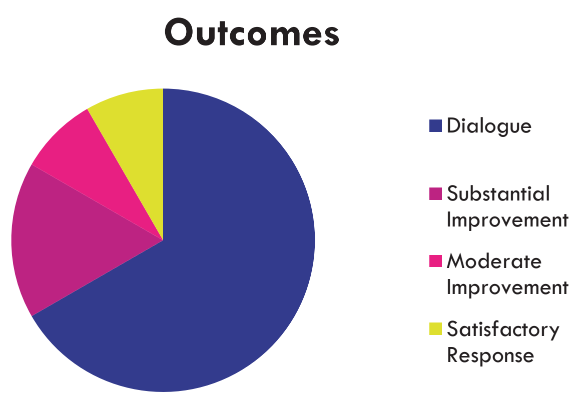
- The boards of **Shell**, and **BP** recommended shareholders support the resolutions filed by a number of LAPFF member funds in conjunction with the Aiming for A coalition of which LAPFF is part. The resolutions addressed 'strategic resilience to 2035 and beyond' focussing on carbon management, strategy and disclosure. For a company to recommend voting in favour of a shareholder resolution is unprecedented in the UK and reflects the positive nature of engagement undertaken by the coalition.
- **Societe Generale** announced in 2014 the separation of the roles of Chairman and Chief Executive. LAPFF has met regularly with the company to discuss this concern since 2010. This issue was also raised at a meeting with **Total,** in the context of succession planning. Discussion further explored how carbon management considerations influence business strategy, particularly on capex plans for marginal oil reserves.
- Subsequent to collaborative engagement in 2014, in early 2015 **Wilmar** revealed that it has fully mapped its supply chain, making public all its suppliers in Indonesia and Malaysia. This improved transparency should allow investors to understand better how well the company is implementing supply chain sustainability practices.
- LAPFF's participation in the Sustainable Palm Oil Manifesto was one prompt for Malaysian palm oil trader **Kuala Lumpur Kepong**'s announcement in January 2015 that it will begin to use the industry standard definition of High Carbon Stock (HCS) forests developed by The Forest Trust, Golden Agri-Resources and Greenpeace. Another Manifesto member, **IOI**, has publicly committed to applying its sustainable palm oil policy to its subsidiaries and trading partners, as well as its direct operations.
- The Forum is already planning its fringe meeting programme for the 2015 party conference season on the following dates: *Lib Dems* in Bournemouth, on Sunday 20th September at 6.00pm in the evening fringe; *Labour* in Brighton on Monday 28th September at 1.00pm at the lunch fringe; and *Conservative* in Manchester on Monday 5th October at 8.30am in the breakfast fringe.
- LAPFF is also actively considering the establishment of an All-Party Parliamentary Group on the Local Government Pension Scheme, following the 2015 General Election. This will provide the Forum with a leading voice amongst the new House of Commons and the Lords.
- A meeting with the Forum's third largest European holding, **Novartis**, explored board independence and executive remuneration in the context of new Swiss governance regulation.

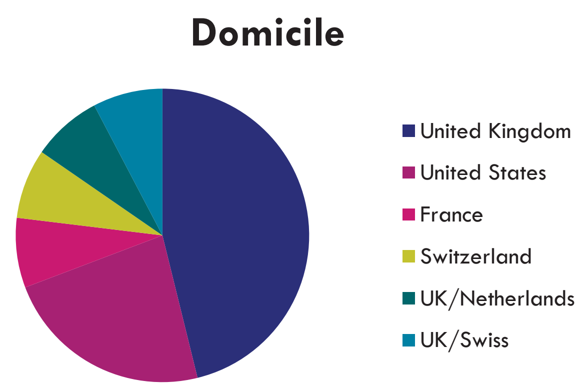
- LAPFF welcomed its newest members, **Suffolk County Council Pension Fund**, **Powys County Council Pension Fund** and **Strathclyde Pension Fund**, taking LAPFF membership to 64 funds.

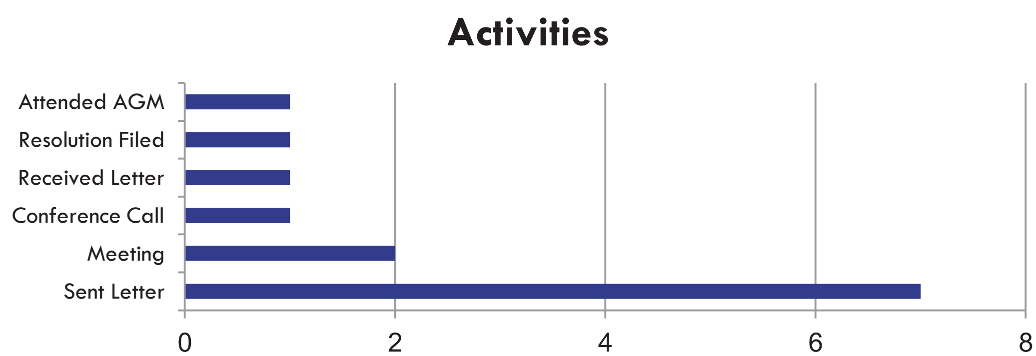
ENGAGEMENT SUMMARY

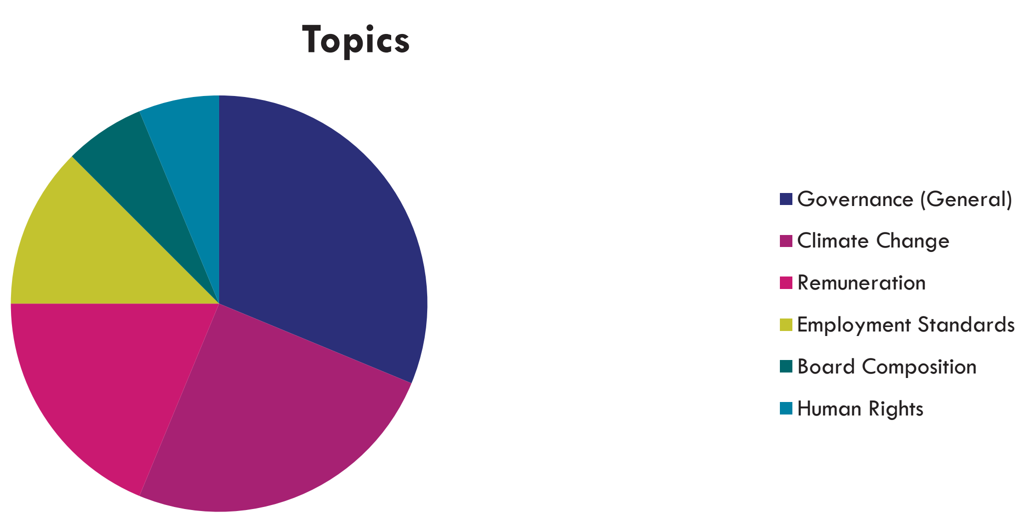
JANUARY TO MARCH 2015

The Forum engaged with **13 companies** over the period









COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

LAPFF co-signed an international investor statement in a letter sent to the Italian government, to express concerns about a proposal that double voting rights be granted to shareholders who have owned their shares for over two years. Although the measure was intended to prevent short-termism, concerns were raised that certain shareholders would benefit at the expense of others as has been the case in France where this approach has been in place for a number of years. Here predominantly controlling shareholders have benefitted, often at the expense of minority shareholders.

Italy has had best practice in this area thanks to the Draghi Law of 1998, which requires a two-thirds majority of votes of special meeting resolutions to allow loyalty shares. The proposed changes called for a simple majority to approve double voting rights. The letter asked the Italian government to allow a sunset clause to set in so that the simple majority rule did not take effect. In early February, the Italian government capitulated to investor pressure and decided to invoke the sunset clause thus scrapping the proposal on double voting rights.

PROMOTING GOOD GOVERNANCE

Executive Pay

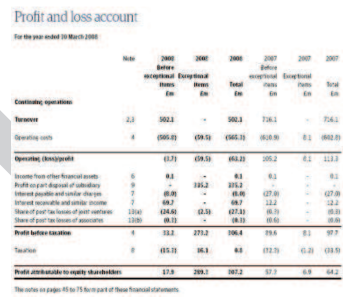
LAPFF has written to Tesco linking the issue of executive remuneration to good governance. It has come to light that the company does not appear to employ 'malus' provisions, which has been especially problematic given the departure of staff with apparent roles in the company's accounting scandal. The Forum also contacted Hays and Centrica to seek feedback on its 'Expectations on Executive Pay' document.

Executive remuneration is currently a hot topic in Switzerland, with the final provisions of the new corporate governance law set to be implemented during 2015. As a result, both **Novartis** and **Nestlé** were keen to share with investors their respective approaches to implementing the new law. The 'Ordinance Against Excessive Pay', also known as the Minder Initiative, covers board election processes and remuneration. During 2014, provisions came into force to require the election of each board member individually, the direct election of the Chairman and individual members of the compensation committee. As of this year, Swiss companies will have to submit a binding resolution on board and executive remuneration.

A roundtable meeting of shareholders including LAPFF with the chairman of Nestlé explored the implications of the company's application of these new requirements and cited new areas in which the law could develop. Likewise, representatives from Novartis set out their intended implementation and actions. LAPFF had approached both companies as they are two of the most widely held companies amongst LAPFF portfolios in continental Europe. The meeting with Novartis thus offered the opportunity to explore other areas such as mergers and acquisitions, pay structures, the role of significant shareholders and the approach to drug patents in the developing world.

Reliable Accounts

In the wake of revelations that **Tesco** had misrepresented its accounts, LAPFF also requested a discussion with the company about a way forward from the company's accounting deficiencies. This request is part of LAPFF's broader strategy to push for improved accounting standards. In February 2015, LAPFF Chairman, Kieran Quinn, signed a joint letter to the Financial Times calling on the UK to favour a position of 'prudence' rather than one of 'neutrality' as the overriding principle in its accounting standards.



Profit and loss account

For the year ended 30 March 2008

	Note	2008 Before exceptional items £m	2008 Exceptional items £m	2008 Total £m	2007 Before exceptional items £m	2007 Exceptional items £m	2007 Total £m
Continuing operations							
Turnover	2,3	502.1	-	502.1	716.1	-	716.1
Operating costs	4	(505.8)	(59.5)	(565.3)	(610.9)	8.1	(602.8)
Operating (loss)/profit		(3.7)	(59.5)	(63.2)	105.2	8.1	113.3
Income from other financial assets	6	0.1	-	0.1	0.1	-	0.1
Profit on part disposal of subsidiary	9	-	335.2	335.2	-	-	-
Interest payable and similar charges	7	(8.0)	-	(8.0)	(27.0)	-	(27.0)
Interest receivable and similar income	7	69.7	-	69.7	12.2	-	12.2
Share of post tax losses of joint ventures	13(a)	(24.6)	(2.5)	(27.1)	(0.3)	-	(0.3)
Share of post tax losses of associates	13(b)	(0.3)	-	(0.3)	(0.6)	-	(0.6)
Profit before taxation	4	33.2	273.2	306.4	89.6	8.1	97.7
Taxation	8	(15.3)	16.1	0.8	(32.3)	(1.2)	(33.5)
Profit attributable to equity shareholders		17.9	289.3	307.2	57.3	6.9	64.2

The notes on pages 45 to 75 form part of these financial statements

MANAGING ENVIRONMENTAL RISK

Energy and Environmental Risk

In the first two months of 2015, both **Shell** and **BP** announced their advice to shareholders to support 'strategic resilience' resolutions filed by LAPFF members as part of the Aiming for A coalition. Such recommendations from companies where resolutions have been filed by shareholders are unprecedented in the UK and extremely rare in other markets. The resolutions call for disclosures on ongoing operational emissions management, asset portfolio resilience to the International Energy Agency's scenarios, low carbon energy research and development and investment strategies, relevant strategic key performance indicators and executive incentives and public policy positions relating to climate change.

A number of these issues were discussed when Cllr Rose met with members of the sustainability and legal teams of **Total.** How the company viewed fracking in its business strategy was also discussed. The sad loss of the company's Chairman and CEO in a plane crash in late October 2014, was covered in discussions on board succession planning and the separation of powers. Any project developments in Western Sahara are yet to be approved, but the company set out its views on how to engage with local communities in the area.

During 2014, LAPFF was part of a coalition that encouraged palm oil providers to improve the traceability of their palm oil to prevent deforestation and inappropriate exploitation of land. One company contacted was **Wilmar**, which in early 2015 revealed that it has fully mapped its

supply chain. The company has made public all of its 800 suppliers in Indonesia and Malaysia. This improved transparency should allow investors to understand better how well the company is implementing supply chain sustainability practices. LAPFF's participation in the Sustainable Palm Oil Manifesto has led to Malaysian palm oil trader **Kuala Lumpur Kepong**'s announcement in January 2015 that it will begin to use the industry standard definition of High Carbon Stock (HCS) forests developed by The Forest Trust, Golden Agri-Resources, and Greenpeace. This commitment should help to further the coalition's commitment to a moratorium on clearing HCS areas and works toward a No Deforestation approach previously eschewed by the coalition. Building on this development, another Manifesto member, **IOI**, which controls an estimated 10.5% of the global palm oil trade, has publicly committed to applying its sustainable palm oil policy to its subsidiaries and trading partners, as well as its direct operations.

TARGETING SOCIAL ISSUES

Employment Standards and Practices

The IndustriALL federation of trade unions approached LAPFF about a conference call on a campaign to have **Rio Tinto** improve its labour and community relations practices. Executive members, Rodney and Denise Le Gal, listened to union concern about a practice at Rio Tinto called 'direct engagement' between management and workers which although is generally supported, even by unions, concern was expressed that this policy at Rio Tinto is masking an attempt by the company to exclude unions from discussions pertaining to work conditions and labour relations. With regard to community relations, unions are concerned that Rio Tinto is failing to obtain free prior and informed consent, especially from Indigenous communities, where the company engages in projects. This engagement was

helpful as LAPFF prepares for the Rio Tinto AGM, although some of the claims made on the call still need to be substantiated with more compelling evidence. Further research will be undertaken to determine the weight of the claims and whether they should be used in engagement with Rio Tinto.

Social and Reputational Risks

LAPFF's Cllr Richard Greening attended the **Lonmin** AGM, where he asked the Board about the implementation of the recommendations from the South African Human Rights Commission's report from October 2014 to improve labour and community relations in the wake of the company's Marikana mine disaster in 2012. Lonmin endured a debilitating five

month strike during 2014, but proposed solutions to the company's labour concerns have been linked more broadly to its community engagement approach. In response to Cllr Greening's question, Lonmin CEO Ben Megara outlined how the company had engaged with the South African Human Rights Commission to work on a solution, part of which is a Five Point Plan to resolve social investment issues, such as the company's role in promoting education and providing housing for the community in which it operates. In addition to formally recognising the Association of Mineworkers and Construction Union (AMCU) and employing the relatives of Marikana victims, the Bapo ba Mogale community now owns 2.4% of Lonmin's share capital after the company made a royalty payment to the community and allocation to the Bapo trust in line with its commitment to meet South Africa's Black Economic Empowerment requirement.

THE FORUM IN THE NEWS

LAPFF Press Releases on the Shell and BP resolutions
http://www.lapfforum.org/

BP and Shell shareholder resolutions
Guardian, Independent, Financial Times, Courier, Investment Week, Professional Pensions, Blue and Green Tomorrow, Fund Web, Forbes, Local Government Chronicle, Investment & Pensions Europe

LAPFF G20 tax transparency
Responsible Investor

IFRS and Reliable Accounts
Financial Times

NETWORKS & EVENTS

The LAPFF Chairman, Cllr Quinn travelled to Scotland to meet with new LAPFF executive committee member Barney Crockett of North East Scotland Pension Fund, as well as visiting Cllr Paul Rooney chair of Strathclyde Pension Fund, who subsequently joined the Forum.

Novethic Conference: Cllr Greening addressed a conference on investors, climate and low carbon finance in Paris, setting out LAPFF's position on corporate carbon management.

LAPFF representatives also attended a number of other events including a **30% Club Investor** Group meeting focussed on board refreshment; a Pensions Infrastructure Platform seminar reviewing the platform one year on and talks on Embedding Global Markets relating to the governance role of investors on Human Rights and on environmental protection legal developments relating to Rio Tinto's role in the unrest in Bougainville, Papua New Guinea.

COMPANY PROGRESS REPORT (new companies in bold)

Company	Topics	Activity/Outcome	Domicile
Total	Carbon management	Meeting/Moderate Improvement	France
BP	Carbon management	Resolution/Substantial Improvement	United Kingdom
Associated British Foods	Board Composition	Letter/Satisfactory Response	United Kingdom
Lonmin	Employment Standards	Attended AGM/Dialogue	United Kingdom
Shell	Carbon management	Resolution/Substantial Improvement	UK/Netherlands
Microsoft	General Governance	Letter/Dialogue	United States
Tesco	Remuneration/Accounts	Letter/Dialogue	United Kingdom
Novartis	General Governance	Meeting/Dialogue	Switzerland
Centrica	Executive Pay	Letter/Dialogue	United
Amazon	Governance/Employment Standards	Letter/Dialogue	United States
Hays	Remuneration	Letter/Dialogue	United
AstraZeneca	Mergers & Acquisitions	Letter/Dialogue	United States
Nestlé	General Governance/ Remuneration	Meeting/Dialogue	Switzerland

Local Authority Pension Fund Forum Members

Aberdeen City Council
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
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
Haringey LB
Harrow LB
Hounslow LB
Islington LB
Lancashire County Pension Fund
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
Powys County Council Pension Fund
Rhondda Cynon Taf
Shropshire Council
Somerset CC
South Yorkshire Integrated Transport Authority
South Yorkshire Pensions Authority
Southwark LB
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk County Council Pension Fund
Surrey CC
Teesside Pension Fund
Tower Hamlets LB
Tyne and Wear Pension Fund
Waltham Forest LB
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

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

Report to the Local Authority Pension Fund Forum
Business Meeting
21 January 2015

Local Authority Pension Fund Forum

Agenda Item: 12

LAPFF Mentoring Scheme

Summary

- In July, LAPFF member, Wiltshire County Council Pension Fund, requested that LAPFF consider providing mentors to LAPFF member local authority pension fund investment officers and managers on working in the Pension Industry.
- The recommendation that LAPFF source and provide such mentors for LAPFF member pension funds' investment officers and managers was considered and agreed by the September 2014 LAPFF executive meeting
- It was also agreed that in supporting the initiative there should be a structured approach to mentoring, and a governance structure put in place. This would involve a training process and asking mentors to come forward and LAPFF would oversee the mentoring and partnering arrangements.

Recommendations

- That members review and approve the proposed mentoring scheme.
- That the scheme is widened to include councillors or trustee equivalents if there is a demand for this.

Report Origination: PIRC Limited
Report Author: Janet Cooper, HR Consultant
Email:Janet.cooper@pirc.co.uk

 Private & Confidential

1. Introduction/Programme Outline

1.1. What is it?

This initiative is intended to link people new into the pension industry, or those who feel that they could benefit from regular contact with more experienced practitioners, with people who are experienced and who can offer professional support and guidance to others. LAPFF's role is to enable these links to be made and, as far as possible, to ensure that people are paired up appropriately.

1.2. Why is this scheme being introduced?

LAPFF was approached by a member to develop such a programme. It is considered it will be a benefit to its members, the pension industry profession and, indirectly, to LAPFF itself.

Some of the benefits include:
Benefits to Individuals
- Helps individuals find development opportunities to bridge experience and skill gaps
- Helps individuals build relationships with experienced, positive role models in the profession
- Provides support, guidance and assistance to professionals working in regional locations

Benefits to Mentors
- Opportunity to contribute to overall standards in the profession
- Opportunity to contribute to the aims of LAPFF
- Provides a challenging learning opportunity for the mentor

Benefits to LAPFF
- Practical, early response to senior industry forum data
- Supports LAPFF mission to support practitioners
- Networking and social aspects raise LAPFF profile in positive way

2. **Who will be involved in the scheme?**

2.1. People who nominate to be in the scheme will be paired according to work history and, as far as can be ascertained, personal and professional goals. In general, less experienced people will be paired with more experienced people.

It is envisaged that the scheme could also be open to councillors and that the pairings will ensure councillor is paired with councillor and office with officer. One LAPFF executive councillor member is already involved in mentoring another councillor and could be approached for input into the proposal

3. How will the scheme work?

3.1. *Applications*

People will fill in a short application form, detailing their work history, personal and professional attributes and the sort of person they would like to be paired with. Applicants will then be paired with a suitable partner based on this information.

3.2. *Introductory Workshop*

All mentors and mentees will be expected to attend a breakfast introductory workshop on a date to be agreed, where details of the scheme will be presented.

3.3. *Follow up meetings*

For the most part, mentors and mentees will work out between themselves how and when they will contact each other. There will be a get together mid-year for all participants and a final gathering to evaluate the scheme.

3.4. *Contact between mentors and mentees*

The frequency and mode of contact is entirely up to each pair but is recommended to be approximately every four to six weeks. It is suggested that a variety of strategies are used, including face-to-face meetings, phone and email.

4. What happens if the pairs are not suited?

4.1. This is a voluntary participation scheme and, as will be pointed out in the introductory workshop, there will be no compulsion to ‘see it through’ if, for any reason, you don’t get along with your mentor or mentee. There will be a procedure in place to deal with this unlikely scenario.

5. Timetable and workplan implications

5.1. Expressions of interest in the scheme will be called for following the January 2015 Business meeting. A workshop will be held on date for mentors and mentees to explain the scheme. There will be an evaluation of the scheme at the end of the year.

5.2. Other elements of the scheme that is to be provided by PIRC will be the introductory session, co-ordination of pairing individuals in conjunction with a chosen advisor, availability for advice to new mentors/mentees, and the final evaluation.

Appendix 1

Establishing a Mentoring Programme

"(Mentoring is) A deliberate pairing of a more skilled or experienced person with a lesser skilled or experienced one, with the agreed-upon goal of having the less experienced person grow and develop specific competencies." [1]

"A mutually beneficial learning partnership in which a more experienced practitioner (a mentor) takes an active and nurturing role in assisting a less experienced practitioner (a mentee) to attain specific learning or professional development goals." [2]

Components of a Mentoring Programme
The three main components required are (i) the mentor, (ii) the mentee, and (iii) their relationship. The purpose of the programme is to encourage the professional development of the mentee through the guidance and experience of the mentor.

The Mentor
An individual whose experience makes them an asset to those less experienced. The mentor will typically have a depth and breadth of knowledge and access to a wide network of contacts in the workplace, profession or industry that will allow them to assist in the professional (or personal) development of the mentee.

The Mentee
An individual who is less experienced but who wishes to develop professionally (or personally). The relationship with a mentor allows them to expand their knowledge of their workplace, profession or industry, develop their contact networks and make informed career choices.

The Relationship
Most mentoring relationships are informal and occur without the conscious knowledge of the participants – there is a long history of this happening. In a more formal programme, individuals can volunteer to be involved as a mentor or mentee – formal programmes are a more recent development. Generally speaking mentors should not have line management or evaluation responsibilities for the mentee.

[1] Murray M & Owen M, 1991, Beyond the Myths and Magic of Mentoring: How to Facilitate an Effective Mentoring Program, Jossey-Bass Inc., San Francisco.

[2] Adapted from: Martin G, unknown, Creating Effective Mentoring Partnerships – A Professional Development Program for Teachers, Centre for Excellence in Teaching, Fremantle, Western Australia.

Benefits of Mentoring for a Mentee[3]

The benefits can vary widely depending on the experience of the mentee but are generally agreed to include the following:

- Access to a role model
- Improved knowledge of the organisation, and /or industry Increased self-esteem, confidence and sense of self-worth
- Extended professional and personal networks
- The confidence to change and implement change
- Improved people management skills
- Improved listening and communication skills
- The confidence to set and achieve performance goals
- Having someone to talk openly to
- Being more ordered and reflective rather than rushing into things
- Having a wider perspective on the impact of their actions
- Being less ruled by feelings and more able to cope with difficult situations
- Opening up additional ways of thinking

Benefits of Mentoring for the Mentor[4]

Mentors can report the following benefits:

- Increased personal and professional satisfaction
- Improvement of management and interpersonal skills
- Development of new contacts and networks through the mentees
- Recognition as a 'wiser' or 'experienced' individual
- Opportunity to contribute to the overall standards in the profession
- Opportunity to contribute to the aims of LAPFF

Benefits of Mentoring for LAPFF

A mentoring programme can result in:

- Development of a 'learning organisation' culture
- Increased organisational awareness
- Support of LAPFF's mission to support practitioners
- Raised LAPFF profile through networking and social events

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[3] Mosquera-Pardo A, 2001, Mentoring Program Co-ordinators Workbook, Outside the Square Solutions, Perth, Western Australia.
[4] Ibid

Appendix 2: The Mentoring Relationship

Mentor/Mentee Roles and Responsibilities

Mentor Responsibilities:

- Meet regularly with the mentee – face-to-face, phone, email
- Maintain strict confidentiality
- Listen and give feedback/guidance
- Monitor, review, critique, and discuss potential actions; do not just expect performance or give answers
- Reinforce relationship between employee and supervisor
- Introduce mentee to professional networks
- Provide coaching and advice on communication and managing professional relationships
- Explore career development opportunities and challenges

Mentee Responsibilities:

- Meet regularly with mentor – face-to-face, phone, email
- Maintain strict confidentiality
- Ask for and give feedback
- Take responsibility for own growth and success
- Obtain permission from supervisor if leaving work location during work hours to participate in Mentoring Program activities
- Maintain an emphasis on enquiry/learning

Suggested Discussion Topics

It has been show that conversations early in the relationship have a significant bearing on what is achieved. Here are some suggestions for topics for early conversations between mentors and mentees.

- The 'Career Landscape' what kinds of opportunities exist; what are employers looking for? How those opportunities are best identified?
- Key strengths and development areas for the mentee. Experience profile/skills of both parties.
- Finding common ground in professional interests; work projects, reading/research, etc.
- Exploring views on contemporary topics, e.g. engagement practices, workforce diversity, ageing population, legislative changes and leadership practices.

These conversations can help to identify key topics of interest for both mentor and mentee, seeding conversations about what might be achieved in the relationship.

Professional Development

Many mentees have professional development and career advancement as primary objectives of such relationships. Here are some suggested areas of focus/enquiry to get the conversations going:

For Mentors	For Mentees
What are the mentee's career goals? -Do they seem realistic? -What further knowledge/experience would they need to achieve these goals? -Does their current job role support realization of these goals?	What are your career goals? -Do they seem realistic to you? -What further knowledge/experience would you need to achieve these goals? -Does your current job role support realization of these goals?
How does the mentee perceive themselves? Does that perception match other information/observations?	What is your current perception of your performance as an HR professional? Is this supported by feedback from others?
Does the mentee have a career plan?	Do you have a career plan?
How could you support this plan?	How are you implementing this plan?
Is it consistent with career goals?	Is it consistent with career goals?

Planning and Conducting Meetings

Before the Meeting

- Consider time, place and mood. These elements have a significant impact on meetings and their effectiveness.
- Think about the needs of your mentor/mentee. What will you have to consider to meet those needs?
- Be clear about your objectives. Plan and discuss meetings, including topics and proposed conversations in advance.

During the Meeting

- Agree objectives and outcomes
- Take time to build relationships
- Consider formulating an agreement. For some, agreeing the following up front can make for more effective meetings:
  - Level of commitment
  - Schedules/timing constraints
  - Level of confidentiality
  - Planning activities
  - Reviewing the progress of the relationship; how to move on if it isn't working

After the Meeting

- Communicate: little and often works well for many. Many mentoring relationships flounder because of ‘losing touch’ or ‘time getting away’. Work at it!
- Debrief meetings over the phone a day or two after to allow time for reflection

Where to Get Help

The mentor/mentee network is a valuable source of advice from people in the same process. Remember to network at, and in between, LAPFF events. Use LAPFF. We are here to help. Initial contact can be made through TessaY@pirc.co.uk.

Appendix 3: Forms

The checklist below provides a description of the qualities that are most often thought to be conducive to successful mentoring. To use the checklist, read each statement and place a tick in the appropriate column which represents the degree to which the statement characterises the way you see yourself. There is no single 'ideal profile', but respondents who possess many of these qualities are likely to serve well as mentors.

Question		Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	Not applicable
1.	I see myself as being people-oriented; I like and enjoy working with other professionals						
2.	I am a good listener and respect my colleagues						
3.	I am sensitive to the needs and feelings of others						
4.	I recognise when others need support or independence						
5.	I want to contribute to the professional development of others and to share what I have learned						
6.	I am willing to find reward in service to someone who needs my assistance						
7.	I am able to support and help without smothering, parenting or taking charge						
8.	I see myself generally as flexible and willing to adjust my personal schedule to meet the needs of someone else						
9.	I usually am patient and tolerant when dealing with someone						
10.	I am confident and secure in my knowledge of the field and make an effort to remain up-to-date						
11.	I enjoy my job						
12.	I set high standards for myself						

	Question	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	Not applicable
13.	I am willing to release my own power or control when necessary						
14.	I am reliable and dependable						
15.	Overall, I see myself as a competent professional						
16.	I am able to offer assistance in areas that give others problems						
17.	I am able to explain things at various levels of complexity and detail						
18.	Others are interested in my professional ideas						

Mentor Application Form

Name	
Address	
Contact Details	**Phone** **Email**
Organisation	
Job Title	
Experience (in years)	

Relevant Biographical Information (E.g. work and education history, professional organisations and hobbies. You may attach a copy of your CV or resumé if you feel that already describes you well.)

What characteristics and attributes would you like to see in a person assigned as your mentee?
(In answering this you are thinking of the characteristics of a person that you feel you would be able to assist given your background, experience and manner)

What special skills, knowledge, characteristics, and/or attributes do you wish to highlight about yourself to help in the selection of an appropriate mentee? (Providing this information will assist in making a beneficial match between yourself and a mentee. E.g. you may be a 'big picture' person, your strengths may be in interpersonal skills, etc)

I am willing to mentor more than one person (please circle): Yes No If yes, how many?_______

____

______________________ __________________________________

Signature of applicant Date

Send completed application to:
Name Email

Mentee Application Form	
Name	
Address	
Contact Details	**Phone** **Email**
Organisation	
Job Title	
Experience (in years)	
Relevant Biographical Information (E.g. work and education history, professional organisations and hobbies. You may attach a copy of your CV or resumé if you feel that already describes you well.)	
What characteristics and attributes would you like to see in a person assigned as your mentor? (In answering this you are thinking of the characteristics of a person that you feel you would be able to assist given your background, experience and manner)	
What special skills, knowledge, and areas of professional interest do you wish to concentrate on in your development? (Providing this information will assist in making a beneficial match between yourself and a mentor. E.g. you may be a 'big picture' person, your strengths may be in interpersonal skills, etc.)	
Signature of applicant ____________ Date ____________	

Send completed application to:
Name Email

Pension Fund Committee
Meeting to be held on 5 June 2015

Electoral Division affected: All

Internal Audit Service Annual Report 2014/15 and Plan 2015/16
(Appendix A refers.)

Contact for further information:
Ruth Lowry, (01772) 534898

Executive Summary

For the year 2014/15, the Pension Fund Committee can take substantial assurance that the Lancashire Pension Fund operates a generally sound system of risk management, governance and internal control.

The annual report for 2014/15, incorporating an outline of the work planned for 2015/16, is included at Appendix A to this report.

Recommendation

The Committee is asked to consider the Internal Audit Service annual report for 2014/15 and approve the outline annual work plan for 2015/16.

Background and advice

The Internal Audit Service complies with the professional standards of the Chartered Institute of Public Finance and Accountancy, which established Public Sector Internal Audit Standards with effect from 1 April 2013. These are drawn from the Chartered Institute of Internal Auditors' International Professional Practices Framework, comprising a definition of internal auditing, a Code of Ethics, and International Standards.

The Public Sector Internal Audit Standards and supporting Local Government Application Note require a chief internal auditor to deliver an annual opinion and report that can be used to inform the Pension Fund's annual governance statement. The opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate the opinion, a summary of the work that supports the opinion, a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Lancashire County Council

Internal audit assurance

Internal audit assurance is stated in the following terms:

Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

Consultations

Not applicable.

Implications

Not applicable.

Risk management

This report supports the Audit and Governance Committee in undertaking its role, which includes providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
Not applicable.		

Reason for inclusion in Part II, if appropriate: Not applicable.

Appendix 'A'

Lancashire Pension Fund

Internal Audit Service annual report for 2015/ 2014 and annual plan for 2014/15

Lancashire County Council

1. Introduction

1.1. This report summarises the work that the county council's Internal Audit Service undertook during 2014/15 and the key themes arising in relation to the Pension Fund's internal control, governance and risk management. It also provides an outline of the internal audit work planned for 2015/16. It is made under the Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA), with which the Internal Audit Service conforms.

The role of internal audit

1.2. The Internal Audit Service is an assurance function that provides an independent and objective opinion on the adequacy and effectiveness of the council's control environment. The Public Sector Internal Audit Standards require the chief internal auditor to provide an opinion on the Pension Fund's control environment and a written report to those charged with governance, timed to support the annual governance statement. This report is based upon the work the Internal Audit Service performed during 2014/15.

1.3. An explanation of the scope of our work, management and internal audit's responsibilities, the basis of our assessment, and access to this report is set out in Annex A. The levels of assurance the Internal Audit Service provides are set out in Annex B.

2. Overall assessment of internal control, risk management and governance

2.1. On the basis of our programme of work for 2014/15 we can provide substantial assurance there is a generally sound system of internal control, risk management and governance designed to meet the Pension Fund's objectives, and controls are generally being applied consistently.

2.2. Management's responses to our work have been positive and action has been, or will be, taken where we have identified control issues.

Summary of assurance provided by the Internal Audit Service

2.3. We have fulfilled the work plan outlined in the report to the Pension Fund Committee in June 2014, which addressed administration of the Fund for its members, controls monitoring the Fund's investments, the Fund's accounting arrangements, and the renewal of the property fund mandate. We have provided full or substantial assurance over each of these areas.

Wider sources of assurance available to the Pension Fund

2.4. Assurance has also been provided to the Pension Fund by Grant Thornton as the Fund's external auditor. Grant Thornton issued its annual audit letter relating to 2013/14 in September 2014, and gave an unmodified opinion on the Fund's annual financial statements. A copy of the report is available at:

http://mgintranet/ieListDocuments.aspx?CId=183&MId=3104&Ver=4 (item 18). The external auditor's annual audit letter for 2014/15 is expected to be available in September 2015.

Implications for the Annual Governance Statement

2.5. On the basis of our work during 2014/15, we are aware of no issues that should be disclosed in the Fund's Annual Governance Statement.

3. Findings of internal audit work undertaken during the year

Administration of the Pension Fund in relation to its membership

3.1. We have provided substantial assurance that the Pension Fund is properly administered and is well controlled. We assessed the controls in place to manage a range of relevant risks and to ensure that:

- Eligible employees have been automatically enrolled into the pension scheme in accordance with the regulations;
- Only eligible employees are admitted to the pension scheme;
- Employees who opt-out and retirees are removed correctly from the pension scheme;
- Transfers in are processed correctly, the funds are received and employees correctly accrue service credit;
- Transfers out are processed correctly;
- Retirement payments are calculated and paid correctly;
- Death grants are calculated and paid correctly; and,
- Contributions are properly monitored.

The accounting system

3.2. We have provided substantial assurance over the operation of the accounting system supporting the Pension Fund, covering the following areas of control:

- Access rights are appropriate to job roles and are adequately supervised and authorised;
- The creation, amendment and disabling of codes on the general ledger are appropriately authorised;
- The system automatically prevents or corrects and reports debit/ credit imbalances, errors and invalid postings;
- The system provides appropriate hierarchies for all services, enabling the current position in respect of income and expenditure to be reported;
- Feeder files are posted and reconciled to the general ledger on a timely basis;
- Sub-ledgers are reconciled to the general ledger;
- Journal entries are properly processed and can be traced to the originators and reasons for posting; and,
- Holding or suspense accounts are regularly reviewed and cleared.

Investment management

3.3. We reviewed the Fund's arrangements for monitoring its investments in non-investment grade assets (secured loans, emerging markets, impaired credit) and infrastructure, to ensure that these investments remain appropriate and their performance meets targets. Since 2010 investments have been made in sixteen non-investment grade funds/ assets with a value of approximately £775 million and ten infrastructure assets with a value of approximately £315 million as at June 2014.

3.4. At the time of this work, a formal system was still being developed and investment analysts recruited, and we provided some additional suggestions to support this. Further audit work on this area will be undertaken during 2015/16.

3.5. However we provided full assurance over the re-tendering and procurement of a property fund investment manager. Controls were operated effectively to ensure that the tender was process operated in full compliance with Lancashire County Council, UK and European Union public procurement regulations, and proper practices.

4. Internal audit plan 2015/16

4.1. The internal audit plan for 2015/16 will again focus on the administration of the Fund for its members, the core accounting system supporting it, and oversight of the investments supporting the Fund, as well as following up the actions taken in response to our work in 2014/15. We will specifically review the Fund's arrangements for monitoring its investments in non-investment grade assets as noted in paragraph 3.4 above.

4.2. At this point, we have not planned specifically to address any further changes to the operation of the Fund (following, for example, the significant change to the calculation of members' pensions during 2014/15). However we are aware that a number of significant developments are being considered that could significantly affect the Pension Fund and our work in future years, and that the Pension Fund's governance arrangements will in particular be affected by the creation of the new Pension Board. We will of course undertake additional work as required if the need is identified during the year.

5. Internal audit quality assurance and improvement

5.1. In order to place reliance on the work of the Internal Audit Service and, in conformance with the Public Sector Internal Audit Standards, it is important that the Pension Fund receives assurance regarding its quality The Internal Audit Service therefore undertook a self-assessment in 2012 against the professional standards in place during at the time (the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006). This self-assessment was verified externally by the Council's external auditor, and the Audit Commission's findings were reported to the Audit and Governance Committee in September 2012.

5.2. The Audit Commission concluded that:

'the Council's Internal Audit function meets each of the eleven standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government.

'Our review has also concluded that the Internal Audit function demonstrates many of the characteristics of best practice as set out in the CIPFA Statement on the role of the Head of Internal Audit and The Excellent Internal Auditor. In particular, the Internal Audit work programme includes proactive fraud awareness work, thematic and corporate reviews to promote good governance across the organisation, and the annual plan is based on a comprehensive risk assessment process.'

5.3. Like the rest of Lancashire County Council, the Internal Audit Service will be subject to further restructuring, and a full externally validated reassessment against the Public Sector Internal Audit Standards published in 2013 will be necessary in due course.

Scope, responsibilities and assurance — Annex A

Approach

A.1 In accordance with the Public Sector internal Audit Standards, the scope of internal audit encompasses all of the Pension Fund's operations, resources and services including where they are provided by other organisations on its behalf.

Responsibilities of management and internal auditors

A.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.

A.3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to you as they have become known to us, without undue delay, and have worked with you to develop proposals for remedial action.

A.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

A.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of our assessment

A.6 Our opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken during the period in accordance with the plan approved by the Pension Fund Committee. We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

Limitations to the scope of our work

A.7 No limitations have been placed on the scope or extent of the work we carried out during the year.

Limitations on the assurance that internal audit can provide

A.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

A.9 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Access to this report and responsibility to third parties

A.10 This report has been prepared solely for Lancashire Pension Fund. It forms part of a continuing dialogue between the Internal Audit Service, the senior management of the Fund, and the Pension Fund Committee. It is not therefore intended to include every matter that came to our attention during each internal audit review.

A.11 This report may be made available to other parties, such as the external auditors. No responsibility is accepted to any third party who may receive this report for any reliance that may be placed on it and, in particular, the external auditors must determine the reliance placed on the work of the Internal Audit Service.

Audit assurance levels — Annex B

The assurance we can provide over any area of control falls into one of four categories as follows:

Full assurance: there is a sound system of internal control which is adequately designed to meet the service objectives and is effective in that controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, adequately designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service's objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the service objectives.