

## Lancashire County Council

### Pension Fund Committee

Friday, 27th November, 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. Apologies**

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

Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.

**3. Minutes of the Meeting held on 10 November 2015** (Pages 1 - 4)

To be confirmed, and signed by the Chair.

**4. Exclusion of Press and Public**

The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.

#### Part II (Not open to Press and Public)

**5. Fund Performance Report** (Pages 5 - 10)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972.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

**6. Investment Panel Report** (Pages 11 - 26)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972.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

**7. Lancashire and London Pensions Partnership - Report on Progress of Documentation** (Pages 27 - 36)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972.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

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

**8. Progress on Delivering the Lancashire County Pension Fund Strategic Plan** (Pages 37 - 48)

**9. Lancashire County Pension Fund Interim Administration Report** (Pages 49 - 62)

**10. Responsible Investment** (Pages 63 - 86)

**11. Feedback from Committee Members on External Pension Fund Training Events and Conferences** (Pages 87 - 90)

**12. Urgent Business**

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

**13. Date of Next Meeting**

The next meeting of the Committee will be a special meeting and will be held on Friday 29 January 2016 at 10am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

County Hall  
Preston

I Young  
Director of Governance,  
Finance and Public Services



# Agenda Item 3

## Lancashire County Council

### Pension Fund Committee

**Minutes of the Meeting held on Tuesday, 10th November, 2015 at 10.00 am  
in Cabinet Room 'D' - The Henry Bolingbroke Room, County Hall, Preston**

#### **Present:**

County Councillor Kevin Ellard (Chair)

#### **County Councillors**

L Beavers	M Parkinson
D Borrow	A Schofield
G Dowding	K Sedgewick
J Fillis	D Whipp
J Oakes	B Yates
M Otter	

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

Paul Crewe, (Trade Union Representative)  
Councillor Peter Rankin, (Lancashire Leaders' Group Representative)  
Councillor Edward Pope, (Lancashire Leaders' Group Representative)  
Councillor Mark Smith, (Blackpool Council Representative)  
James Tattersall, (Trade Union Representative)  
Councillor Ron Whittle, (Blackburn with Darwen Borough Council Representative)

#### **External Advisors**

Aoifinn Devitt  
Eric Lambert

#### **1. Apologies**

Apologies for absence were received from County Councillors Malcolm Barron, Janice Hanson, and David Westley; Councillor Mark Smith and Alastair Milloy.

#### **Announcement**

George Graham, Director, Lancashire County Pension Fund informed the Committee that Mike Jensen, Chief Investment Officer, had been named number 52 in the Chief Investment Officer magazine's Top 100 list of global Chief

Investment Officers. The Committee expressed its congratulations to Mike Jensen.

**Resolved:** - That Mike Jensen, Chief Investment Officer, be congratulated on his inclusion in the Chief Investment Officer magazine's Top 100 list of global Chief Investment Officers.

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

County Councillor David Borrow declared a non-pecuniary interest as the Lancashire County Council shareholder representative on the Board of the Lancashire and London Pensions Partnership.

## **3. Minutes of the Meeting held on 30 September 2015**

**Resolved:** - That the minutes of the meeting held on 30 September 2015 be confirmed as a true and accurate record and be signed by the Chair.

## **4. Urgent Business**

There was no urgent business to be considered.

## **5. Date of Next Meeting**

The Committee noted that the next meeting of the Committee would be held on Friday 27 November 2015 at 10.00am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

The Chair informed the Committee that there would need to be two further special meetings of the Committee in early 2016. The first of these was likely to be held on Friday 29 January 2016 at 10am with the second being held in early March. Details would be circulated in due course.

## **6. 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.

## **7. Lancashire and London Pensions Partnership - Business Plan and Progress 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 setting out an update on the progress made on the development of a Lancashire and London Pensions Partnership (LLPP), including key issues such as the appointment of a Chair and non-executive directors and the submission of the application for registration to the Financial Conduct Authority. A draft business plan for the new business, which demonstrated the viability of the new company, was set out at Annex 'C' of the report.

Gareth Henty, PricewaterhouseCoopers (PWC), attended and updated the Committee on the work PWC was undertaking to advise the County Council on the proposals. This included the following three workstreams:

- Structure and Statutory Duties;
- Business Processes;
- The Outcome for Lancashire.

The Committee considered and discussed issues around governance, staffing structures and remuneration, proposals for the appointment of a Head of Fund, the impact of the forthcoming 2016 Actuarial Valuation, the role of the independent advisors and the importance of the LLPP retaining a public sector ethos.

The Committee requested further details of the remit of the LLPP Board and how that would impact the future role of the Committee and the Local Pension Board and it was agreed that this would be incorporated into one of the future scheduled briefings/workshops.

**Resolved:** - That recommendations (i) – (iv) as set out in the report, now presented, be approved.

I Young  
Director of Governance, Finance  
and Public Services

County Hall  
Preston





# Agenda Item 5

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

Document is Restricted



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# Agenda Item 6

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

Document is Restricted



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Document is Restricted





# Agenda Item 7

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

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## **Pension Fund Committee**

Meeting to be held on 27 November 2015

Electoral Division affected: None
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## **Progress on Delivering the Lancashire County Pension Fund Strategic Plan** (Appendix 'A' refers)

Contact for further information:

George Graham, (01772) 538102, Director, Lancashire County Pension Fund,  
[george.graham@lancashire.gov.uk](mailto:george.graham@lancashire.gov.uk)

### **Executive Summary**

The Committee approved the Fund's Strategic Plan at its meeting in March 2015. This report provides the Committee with a progress report on the delivery of the specific objectives set out in the Plan.

### **Recommendation**

The Committee is asked to note the progress made on the delivery of the Lancashire County Pension Fund Strategic Plan and to indicate any areas where it would like to see further reports made on the work due to be undertaken.

### **Background and Advice**

At its meeting in March 2015, the Committee approved the three year Strategic Plan for the Lancashire County Pension Fund. The plan is structured around the four dimensions that impact on the running of a successful pension fund:

- Governance
- Asset and Liability Management
- Administration, and
- Communication

Appendix 'A' provides an update on progress made against the various objectives set out in the plan over the first six months of the year.

### **Consultations**

N/A

**Implications:**

This item has the following implications, as indicated:

**Risk management**

N/A

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

Paper	Date	Contact/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A



## Appendix 'A'

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015
<p><b>Governance</b> Implement the new governance requirements including creating and supporting the Local Pension Board</p>	<ul style="list-style-type: none"> <li>• Assessment of new legislation and regulatory requirements;</li> <li>• Creation of appropriate structures;</li> <li>• LPB members elected and Chair appointed;</li> <li>• LPB meetings to commence by 31 July 2015;</li> <li>• Comprehensive and ongoing training of PFC and LPB members</li> </ul>	<ul style="list-style-type: none"> <li>• Independent review of Fund governance;</li> <li>• LPB in place, undertaking relevant work plan;</li> <li>• Positive assessment of PFC skills, knowledge, and effectiveness.</li> </ul>	<p>LPB in place by 1 April 2015</p> <p>Governance review by 31 December 2015</p> <p>Confirmation of new structures by 31 March 2016</p> <p>Ongoing member training</p>	<p>Pension Board operational</p> <p>Governance review commenced but report may be after December due to resource requirements of the LLPP partnership and the need for proposals to address the changed relationships brought about by LLPP</p> <p>More structured approach to member training initiated.</p>
<p>Put in place an effective workforce planning and development approach to provide increased capacity to be innovative and the ability to support individuals to realise their potential</p>	<ul style="list-style-type: none"> <li>• LCPF workforce development policy created;</li> <li>• Skills audit and requirements assessed;</li> <li>• Training needs assessment;</li> <li>• Coaching and mentoring provision;</li> <li>• Succession planning arrangements;</li> <li>• On the job training and formal training where required.</li> </ul>	<ul style="list-style-type: none"> <li>• Workforce development policy in place and communicated to all stakeholders.</li> <li>• Integration with PDR requirements;</li> <li>• TNA undertaken for each officer;</li> <li>• Training plans in place with a variety of methods employed;</li> <li>• Career ladder in place;</li> </ul>	<p>Workforce policy and career ladder by 30 September 2015</p> <p>TNA and training plans by 31 March 2016</p> <p>Mentoring established and operating by 31 March 2016</p>	<p>Limited progress on an overall strategic approach due to capacity constraints caused by LLPP work. However, on-going training and development is taking place as required.</p>

## Appendix 'A'

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015
		<ul style="list-style-type: none"> <li>• Mentoring sessions being held where appropriate.</li> </ul>		
Review the effectiveness of Fund governance	<ul style="list-style-type: none"> <li>• Assessment of decision-making processes</li> <li>• Policy and process review;</li> <li>• Links to compliance monitoring processes;</li> </ul>	<ul style="list-style-type: none"> <li>• Independent review including external audit and LPB;</li> <li>• Agreement and approval of revised processes;</li> <li>• Governance element incorporated into compliance monitoring.</li> </ul>	Governance review by 30 September 2015 PFC approval by 30 November 2015 Compliance monitoring programme in place by 1 April 2015	Governance review commenced but report may be delayed due to resource requirements of the LLPP partnership and the need for proposals to address the changed relationships brought about by LLPP Compliance monitoring programme in place and first report made to Pension Fund Committee on 30 <sup>th</sup> Sept 2015.
Continue to explore the potential opportunities arising from collaboration with other Funds within both Local Government Pension Scheme, and wider Pension Fund community	<ul style="list-style-type: none"> <li>• Take legal advice to create appropriate structure which is scalable;</li> <li>• Progress London Pension Fund Authority (LPFA) collaboration as first step on this journey.</li> <li>• Identify areas where collaboration may be beneficial.</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of appropriate vehicles and governance for pooling and collaboration;</li> <li>• Demonstration of appropriate cost/benefit analysis;</li> <li>• Ability for scaling to other interested parties.</li> </ul>	Decision on LPFA collaboration by 31st July 2015 Depending upon above, creation of appropriate vehicle by 31 March 2016	Initial decision taken on 2 <sup>nd</sup> July 2015. Progress on creating the new vehicles and achieving registration is in line with plan.

## Appendix 'A'

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015
Continue to develop and implement an effective compliance and monitoring programme	<ul style="list-style-type: none"> <li>• Finalisation of Compliance Manual;</li> <li>• Implementation of compliance monitoring programme including monthly, quarterly, and annual tests</li> <li>• Development of PFC reporting regime.</li> </ul>	<ul style="list-style-type: none"> <li>• Agreed Compliance Manual distributed to stakeholders;</li> <li>• Compliance monitoring programme in place and assurance reported/ actions planned.</li> </ul>	<p>Manual agreed by 31 March 2015</p> <p>Monitoring programme from 1 April 2015</p> <p>First assurance report to PFC June 2015</p>	<p>Initial LCPF Compliance Manual in place.</p> <p>Monitoring programme being undertaken.</p> <p>First assurance report based on information to the end of June to PFC 30 Sept 2015.</p>
Enhance current risk management processes	<ul style="list-style-type: none"> <li>• Ongoing assessment of existing and new risks;</li> <li>• Improved horizon scanning;</li> <li>• Linking of risk register to compliance programme;</li> <li>• Development of trend analysis.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing identification and updating of risk register;</li> <li>• Regular strategic planning and longer term perspective;</li> <li>• Transparency of risks and monitoring;</li> <li>• Enhanced reporting of risk reporting and internal control assurance.</li> </ul>	Risk approach to be enhanced on an ongoing basis throughout 2015/16	Limited enhancements made to the assessment and reporting processes, with a view to the fact that more fundamental change will take place when LLPP becomes operational.
<p><b>Asset and Liability Management</b></p> <p>Implement the recommendations of the Member Working Group on Responsible Investment</p>	<ul style="list-style-type: none"> <li>• Adherence to the UN Principles of Responsible Investment</li> <li>• Measurement of the quality of commitment to good governance of invested companies against a benchmark</li> </ul>	<ul style="list-style-type: none"> <li>• Sign off by the UNPRI organisation</li> <li>• Reporting of the benchmarking results to PFC and Fund stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Initially by May 2015 and annually thereafter</li> <li>• September 2015 as part of the Fund's Annual Report, then annually</li> </ul>	<p>Organisation signed up to UNPRI.</p> <p>Progress on benchmarking not as rapid as intended.</p>

## Appendix 'A'

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015
	<p>Measurement of the environmental impact of the Fund's investments</p> <p>Actively engage with the Local Authority Pension Fund Forum to further the Fund's RI objectives</p>	<ul style="list-style-type: none"> <li>Member and officer attendance at LAPFF meetings in order to influence the Forum's agenda</li> </ul>	<ul style="list-style-type: none"> <li>Regular attendance from June 2015.</li> </ul>	<p>The service will need to be procured and LCPFF is supporting the procurement process for a national framework for these services.</p> <p>Officers have begun attending the regular LAPFF Business Meetings.</p> <p>The costs of the officer taking a lead in this area are being shared with LPFA.</p>
<p>Develop a more structured approach to assessing the risks to the Fund posed by individual employers and identify appropriate asset allocations to reduce the risk to the Fund.</p>	<ul style="list-style-type: none"> <li>Undertake formal covenant reviews for each employer in the Fund.</li> <li>Review and assess the potential risks from the results.</li> <li>Identify appropriate asset allocations for different risk categories of employer to feed into 2016 post valuation Investment Strategy update.</li> </ul>	<ul style="list-style-type: none"> <li>Stratification of the whole employer base according to the risk posed to the Fund.</li> <li>Allocation of each strata of employer to a specific asset mix.</li> </ul>	<ul style="list-style-type: none"> <li>Covenant reviews completed by May 2016.</li> <li>Revised asset allocations agreed alongside the valuation process by February 2017.</li> </ul>	<p>Data gathering for covenant reviews currently being undertaken.</p> <p>PFC agreed to consult on use of results within the valuation at its September 2015 meeting.</p>

## Appendix 'A'

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015
<p>Completion of the 2016 Actuarial Valuation and identification of changes, if any, required in the Investment Strategy</p>	<ul style="list-style-type: none"> <li>• Provision of data to the Actuary at individual member level.</li> <li>• Agreement of key assumptions with the Actuary by the PFC</li> <li>• Engagement with employers on an ongoing basis throughout the process, but particularly as results become available.</li> <li>• Review of Investment Strategy in light of results.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance of stable contribution rates.</li> <li>• Actuary's assessment of the quality of the data provided.</li> <li>• Adoption of revised Investment Strategy by PFC</li> </ul>	<ul style="list-style-type: none"> <li>• Provision of data from April 2016.</li> <li>• Agreement of assumptions by PFC tbd in line with Actuary's timetable.</li> <li>• Feedback of results from September 2016.</li> <li>• Revised Investment Strategy to PFC Feb / March 2017.</li> <li>• Implementation of revised Rates and Adjustments Certificate from April 2017.</li> </ul>	<p>Planning commenced and initial consultation on the framework and key assumptions agreed by the PFC in September 2015.</p>
<p>Continue to explore the potential opportunities arising from collaboration with other Funds within both Local Government Pension Scheme, and wider Pension Fund community</p>	<ul style="list-style-type: none"> <li>• Finalise discussions with the LPFA on the benefits of pooling investments.</li> <li>• Identify other potential opportunities either to share expertise with other funds or to make appropriate investments alongside each other.</li> </ul>	<ul style="list-style-type: none"> <li>• Decision on the ALM Partnership with LPFA.</li> <li>• Opportunities identified and taken through to conclusion and then reported to PFC by the Investment Panel.</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership Decision July 2015.</li> <li>• Other opportunities and investments ongoing.</li> </ul>	<p>Decision to commit resource to the establishment of the LLPP made by PFC on 2<sup>nd</sup> July 2015. Project is progressing to plan. The Investment Team continue to look for projects which might be suitable for LGPS club type investment.</p>

## Appendix 'A'

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015
<p>Review and update of the 5 asset class investment strategies in order to ensure that they remain relevant to both the needs of the Fund and deliverable within market constraints.</p>	<ul style="list-style-type: none"> <li>• Formal review of progress against and the continuing relevance of each strategy by the Investment Panel.</li> <li>• Commissioning of revised strategies by the Investment Panel.</li> <li>• Consideration and approval of revised strategies by PFC.</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of proposals for change by PFC.</li> <li>• Achievement of target returns (and levels of volatility) by investments selected under the strategies.</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure Strategy for formal approval June 2015.</li> <li>• Equity and Private Equity to go to PFC during 2015/16</li> <li>• Property and Credit Strategies to go to PFC during 2016/17.</li> <li>• Infrastructure to go to PFC following review during 2017/18.</li> </ul>	<p>A consolidated strategy reflecting the fact that assets will largely be held within the LLPP structure will need to come to the PFC in quarter 1 of 2016.</p>
<p>Development and implementation of a Liability Management Strategy</p>	<ul style="list-style-type: none"> <li>• Agreement by Investment Panel and PFC on the degree to which the Fund should seek to manage its liabilities.</li> <li>• Adoption and implementation of approved strategy, including the appointment of any fund managers required.</li> </ul>	<ul style="list-style-type: none"> <li>• Adoption of agreed strategy by PFC.</li> <li>• Impact on the scale of the Fund's risk exposure specifically to:               <ul style="list-style-type: none"> <li>○ Long term interest rates</li> <li>○ Inflation</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Strategy agreed by the end of the 2015 calendar year.</li> <li>• Implementation during 2016/17.</li> <li>• Initial review at end of 2017/18.</li> </ul>	<p>Preparatory work on this continues. There is a need to consider whether, in the light of the change in actuarial approach for the 2016 valuation it would be better to delay this work until after the valuation.</p>

## Appendix 'A'

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015
<p><b>Administration</b></p> <p>Review and ensure compliance with the new TPR Code of Practice for Public Sector Pension Schemes</p>	<p>Undertake GAP analysis</p> <p>Act on results</p>	<p>Via a public statement of compliance. Target 100% compliance with the relevant regulations.</p> <p>No reported breaches of law</p>	<p>31 March 2016</p>	<p>Report will be made to the Local Pension Board at a meeting in 2016</p>
<p>Develop and implement a member and employer self-service strategies</p>	<p>Introduce email/online processes in all areas of casework</p> <p>Develop website and employer e-solutions</p> <p>Develop self-service functionality within the Altair system</p>	<p>Demonstrable transference of transactional activity to the employer and to the member. Set targets to measure % shift</p>	<p>31 March 2017</p>	<p>Formal strategies will follow from the creation of LLPP. However, in the short term encouraging take up of on line facilities through ordinary communication channels means that ?% of members interact with the Fund electronically</p>
<p>Consider collaborative opportunities and work towards building capacity for the future</p>	<p>Work in partnership with likeminded Authorities</p> <p>Attract new business</p>	<p>Organisational structure and capacity in place</p> <p>New business secured</p>	<p>31 December 2016</p>	<p>Partnership process through LLPP is targeted for April 2016.</p> <p>Merseyside Fire and Rescue Service added as a new client from April 2015. Proposals made to 2 other potential clients.</p>
<p>Review employer compliance with Pension Administration Strategy Statement</p>	<p>Implement monitoring process. Measure and report results to PFC</p>	<p>% Employer compliance</p>	<p>31 December 2015</p>	<p>To be reported to Local Pension Board and PFC in Quarter 1 of 2016.</p>

## Appendix 'A'

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015
Undertake systematic analysis of appeals	Implement case review process	Year on year reduction in 1 <sup>st</sup> and 2 <sup>nd</sup> stage appeals	1 April 2017	Work not yet commenced
Review basic financial control processes surrounding pension fund administration and pensioner payroll.	Undertake GAP analysis Act on results	Full Assurance from internal and external auditors.	1 April 2016	Work on-going. No recommendations from either set of auditors which require action. Full formal review will be required prior to implementation of LLPP.
<b>Communication</b> Develop a Pension Fund website	Design and implement new website for the Fund's information as opposed to pensions administration processes	Increased engagement in funding and investment issues e.g. through the number of website visitors	December 2015	Work commissioned through LCC Communications Service.
Develop and implement an Employer engagement strategy	Promote the use of online and email communication and information sharing, making online self-service the norm and the employer website area the first port of call for employers.	Demonstrable increase in employers using online services.  Increased member awareness of pension benefits  Increase in proactive employer engagement	April 2017	Formal strategy will follow from the creation of LLPP. However, in the short term encouraging take up of on line facilities through ordinary communication channels means that ?% of employers interact with the Fund electronically



**Appendix 'A'**

<b>ACTION</b>	<b>HOW WILL THIS BE ACHIEVED?</b>	<b>HOW WILL SUCCESS BE MEASURED?</b>	<b>TIMESCALE</b>	<b>PROGRESS AT END SEPT 2015</b>
	<p>Support Scheme employers, providing publicity and information toolkits, to enable employers to fulfil their responsibility to communicate and share information with members in relation to the Scheme.</p> <p>Actively engage with employers on Funding and investment issues</p>			
<p>Develop and implement a Member engagement strategy</p>	<p>Promote the use of online and email communication and information sharing, making online self-service the norm and the website the first point of contact for members.</p> <p>Take a multimedia approach to communication and engagement in recognition that different styles and methods of communication suit different stakeholders</p>	<p>Demonstrable increase in online self- service activity.</p> <p>Increase in web contact/reduction in telephone contact</p> <p>Increase in customer satisfaction</p>	<p>December 2017</p>	<p>Formal strategy will follow from the creation of LLPP. However, in the short term encouraging take up of on line facilities through ordinary communication channels means that ?% of members interact with the Fund electronically</p>

**Appendix 'A'**

<b>ACTION</b>	<b>HOW WILL THIS BE ACHIEVED?</b>	<b>HOW WILL SUCCESS BE MEASURED?</b>	<b>TIMESCALE</b>	<b>PROGRESS AT END SEPT 2015</b>
Undertake systematic analysis of customer feedback	Implement formal process for review of complaints and compliments  Set targets for customer satisfaction and measure	Year on year reduction in complaints/increase in compliments  Targets achieved	March 2017	Additional detail being reported to Local Pension Board and further work planned in response to their deliberations.

## **Pension Fund Committee**

Meeting to be held on 27 November 2015

Electoral Division affected: All
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## **Lancashire County Pension Fund Interim Administration Report** (Appendix 'A' refers)

Contact for further information:

Diane Lister, (01772) 534827, Head of Your Pension Service,

[diane.lister@lancashire.gov.uk](mailto:diane.lister@lancashire.gov.uk)

### **Executive Summary**

An interim administration performance report for the period 1 April to 30 September 2015 is presented at Appendix 'A'. The report indicates that service delivery has been maintained throughout a period of change.

### **Recommendation**

The Committee is asked to note the report as set out at Appendix 'A' and comment as appropriate.

### **Background and Advice**

An interim administration performance report is presented at Appendix 'A'. The report sets out performance against standards and targets as defined in a Service Level Agreement with Your Pension Service.

The report indicates that annual events have been completed on time and that performance against targets has been maintained during the period from 1 April to 30 September 2015. Performance was slightly below the target set in respect of Lancashire County Council Voluntary Redundancy estimates and payments. This was due to the volume of estimate requests received over the 6 month period. A review of this area of work is currently underway to assess the level of resource that will be necessary to support the County Council during an unprecedented period of change.

The Service's new data collection portal has been successfully implemented to cater for the monthly collection of data from participating employers. This new development has been instrumental in enabling the production of 98.6% of annual benefit statements within a new statutory deadline of 31 August. It is also important to have up to date and accurate data in order to properly assess the liabilities of the Fund. Work is ongoing to ensure the continued submission of monthly data files from employing organisations in readiness for the 2016 Actuarial Valuation.

Finally, in July 2015 Your Pension Service was re-accredited with the Government's Customer Service Excellence Award. This award focuses on developing customer insight, understanding scheme members' experience and delivering a first class service (Section 3. of Appendix 'A' refers). The Service has held this award since 2008.

**Consultations**

N/A

**Implications:**

N/A

**Risk management**

N/A

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

Paper	Date	Contact/Directorate/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A

your  
pension  
service

# LANCASHIRE COUNTY PENSION FUND

## Interim Administration Report 1 April to 30 September 2015



Administered by



# 1. Introduction

## Purpose

This 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 period 1 April to 30 September 2015.

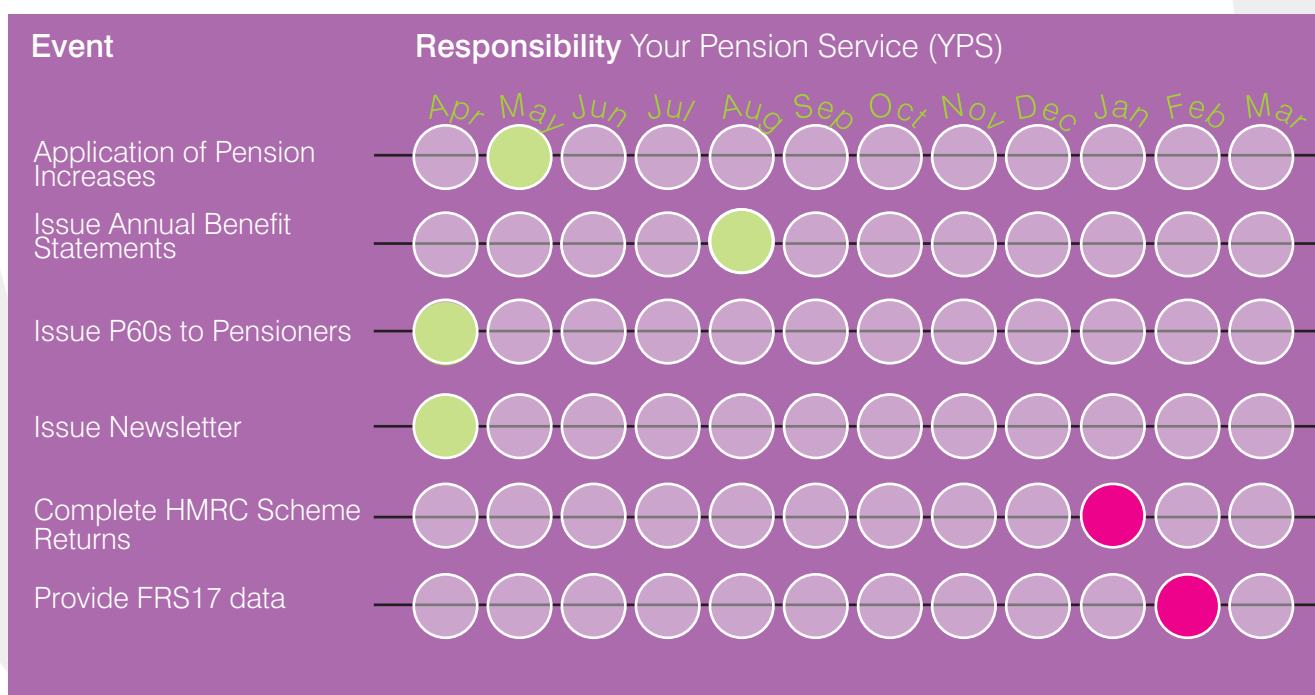
## Annual Plan – 2015/16



Due



Completed



# 2. Performance

## EPIC Update

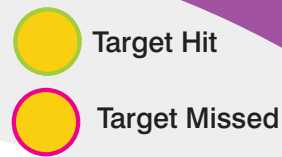
Since 1 April 2014 employers have been submitting monthly files to Your Pension Service, which replace many of the forms that they used to complete, and enable YPS to accurately post and reconcile contributions and pensionable pay to individual member records.

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. We are happy to report that the use of EPIC has led

to the successful production of online annual benefit statements within the new statutory deadline.

It is also important to have up to date and accurate data in order to properly assess the liabilities of the Fund. Work is ongoing to ensure the continued submission of monthly data files from employing organisations in readiness for the 2016 Actuarial Valuation.

# Performance Standards



## Service Level Agreements

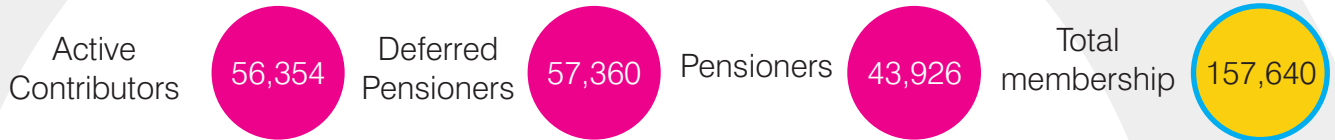
During the reporting period 12,670 individual calculations/enquiries were completed, of which 12,149 met the performance standard; an overall performance of 95% was achieved.

### LGPS

#### Performance Standard

Performance Standard	Cases received	Cases completed	Within SLA	% Within SLA	Target	Cases outstanding
Estimate benefits within 10 working days	2,714	2,668	2,515	94%	90%	139
Payment of retirement benefits within 10 working days	978	1,004	962	96%	90%	40
Payment of death benefits within 10 working days	669	695	675	97%	90%	45
Implement change in pensioner circumstance by payment due date	1,774	1,846	1,793	97%	95%	628
Respond to general correspondence within 10 working days of receipt	1,413	1,395	1,332	95%	90%	74
Action transfers out within 10 working days	783	774	722	93%	90%	78
Action transfers in within 10 working days	290	283	257	91%	90%	63
Pay refunds within 10 working days	373	373	342	92%	90%	26
Provide leaver statement within 10 days	2,195	2,205	2,142	97%	90%	246
Amend personal records within 10 working days	151	165	163	99%	95%	8
VR Estimates	1,184	1,129	1,115	99%	100%	77
VR Payments	134	133	131	98%	100%	11
<b>Total</b>	<b>12,658</b>	<b>12,670</b>	<b>12,149</b>	<b>96%</b>		<b>1,435</b>

## Fund membership at 30 September 2015



# 3. Customer Service

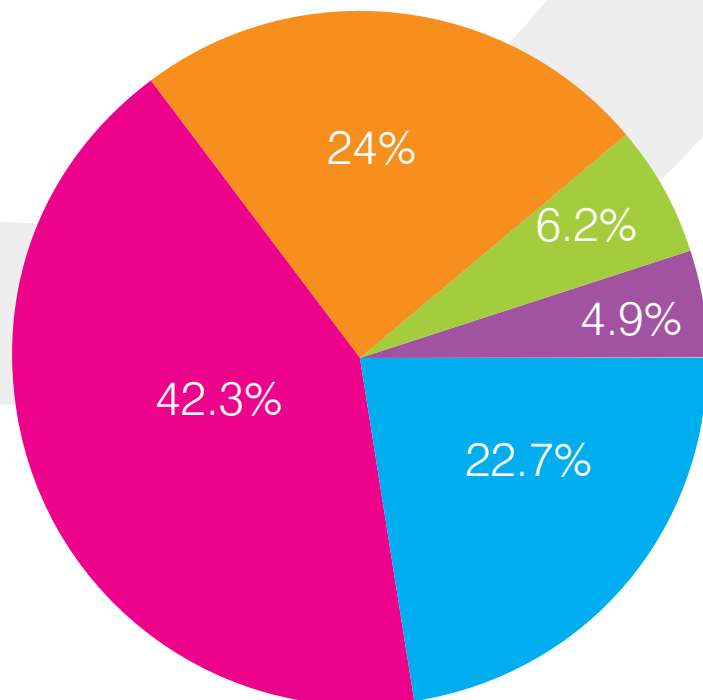
During July 2015 Your Pension Service was re-accredited with the Governments Customer Service Excellence Award. This award focuses on developing customer insight, understanding scheme members' experience and delivering a first class service. The Service has held this award since 2008. This section reports the ongoing work being undertaken to develop further customer insight, to better understand the customers experience and to consider improvements in service provision.

## My Pension Online Survey

Members who are signed up to the online service were surveyed and below are the most recent results. The results will be used to consider improvements to the user experience.

### If you are registered for the "My Pensions Online" system how useful do you find this?

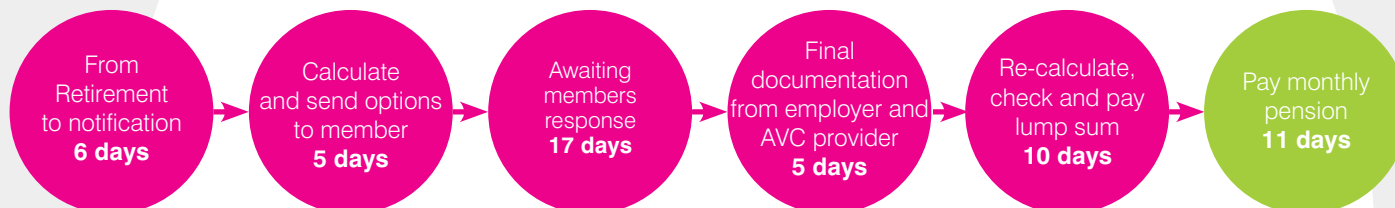
- 793 Extremely useful
- 1480 Very useful
- 838 Moderately useful
- 216 Not so useful
- 170 Not at all useful





## Retirement Experience

The average time spent to complete each part of the retirement process has been analysed. A guide to the retirement process has been produced to aid the members understanding. (See annex A)



(average 54 days) Further work will be undertaken to reduce the retirement process.

## Compliments/Complaints

During the period the service received 5 compliments and they related to the excellent online services and the helpful service provided by the staff within Your Pension Service.

There were eight complaints received with the majority of them relating to the late payment of pension.

Complaints in this context are complaints received by the Chief Executives/Leaders Office as well as complaints received directly to YPS.

## Telephone helpdesk

A dedicated helpdesk AskPensions provides the first point of contact for members and employers. The helpdesk has a target to answer 90% of calls offered. Between 1 April and 30 September 33,258 calls were offered and 94% of calls were answered. The average wait time was 55 seconds.

During the period 16,968 emails were received, 98.9% of emails were answered by 30 September .

## 4. 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.

Both appeals relate to ill health, and are currently being dealt with under stage 1 of the appeals process.

**Period 01/04/2015 - 30/09/2015**



## 5. Admissions

The Local Government Pension Scheme is open to 2 main types of employers, "Scheduled Bodies and Admissions Bodies". Scheduled Bodies are listed within the LGPS regulations and if they meet criteria are eligible to participate. Two bodies were set up during the period, a parish council and a sponsoring academy.

written contractual agreement and the majority of cases are established when outsourcing a service or function, where the new contractor wishes to provide continued LGPS membership. We are currently working on 18 of these agreements started in this period.

Admissions Bodies participate through a

**Admissions to fund – 01/04/2015 – 30/09/2015**



# 6. Communications

## The Team

Communications are delivered by the Partnerships Team. The team consists of a Manager and three Client Liaison Officers. They are the link between Your Pension Service scheme members and employers. The Team have been very busy lately hosting a wide range of events and services for both employers and scheme members alike.

## Employers

The second edition of the employer e-zine was issued to all employers, this included articles on the 2016 Valuation, fund discretions, the redundancy cost cap and upcoming events

The Partnerships Team have also begun the Annual Employer Visits provided automatically to all employers who have at least 100 active members. The Annual Employer visits are extremely popular; scheme employers really value the face to face communication. The visits provide the opportunity to build and maintain excellent working relationships with employers.

## Employees/Scheme Members

During the period member communications have been around the annual benefit statements and the Scheme Talk newsletter. The communications included details on booking an appointment at one of the many pension surgeries being held throughout the County.

As well as the routine presentations that are carried out which include attending pre-retirement courses and ad-hoc 'Scheme Basics' presentations, particularly at schools across the County, who find it difficult to get time away from work to attend main events,

The Partnerships Team have continued to deliver roadshow presentations for active Members across the county, highlighting the flexibility of the LGPS.

With many organisations going through restructures, The Partnerships Team have produced tailored presentations at the request of scheme employers to support staff and provide information on how their pension benefits may be effected.

The first annual Fund Members Meeting was held at the Guildhall in Preston on 11th November with over 250 members in attendance and proved a great success. The agenda included delivery of the Fund Annual Report, investments, the Local Pension Board and the Lancashire and London Pensions Partnership.

The annual practitioner conference for fund employers was held at Woodlands on 12 October with over 100 delegates in attendance.

The day included a presentation from Pensionwise, an update on the amendment regulations and the e vision of YPS.

## Coming up

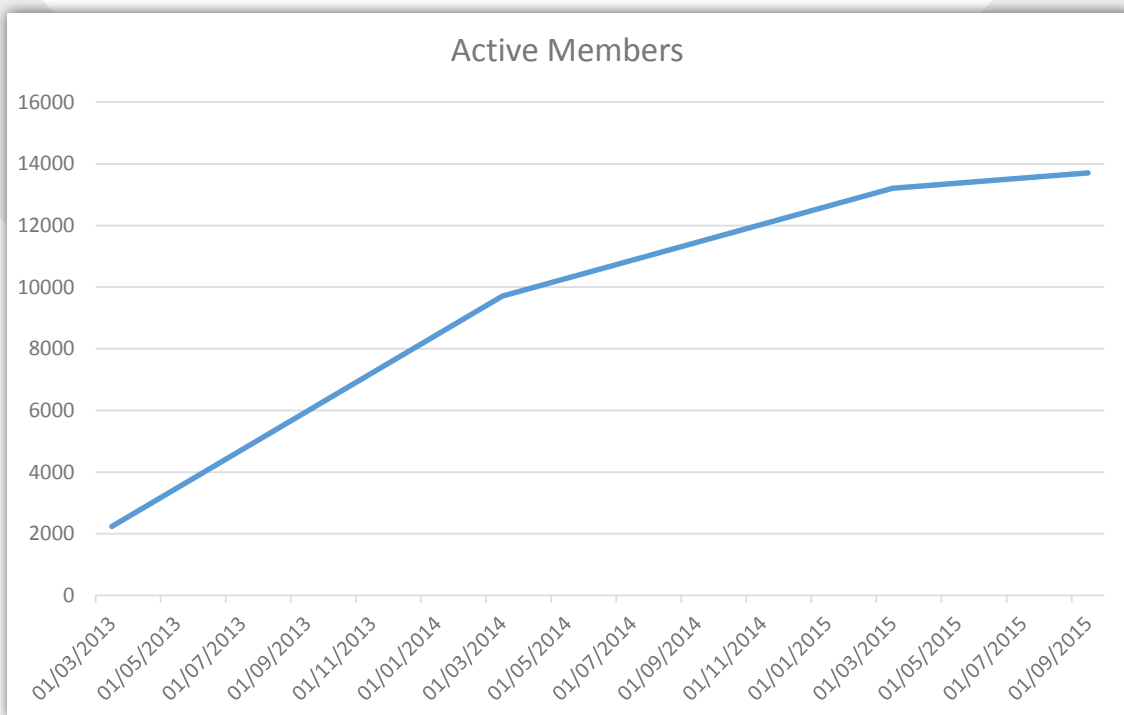
The annual Directors Brief is to be held at Woodlands in December. This meeting is the annual update to Chief Executives and Chief Finance Officers from the Director of Pensions. There will also be presentations on investments, administration and an update from the Fund Actuary.

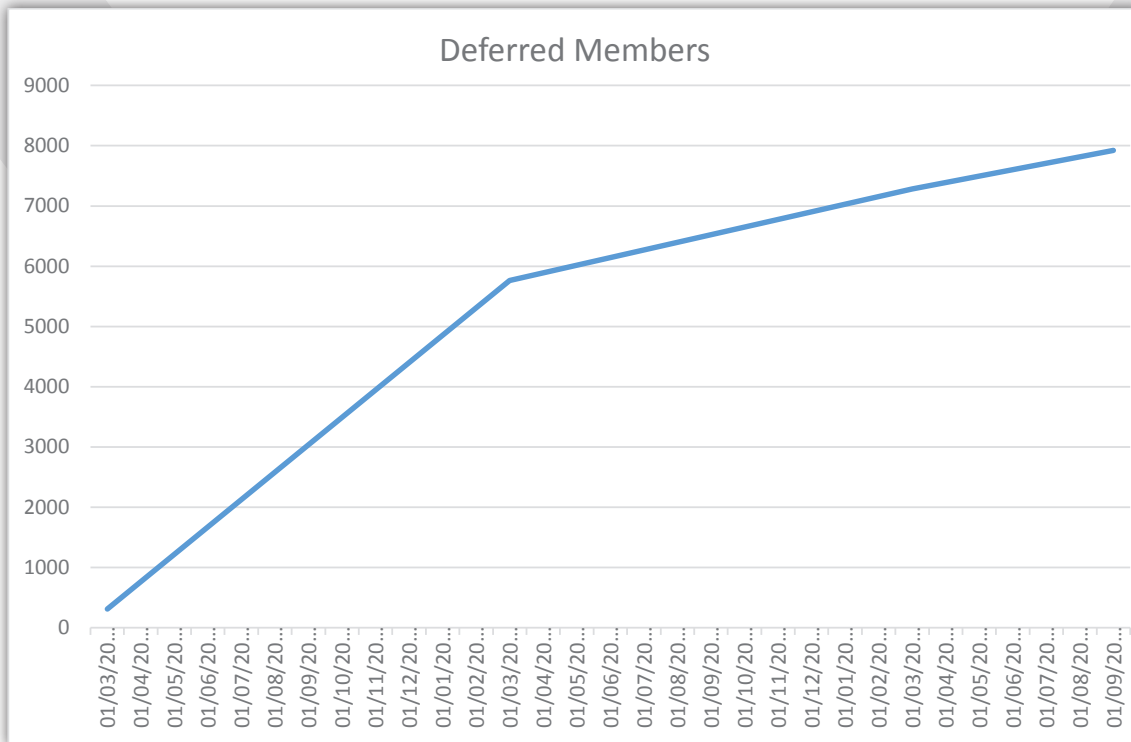
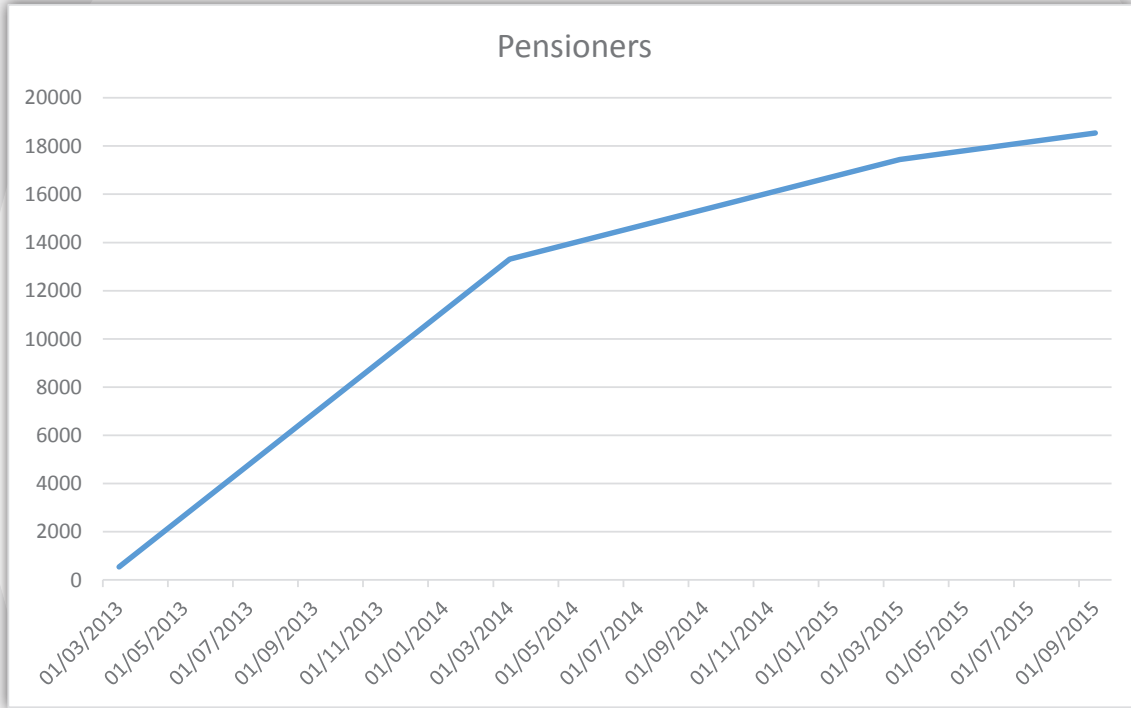
## My Pension Online (MPO)

My Pension Online is an online facility that was developed in 2012 and launched comprehensively throughout 2013. Through 'My Pension Online' members can view their details and also securely update any changes in contact details. As well as this members can run various pension estimates assisting with planning for retirement. Members can also view their annual benefit statement via My Pension Online. Other benefits of the system include: allowing members to view their nominated beneficiaries; access to a host of forms and guides and also means that Your Pension Service can communicate with registered members via email. Currently 40,168 members are registered online.

At every opportunity The Partnerships Team promote 'My Pension Online' always encouraging members to get signed up online, also including the benefits of 'My Pension Online' in all presentations. Throughout the period the team continued to deliver "drop in sessions" where members can sign up and be shown how to navigate the service and these have been held throughout the county.

Below is a summary of how membership of 'My Pension Online' has grown since 01/03/2013.





# LOCAL GOVERNMENT PENSION SCHEME RETIREMENT GUIDE

## PRE – RETIREMENT

Before you retire your employer may arrange for you to go on a pre retirement course to help you with:

- Investments
- Keeping Active
- Pension Benefits
- Health & Lifestyle
- Future Planning

Your employer will inform Your Pension Service of your retirement.

## INTENTION TO RETIRE

Within 10 working days of receiving all relevant pensions documents Your Pension Service will write to you regarding:

- Your choices if your benefits are due to be reduced
- Options on how to increase your tax free lump sum (to ensure tax limits are NOT exceeded)
- Ask for information regarding entitlement to other pension benefits
- Request where applicable Birth, Marriage and Other certificates
- Request your bank account details to pay both your pension and lump sum
- If you have AVC's your options and choices you have on drawing these too.



When you receive these details you can contact us if you need any further help:

- By Phone
- Email
- Letter
- Face to Face
- Looking at our website

Please see contact details at the end of this guide.

### ONCE YOUR PENSION SERVICE HAVE ALL YOUR DETAILS WE WILL

- Calculate your pension benefits
- Send you confirmation and payment details
- Pay your lump sum within 10 working days of your retirement date or receiving ALL the information (including your final pay details from your employer) which ever is the later
- Inform the tax office you have retired.

### WHEN YOU HAVE RETIRED

- Make pension payments on the last banking day of each month (small pension payments are made annually in March)
- Apply annual increases to your pension each year in line with inflation
- Issue a combined payslip and P60 every April
- Provide you with an annual newsletter
- Tell you how to register to check your payslips on line
- if you move abroad we can pay your pension overseas

### PLEASE TELL US IF ...

- You retired on ill health and you have found another job
- You move or change your bank account
- You wish to make or change any nomination details (death grant or co-habiting partner nomination)



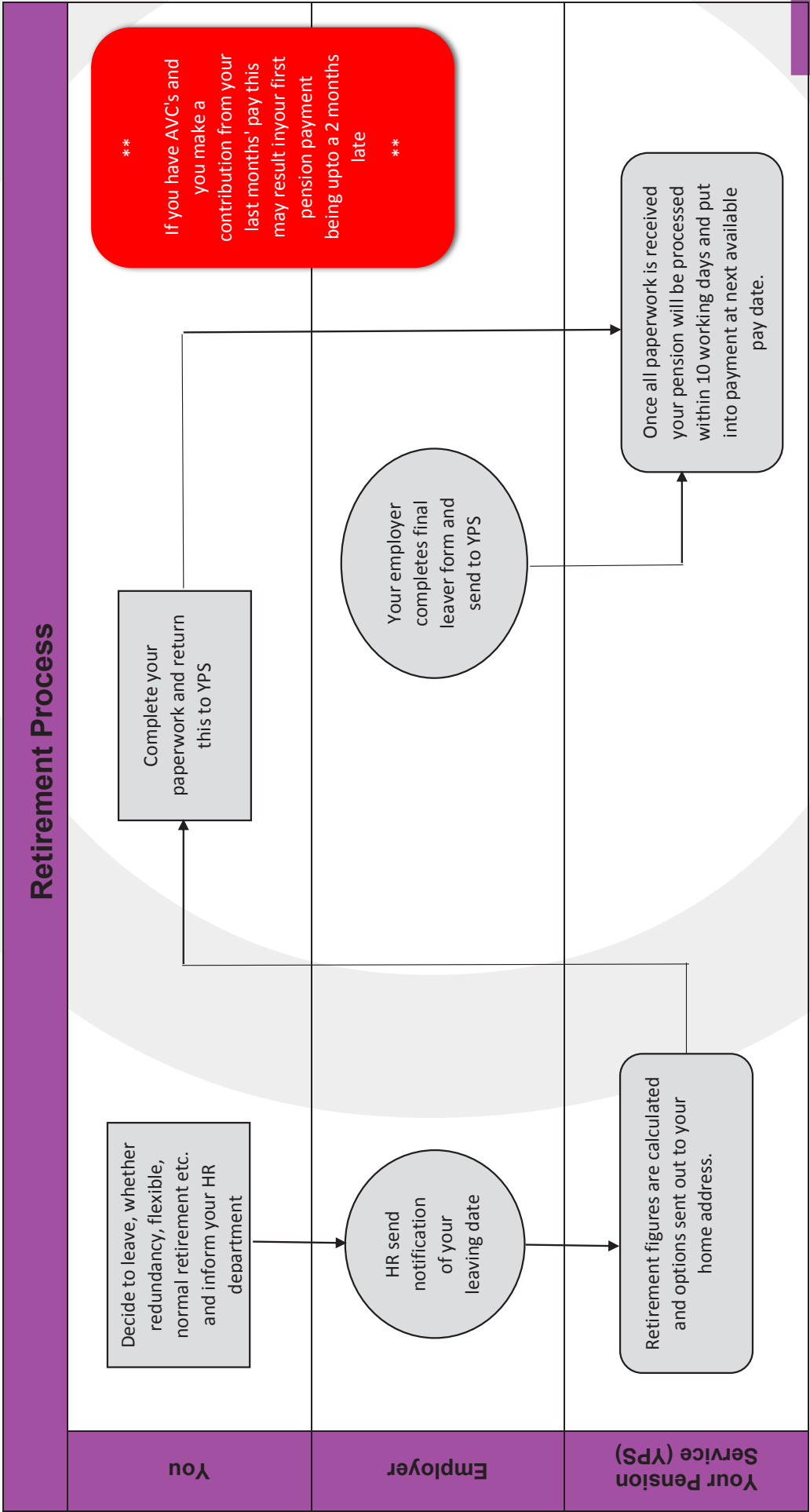
#### CONTACT US:

By Phone: Our helpdesk is manned Monday to Friday from 8.00am to 18.00pm 01772 530530

By Email: 24 hour automated response Askpensions@lancashire.gov.uk

Website: [www.yourpensionservice.org.uk](http://www.yourpensionservice.org.uk)

By Post: Your Pension Service, PO.Box 100, Preston, PR1 0LD



**\*Please note – If you would like to access your payslips/P60 please register for our online service [here](#). If you are already registered please make sure you update your e-mail address if you previously used your work e-mail to register.**



# Agenda Item 10

## Pension Fund Committee

Meeting to be held on 27 November 2015

Electoral Division affected: None
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## Responsible Investment

(Appendices 'A' and 'B' refer)

Contact for further information:

Andrew Fox, (01772) 535916, Head of Service, Policy and Compliance

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

### Executive Summary

Responsible Investment (RI) encompasses a range of activities associated with the Fund fulfilling its commitment to being a good asset owner.

This report provides the Pension Fund Committee with its regular update on RI related matters which include the fund's annual review of its Statement of Compliance with the UK Stewardship Code.

### Recommendation

The Committee is asked to:

- (i) Note the report;
- (ii) Approve the Stewardship Code Compliance Statement for 2015 set out at Appendix 'A'.

### Background and Advice

Members of the Pension Fund Committee receive regular reports on RI related matters which routinely include:

- current matters of note and news;
- latest reports from:
  1. Pensions and Investment Research Consultants Ltd (PIRC) as the fund's provider of proxy voting and governance services;
  2. Local Authority Pension Fund Forum (LAPFF) as the fund's provider of engagement and governance services;
- details of litigation cases in which the Fund has a potential interest;
- progress against priorities identified by the Member Working Group on Responsible Investment.

The fund is developing an approach to Responsible Investment (RI) in line with the following definition from the Pensions and Lifetime Savings Association (formerly known as National Association of Pension Funds (NAPF)):

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

The current approach, which is set out within the fund's Statement of Investment Principles, comprises four key strands of activity:

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

The report which follows highlights current matters of note and news within this evolving area of work and provides the Committee with an update on each of the 4 key strands of activity.

### **Statement of Compliance with the UK Stewardship Code 2015**

In response to the financial crisis of 2008, the Walker Review (Corporate Governance in the UK Banking Industry) recommended that the Financial Reporting Council (FRC) should develop a Stewardship Code setting out best practice principles for investor engagement. The FRC published a first version of the Stewardship Code in 2010 and an updated version (the current code) in September 2012 - a copy has been placed in the Members Retiring Room for reference.

The Stewardship Code is primarily aimed at asset managers but other institutional investors, including pension funds, are encouraged to report under it and it is considered best practice to do so. Mirroring the 'comply or explain' statements made by companies under the Corporate Governance Code, institutional investors are expected to publish a statement on their website which explains the extent to which they have complied with the seven principles of the Stewardship Code.

The Pension Fund Committee approved the Fund's first statement of compliance with the Stewardship Code in September 2013 and an annual review has followed in each subsequent year. The statement of compliance proposed for 2015 is set out at Appendix 'A'.

There are few significant changes from the statement approved in 2014, although additional details are included of collaborations under principle 5 which demonstrates the Fund's willingness to work in partnership with other investors.

The adoption of the proposed statement and the actions it encompasses will ensure the Fund's continued compliance with the Stewardship Code.

### **Annual Review Meetings with Fund Managers**

The Investment Panel recently met with Morgan Stanley, Natixis/Harris, MFS, AGF, and Robeco to discuss fund performance, the economic backdrop, future investment strategies, and ESG matters. For the first time, equity manager meetings majored on ESG matters in recognising the Fund's aspirations in developing its RI approach, using the opportunity to discuss how such non-financial matters may impact upon investment decisions, and setting the scene for future discussions.

Discussions centred upon the integration of RI themes in investment processes; examples and outcomes of engagement activity, ESG risk management, and resources employed on ESG issues. Managers were specifically asked about climate change and the potential impact on their portfolios including the risks arising from underestimating the impact of a declining demand for fossil fuels and/or remedial measures to address climate change.

Morgan Stanley and MFS employed broadly similar approaches in having no allocations to energy and natural resource companies so were not as exposed to these risks as others. In addition, Morgan Stanley avoids companies that do not represent sustainable sources of value and cash flow generation over time.

There was a common theme from all managers in placing emphasis on good corporate governance in underlying companies invested in.

Harris echoed this theme, and also explained that whilst there is energy exposure within the portfolio, energy represents only a small proportion of the stocks held, which are carefully chosen based on their valuation metrics rather than an explicit recognition of climate change risk. Far more emphasis is placed on return generation and management strength, as well as corporate governance norms, than on a company's environmental impact specifically.

AGF described their developing approach to ESG matters within their emerging markets mandate, including enhanced risk management practices, and an intention to sign up to UNPRI by the end of this year. Their sustainable investing approach is based on long-term shareholder holdings. Additional ongoing liaison on ESG matters was offered.

Arguably, Robeco have the most developed approach to sustainability in asset management within the Lancashire Fund, with sustainability being regarded as a long term value driver impacting future performance. Their investment thesis ensures that ESG factors are integrated into investment analysis and decision-making in order to improve risk/return ratios. Considering ESG factors leads to more comprehensive company assessments and valuations, allowing earlier discovery of investment opportunities and ESG risks. In addition, exercising ownership rights through voting and engagement to affect behaviour change enables Robeco to create additional long-term value whilst taking responsibility for assets.

Details were discussed relating to Robeco's sustainability investment framework, stewardship policy, engagement themes and examples, ESG risk management, and portfolio analytics.

### **Correspondence from Members on Fossil Fuel Exposure**

During September and October 2015 the LGPS Fossil Free campaign (Fossil Free UK) prompted LCPF and Lancashire County Council to receive correspondence from a small number of fund members and campaigners on the subject of fossil fuel exposure. The majority of letters followed a standard format produced by campaign organisers which sought a commitment to complete divestment from fossil fuels.

Responses have been made to each individual following the approach set out in the letter signed by the Deputy Leader of the County Council (Appendix 'B' refers) which explains that the fund has a relatively low exposure to fossil fuels (compared with other LGPS funds) and the reasons why it will not be making a commitment to divestment.

The campaign identified LCPF as the LGPS fund with the lowest level of investment in fossil fuels and it has been important to emphasise that this position isn't the result of an ethical or

environmental stance prohibiting investment in this sector (negative screening) but the outcome of experienced external Fund Managers continually assessing the risks and returns of competing investment opportunities in order to achieve maximum risk adjusted returns in line with meeting the fund's investment strategy and objectives and fulfilling its core fiduciary duty to scheme members.

## 1. Voting Globally

The Fund owns shares in listed companies across the globe. To ensure the consistent and effective use of its voting rights (something it has committed to doing as a signatory of the UN Principles of Responsible Investment) LCPF employs PIRC as its proxy voting agent. Following clear principles set out within standing voting guidelines PIRC cast votes at every shareholder meeting the Fund is entitled to participate in.

The fund receives quarterly reports which provide a retrospective summary of votes cast and the outcome of voting (where this is known). A copy of the most recent report (covering the period from 1 July to 30 September 2015) has been placed in the Members Retiring Room for reference.

During this period the Fund:

- voted at 21 shareholder meetings (15 AGM and 6 EGM)

Location	Meetings Voted	
UK & BRITISH OVERSEAS	4	19%
EUROPE & GLOBAL EU	3	14%
USA & CANADA	8	38%
ASIA	4	19%
AUSTRALIA & NEW ZEALAND	2	10%
<b>TOTAL</b>	<b>21</b>	<b>100%</b>

- voted on 277 separate resolutions

Vote Categories	Resolutions Voted	
For	138	50%
Abstain	21	8%
Oppose	113	41%
Non-Voting	2	1%
Withhold	3	1%
<b>TOTAL</b>	<b>277</b>	<b>100%</b>

The period saw only 2 shareholder resolutions and both were supported by the Fund. One was a proposal that J.M Smucker Company (North American food, beverage and pet food manufacturer with net annual sales £8bn) should issue a public report by January 2016 proposing how the Company can increase its renewable energy sourcing and production. The company has a history of strong corporate responsibility which includes commitments and targets for environmental impact reduction. The resolution proposed further emphasis on renewable energy as part of the efforts underway. The other resolution was a proposal that the Board of Nike should publish its policy on political donations and disclose the sums and recipients involved in order to promote and deliver greater transparency.

Across the 21 meetings voted in the period, opposition and abstention were primarily focussed on proposals to appoint directors (reflecting concerns about independence, diversity and the effectiveness of nominees) and on issues of pay and remuneration. Full details of all voting appears within the quarterly report from PIRC which is available in the Members Retiring Room.

## 2. Engagement through Partnerships

The Fund's engagement activities are principally through the direct relationships that develop between Fund Managers/Investment Managers and investee companies but they include partnerships and collaborations which can offer greater reach and impact and broader representation.

The Fund's principal collaboration within the RI work stream is its membership of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds as shareholders.

The latest engagement report from LAPFF has been placed in the Members Retiring Room for reference and describes activities in the period from 1 July 2015 to 30 September 2015. Highlights in this quarter include:

- meetings with Barclays, RBS and HSBC to discuss the over-riding requirement for financial accounts to provide a 'true and fair value'. The meetings followed a second legal opinion from Mr Bompas QC (covered widely in the media, including the Financial Times) confirming International Financial Reporting Standards (IFRS) currently do not satisfy requirements under s393 of the Companies Act 2006 for financial accounts to give a "true and fair view".
- attending the National Grid Annual General Meeting (AGM) to ask how the Company's climate strategy affects its overall strategy and whether it will disclose its Scope 3 emissions. The Company has confirmed that it is likely to do so next year.
- posing questions at the AGMs of BT, Vodafone and SSE on topics including: remuneration; gender diversity; carbon emission reductions; and board and auditor independence.
- participating in an Equality and Human Rights Commission Inquiry roundtable on the recruitment and appointment of board directors, including the appointment of women.
- co-signing a letter to support the Business Supply Chain Transparency on Trafficking and Slavery Act of 2015 being proposed at a federal level in the United States.
- submitting a consultation response to the Hong Kong Stock Exchange, and advocated for mandatory reporting on carbon emissions.

The Fund has continued to build/maintain a regular involvement with LAPFF in the period through:

- **attending the quarterly Business meeting (6 October 2015)**  
Quarterly business meetings provide the opportunity to meet representatives from other LGPS funds and participate in debate and decision-making. The main topic of discussion was the manifestation of increasing government compulsion for LGPS collaboration and pooling and the accompanying tight timescale and lack of clarity around process.
- **attending the EGM (6 October 2015)**  
The EGM was called in order to enable a vote on proposed amendments to the LAPFF constitution which resulted from a consultation process with members. The outcome was a small number of changes which support and enable LAPFF to demonstrate high standards of corporate governance.

- **participating in the LAPFF mentoring scheme**

The fund's Financial Policy Officer has been partnered with a mentor from the Staffordshire Pension Fund and begun initial discussions around the frequency of meetings and themes of specific benefit or interest.

As mentioned above, annual review meetings with external Fund Managers in early November 2015 featured questions on in-house approaches to RI (including engagement) for the first time. Responses indicated that approaches differ in depth, scope and emphasis and the initial insight gained is a good starting point for building a better understanding of RI activities undertaken by external parties on behalf of the Fund as a responsible asset owner and for identifying any examples of good practice which can potentially be developed going forward.

The National Association of Pension Funds (now renamed the Pension and Lifetime Savings Association) has published findings from the member survey on engagement practices which LCPF contributed to as a respondent over the summer. A copy of the findings has been placed in the Members Retiring Room for reference. The core findings are that there is universal acceptance that the consideration of risks to a company's long-term sustainability, such as environmental, social or governance factors is compatible with a pension fund's fiduciary duty and funds have clear understanding of stewardship responsibilities (as set out under the Stewardship Code). However, the report also highlights that, due to limited resources and the many significant pension reforms they have had to manage, the stewardship agenda remains a difficult one for some funds to devote significant time to.

### 3. Shareholder Litigation

The Fund is committed to maintaining an up to date understanding of any shareholder litigation in which it potentially has an interest. Litigation offers a route for recovering financial losses where asset values have been diminished as a result of financial misconduct and also fulfils a commitment to engage with investee companies to improve standards of corporate governance.

The Fund receives securities litigation monitoring services at no cost from two US law firms - Barrack, Rodos and Bacine (BR&B) and Robbins Geller Rudman and Dowd (RGRD) who ensure prospective actions are known about, the fund's interest (level of loss) is quantified and information is available as a basis for making decisions on an appropriate course of action given the risks, costs, benefits and deadlines involved in each case.

#### United States

Under US law, any shareholder who can demonstrate a loss related to a certified class action is automatically represented and does not have to prosecute individually.

The table below gives details of cases identified through litigation monitoring where the fund has losses which will potentially be represented under developing class actions.

Company Name	Effective class period begin	Effective class period end	Potential loss incurred (\$'000)
Medtronic, Inc.	08/12/2010	03/08/2011	27.71
Intuitive Surgical, Inc.	19/10/2011	18/04/2013	251.54
Barrick Gold Corp.	07/05/2009	23/05/2013	364.67

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

In each of these cases, the Fund has been advised to continue monitoring progress, but with no other action required at this stage.

#### United Kingdom

Securities claims in the UK require investors to file actions individually in order to benefit from a successful group action (they must be a named 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 previously reported, the Fund has joined a large group of institutional investors in a group action against Royal Bank of Scotland Group Plc (RBS) under which it is argued that investors suffered losses in connection with a Rights Issue in 2008. The law firm representing our investor group (SL Group Claimants) provides a monthly update on pre-trial progress with the case.

Since the last quarterly report to the Pension Fund Committee an 8<sup>th</sup> Case Management Conference (CMC) has taken place at the High Court in London (5<sup>th</sup> to 7<sup>th</sup> October 2015). At this CMC the judge heard an application from the Defendants for the start date of the trial to be adjourned from December 2016 to March 2017 (with the interim procedural deadlines to be concurrently extended). The Judge has not yet handed down his judgment on the application and the court has issued an apology for the delay.

In September 2015 claimants were advised of a significant increase in RBS's estimate of their costs. It was initially considered that the level of insurance cover already in place to meet the estimated share of costs faced by SL Group (if RBS win and their costs fall to be met by the claimants) remained adequate and it was inappropriate to incur the cost of increasing insurance cover above the existing £15m. This original opinion has subsequently been revised and SL Group claimants have been advised that a further £5m of adverse costs cover (ATE insurance) is to be obtained.

The decision to take additional insurance cover has no immediate and direct financial impact on the Fund but it ultimately means that our potential share of any sum recovered from RBS will be lower than if the premium for purchasing the extra cover could have been avoided. What has changed is the estimated scale of RBS costs; the additional insurance premium is the cost of mitigating the increased risk that costs awarded to RBS (should it win the case) might exceed the original £15m of insurance cover, leaving claimants facing a share of uninsured costs.

It has been reported in the press that a group of claimants from the SG Group (the "Lloyds Claimants") have left the SG Group and instructed a separate law firm. Whilst this has attracted attention and speculation in the media, the advice we have been given is that this change is not anticipated to have any material impact on either the likelihood of a successful outcome or the share of costs faced by the SL Group claimants (which continues to be estimated at 33.9% of any adverse costs award made in RBS's favour).

A further (9th) CMC is provisionally scheduled for December 2015 after the expiration of a number of procedural deadlines during November. With a judgement on the application to adjourn the start date still awaited, the trial date currently remains unchanged (7 December 2016) with an anticipated trial window of 25 weeks.

#### **4. Active Investing**

Active investing involves *"seeking investments with ESG characteristics, provided these meet the Fund's requirements of strong returns combined with best practice in ESG and/or corporate governance"* (LCPF Statement of Investment Principles).

The Fund's **investments** are primarily selected with the goal of achieving maximum risk adjusted returns (exceeding a benchmark investment index and outperforming the market) but a supplementary commitment to active investment means the Fund will prefer investments which also offer a positive environmental, social or governance impact where appropriate opportunities are available.

In the last quarter the fund has added to existing holdings in renewable, sustainable and clean energy – the 'E' part of ESG. Under its infrastructure strategy the fund has made a significant direct investment in a diversified well established wind farm electricity generation business by acquiring a 50% stake EDF's Portuguese wind-farm assets, one of the top 5 wind farm operators in Portugal with gross installed capacity c.500MW.

The investment signals the beginning of a partnership with EDF Energies Nouvelles which it is hoped will lead to further collaborations in the future and which also demonstrates that the Fund is cognisant of the climate change agenda and involved in investments which will directly assist the global transition to a lower carbon future through the provision of generation and supply technology which offers a viable and sustainable alternative to fossil fuel dependency whilst meeting the strategy and objectives of LCPF as a long term investor.

#### **Members Working Group on RI: Action Plan**

Some elements of the action plan produced by the Member Working Group on RI currently remain either partially or fully outstanding as follows:

- Create a Responsible Investment Policy for the Fund;
- A policy setting out the circumstances in which stakeholder consultation would be sought and the possible methods for achieving this should be developed;
- Reduce the carbon footprint of LCPF property portfolio wherever possible;
- Procure/sign up to RI/ESG monitoring tool/ service e.g. RobecoSAM;
- Create a structured framework for ongoing discussions with external investment managers.

The last three elements are practical/procedural, but making further progress with them is ultimately linked to the development of a Responsible Investment Policy, which is in turn partly dependent on greater clarity about the new operating arrangements which will flow from the formal establishment of the Lancashire and London Pensions Partnership.

A full review of all existing policies and approaches will take place to ensure these are fit for purpose given the aims, objectives and (crucially) the joint operating arrangements to be put in place. In the circumstances, and reflecting that RI is a rapidly evolving agenda which is inevitably tied into how investments are selected, managed and monitored in practice, it is proposed that



those elements of the RI Working Group's action plan not yet formally concluded should be addressed as part of the deliberations from which the partnership's approach to Responsible Investment develops rather than being treated as a separate exercise. In light of the observation (at the 30 September meeting of the Pension Fund Committee) that an action plan should identify action "owners" it is proposed that responsibility for encompassing outstanding elements of the action plan will fall to the officers involved in developing policies and procedures as part of the wider work streams associated with establishing the partnership and determining its detailed operating model.

Quarterly reports on RI will continue to provide the Committee with regular information and updates on the continuing evolution of RI as the partnership comes into being and will reflect continuing efforts to fulfil the RI commitments which are clearly set out within the Fund's Statement of Investment Principles until the clarity needed to develop an RI Policy for the Fund is available.

## RI Action Plan

Area	Action	Update on actions taken and in planning / progress currently	Status
<b>Fiduciary Duty</b>			
Outcome 1			
<p>Having considered all the information presented to its meetings, the Working Group agreed that it would wish to recommend the Pension Fund Committee to consider a more active stance in relation to RI issues than had previously been the case where that did not pose the risk of financial detriment to the Fund. Members acknowledged that the primary aim of an investment strategy was to secure the best possible return and that the administering authority and trustees should not impose their own ethical views on issues such as tobacco, energy, food etc., on scheme beneficiaries.</p>			
Action 1	<p>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.</p>	<p><i>Implicitly accepted by the Pension Fund Committee on 27 November 2014 in accepting the recommendations of the member working group. Recognition of this stance will be reflected in the Fund's first Responsible Investment policy document, currently being developed.</i></p>	Concluded
Outcome 2			
<p>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.</p>			
Action 2	<p>A policy setting out the circumstances in which stakeholder consultation would be sought and the possible methods for achieving this should be developed.</p>	<p><i>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.</i></p> <p><i>The requirement (and options) for undertaking stakeholder consultation will be addressed as part of the work under action 5a below.</i></p>	Under planning as part of action 5a

Area	Action	Update on actions taken and in planning / progress currently	Status
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
<b>Existing Investment Activity</b>			
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	<i>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.</i>	Under review

Area	Action	Update on actions taken and in planning / progress currently	Status
<b>Governance and Policy</b>			
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	<p><i>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</i></p> <ul style="list-style-type: none"> <li>- a more detailed position statement on the Fund's aspirations in relation to RI</li> <li>- the identification of practical approaches by which these aspirations will be fulfilled</li> <li>- the design of any new agreements/documents and reporting/monitoring approaches needed (minimal bureaucracy being a key aim)</li> <li>- 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</li> </ul> <p><i>The development of a Lancashire London Pensions Partnership is likely to introduce considerable changes and the development of an RI policy will need to await greater clarity on the future operating model via which it will be implemented in practice.</i></p>	Under planning

Area	Action	Update on actions taken and in planning / progress currently	Status
Action 5b	Consider signing up to the UN PRI initiative	<i>LCPF became an Asset Owner signatory on 10 March 2015, and is recognised on the UNPRI website.</i>	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	<i>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.</i>	Concluded

<b>Analysis and Monitoring</b>			
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	<p><i>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.</i></p> <p><i>Involvement in the development of an LGPS Procurement Framework for ESG services will provide valuable insight into the services currently available from the marketplace and use of the framework will make the procurement of them a less onerous process</i></p>	Pending - subject to development / clarification of RI aspirations as part of 5a above and learning gained from participation in the ESG procurement framework.

Area	Action	Update on actions taken and in planning / progress currently	Status
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.	<p><i>Action 8 (Engagement) will be addressed as part of Action 5a above.</i></p> <p><i>Meetings held with Fund managers as part of the ESG mapping exercise will include initial discussions about ongoing engagement on the subject of RI and ESG.</i></p> <p><i>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) and existing processes, in preparation for discussion and agreement.</i></p> <p><i>The RI Policy (once 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).</i></p>	Underway

## **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

In approving an updated compliance statement, Lancashire County Pension Fund is demonstrating its commitment to the UK Stewardship Code and the promotion of behavioural changes that will lead to better corporate governance by asset managers and companies.

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**

Compliance with the Stewardship Code demonstrates that the Pension Fund believes that companies should adhere to the highest standards of governance. The Fund's reputation could be weakened by failing to comply.

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

Involvement in a non-US 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/Tel
Report of the SRI Working Group to Pension Fund Committee – November 2014	27 November 2014	Andrew Fox, (01772) 535916
National Association of Pension Funds (NAPF) Responsible Investment Guide	2013	Andrew Fox, (01772) 535916

Reason for inclusion in Part II, if appropriate

N/A



**Appendix 'A'**

**Lancashire County Pension Fund**

**Statement of Compliance with the UK Stewardship Code - 2015**

The Financial Reporting Council's UK Stewardship Code sets out 7 principles of effective ownership which provide a direct prompt to institutional investors to recognise and fulfil their responsibilities for good stewardship.

Institutional investors are encouraged to report on their level of compliance with the Code and to regularly revisit their statement of compliance to ensure that it remains up to date and reflective of any material changes.

This document summarises how Lancashire County Pension Fund (LCPF) complies with the UK Stewardship Code through the corporate governance arrangements it has in place and the practices it operates.

<b>Statement of Compliance with UK Stewardship Code</b>	
<p><b>Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.</b></p>	<p>LCPF takes its responsibilities as a shareholder seriously.</p> <p>The Fund believes that the promotion of good corporate governance and the informed use of voting rights are integral to a responsible investment approach which seeks to encourage improved performance by investee companies.</p> <p>Various policy documents are produced which identify how the Fund meets its stewardship responsibilities including the Statement of Investment Principles and the Governance Compliance Statement.</p> <p>In practice the Fund’s approach is to apply the Code both through its arrangements with asset managers and through its membership of the Local Authority Pension Fund Forum (LAPFF). The Fund's asset managers take direct responsibility for stewardship issues in the funds that they manage on our behalf. Where these managers publish Statements of Compliance with the Stewardship Code, these are available on their respective websites or hosted by the FRC.</p> <p>The Fund seeks to use its position as a shareholder to actively encourage good corporate governance in those companies in which it invests. It does this by contracting with Pensions &amp; Investment Research Consultants Limited (PIRC) who provide a global service for a standard voting policy and casting of votes along with the provision of company research and reporting tools.</p>

<p><b>Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.</b></p>	<p>Lancashire County Pension Fund encourages all its fund managers to have effective policies in place to address potential conflicts of interests. The need to avoid conflicts of interest is also highlighted in our investment manager mandates and contracts with external parties.</p> <p>In respect of conflicts of interests within the Fund, Committee members and officers are required to make declarations of interest at the start of all meetings and, depending upon the nature of the interest, may take no part in the particular decision. A public register of interests is also maintained for all Councillors.</p>
<p><b>Principle 3 – Institutional investors should monitor their investee companies.</b></p>	<p>Day-to-day responsibility for managing the Fund's equity holdings is delegated to the appointed fund managers, and the Fund expects them to monitor companies, intervene where necessary, and report back regularly on engagement activities.</p> <p>Lancashire County Pension Fund contracts with PIRC who provides a global service for standard voting policy and casting of votes along with the provision of company research and reporting tools. In addition the Fund receives an 'Alerts' service from the Local Authority Pension Fund Forum, which highlights corporate governance issues of concern at investee companies.</p>
<p><b>Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.</b></p>	<p>As highlighted above, the responsibility for day to day interaction with companies is delegated to the fund managers, including the escalation of engagement. Their guidelines for such activities are anticipated to be disclosed in their own statements of adherence to the Stewardship Code.</p> <p>Occasionally, the Fund may choose to escalate engagement activity, and this will principally happen in association with the Local Authority Pension Fund Forum. When this position arises, the Investment Panel will decide whether to participate in the proposed activity, consulting with the Chair as necessary.</p>

<p><b>Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate.</b></p>	<p>Lancashire County Pension Fund seeks to work collectively with other institutional shareholders in order to maximise the positive influence it can have on individual companies.</p> <p>The Fund collaborates directly with other investors through its membership of the following organisations</p> <ul style="list-style-type: none"> <li>• Local Authority Pension Fund Forum (LAPFF)</li> <li>• Pension and Lifetime Savings Association (PLSA)</li> <li>• UN Principles of Responsible Investment</li> </ul> <p>The fund is also a participant in the Local Government Pension Scheme National Procurement Frameworks project which involves working directly with (and on behalf of) the LGPS community as investors.</p> <p>The development of a partnership between LCPF and the London Pension Fund Authority (Lancashire London Pension Partnership) involves direct and close collaboration between two significant pension funds and will be the basis for developing further collaboration and joint working going forward</p>
<p><b>Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activities.</b></p>	<p>The Fund's voting policy is set out within its Statement of Investment Principles.</p> <p>Lancashire County Pension Fund contracts with PIRC who provides a global service for a standard voting policy and casting of votes. The Pension Fund Committee have reviewed and agreed to adopt the voting guidelines of PIRC. These voting guidelines are regularly updated and publicly available on their website. PIRC provide a proxy voting service for all our global equity managers.</p>
<p><b>Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.</b></p>	<p>Lancashire County Pension Fund annually reviews and updates its Statement of Investment Principles, which sets out the Fund's approach to responsible investing. The activity undertaken by PIRC and the Local Authority Pension Fund Forum is reported quarterly to the Pension Fund Committee.</p>



Phone: (01772) 533355  
Email: david.borrow@lancashire.gov.uk

Your ref:  
Our ref: DB/JM  
Date: 30 September 2015

Dear Lancashire Resident

### **Investment in Fossil Fuels**

I have received several emails from Lancashire residents on the subject of fossil fuel investments. I am the Councillor responsible for the council's finances and also a member of the Pension Committee.

You have asked me to gain a divestment commitment from the council. I recognise that your request has come in response to the publication of information on the holdings of Local Government Pension Schemes (LGPS) in fossil fuels as part of a divestment campaign by Fossil Free UK.

It is important to make a clear distinction between Lancashire County Council, which has no investments in fossil fuels, and Lancashire County Pension Fund (LCPF) which has direct holdings through its shares in publicly listed companies and indirect interests through pooled funds which contain a changing mix of equities likely to include fossil fuel elements.

Lancashire County Council is the administering authority for LCPF which, as a Local Authority pension scheme, operates within the statutory and regulatory requirements of the LGPS. The management of the pension fund is a nonexecutive function and the role of scheme manager is fulfilled by a Pension Fund Committee which reports directly to Full Council.

The Pension Fund Committee is responsible for setting the investment strategy for the Fund in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The investment strategy is set out in a comprehensive Statement of Investment Principles (SIP) which is available from the Fund website. The SIP reflects that the Fund has a fiduciary duty to protect the retirement savings of scheme members and beneficiaries by ensuring sufficient resources are available to meet liabilities to pay pension benefits as they fall due.

County Councillor David Borrow  
Deputy Leader Lancashire County Council  
PO Box 100 County Hall Preston PR1 0LD

Fulfilling this fiduciary duty means ensuring the Fund maximises the risk adjusted returns it achieves from investing Fund assets – something which involves tension in the face of conflicting ethical arguments such as those associated with climate change. Recognising this tension the Pension Fund Committee convened a Responsible Investment Working Group during 2014 to consider the Fund's position, options and approach. The recommendations of the working group were adopted by the Pension Fund Committee and are reflected within the current SIP (March 2015) which clearly sets out the practices it will follow as a responsible asset owner committed to encouraging high standards of corporate governance.

Whilst no one single definition exists to clarify what is included and what is excluded when fossil fuel investments are being quantified for comparison, under the methodology used by Fossil Free UK, LCPF was identified as the local government pension fund with the lowest exposure to oil, gas and coal and as an early entrant to investment opportunities in renewable energy. The Fund has substantial direct investments in wind power, solar and clean energy reflecting a policy of actively seeking investments providing wider social benefits as a supplement to the best available risk adjusted returns over the respective investment horizon.

The Fund's position relative to other LGPS is the outcome of the continual assessment of risk adjusted returns and investment opportunities by Investment and Fund Managers and not the result of an ethical or environmental screening process. Negative screening of the type advocated by supporters of divestment reduces the pool of investment choices and compromises the ability to maximise risk adjusted returns. The Fund's holdings in fossil fuels form part of a highly diversified portfolio which offers protection from exposure to risk from a single sector.

The Fossil Free UK campaign calls for LGPS funds to divest from fossil fuels stating that they are contributing to climate change, should be investing in the social interest and are exposed to the threat posed by stranded assets. At face value, these are powerful arguments, but they do not recognise that the primary responsibility of LGPS funds is to scheme members (rather than the general public) ignore the role and very necessary contribution of existing fossil fuel companies to a planned transition to a low carbon future and fail to recognise that the returns earned from fossil fuel companies remain attractive to investors. The impact of divestment by LCPF would be a temporary good news story for campaigners but would result in the transfer of the Fund's interest to new owners (potentially with little interest beyond direct financial returns) and a consequent loss of the beneficial influence of an informed and responsible long term investor committed to working collaboratively through the Local Authority Pension Fund Forum and the UN Principles of Responsible Investment (UNPRI) to encourage timely and effective planning for a lower carbon future. The potential for institutional investors to influence company policy has not been fully realised to date but the future impact of concerted collaborative engagement should not be underestimated.

I hope I have been able to convey the reasons why the Pension Fund Committee does not believe that divestment from fossil fuels is an appropriate avenue for the Fund to take and have offered reassurance that divestment is one option from a wider range of activities the Fund can and is taking to protect the financial interests of Fund members, invest sustainably and have a positive social and environmental influence where this can be achieved within the constraints of fulfilling its fiduciary duties.

The Lancashire Pension Fund Committee is very aware and concerned about the ethical nature of its investment strategy but is also aware that it has a duty to look after the pensions both of current and future pensioners. I think the figures detailed within the Fossil Free UK website demonstrate that the Pension Fund Committee is working hard to set the right balance in its investment strategy and we will continue to do so.

Yours faithfully

A handwritten signature in black ink that reads "David Borrow". The signature is written in a cursive, slightly slanted style.

County Councillor David Borrow  
Deputy Leader of the Council

County Councillor David Borrow  
Deputy Leader Lancashire County Council  
PO Box 100 County Hall Preston PR1 0LD





## **Pension Fund Committee**

Meeting to be held on 27 November 2015

Electoral Division affected: None
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## **Feedback from Committee Members on External Pension Fund Training Events and Conferences**

Contact for further information:

Dave Gorman, (01772) 534261, Legal and Democratic Services

[dave.gorman@lancashire.gov.uk](mailto:dave.gorman@lancashire.gov.uk)

### **Executive Summary**

This reports provides Members of the Committee with the opportunity to provide feedback on external Pension Fund training events and conferences attended by Members since the last meeting of the Committee.

### **Recommendation**

The Committee is asked to note the report and the feedback presented.

### **Background and Advice**

The Pension Fund Committee at its meeting on 29 November 2013 approved a training plan for members of the Committee. The purpose of the plan is to ensure best practice within the Fund, and to comply with the Public Service Pensions Act 2013. Members and officers are also required to undertake training to satisfy the obligations placed upon them by the:

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

The training plan requires Committee Members to provide verbal feedback at the subsequent Committee meeting to cover:

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

The following external training events/conferences have been attended by Committee Members since the last meeting of the Committee:

- **CIPFA Pensions Network October Seminars, 1 October 2015, Manchester**  
The event was attended by County Councillor Mike Otter
- **NAPFA Annual Conference/Exhibition, 14 - 16 October 2015, Manchester**  
The event was attended by County Councillors David Borrow and Kevin Ellard and Councillor Eddie Pope
- **LGA Pooled Investment Event, 16 October 2015, London**  
The event was attended by County Councillor Miles Parkinson
- **Local Government Annual Pension Investment Forum, 20 - 22 October 2015, London**  
The event was attended by County Councillors Lorraine Beavers, Gina Dowding, Kevin Ellard and Janice Hanson
- **NAPF Local Authority Forum, 3 November 2015, London**  
The event was attended by County Councillor Kevin Ellard

Feedback on these external training events/conferences will be provided at the meeting by those Committee Members who attended.

### **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

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

### **Financial**

The cost of attendance, together with travel and subsistence costs were met by the Pension Fund.

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

Paper	Date	Contact/Tel
Attendance at Conferences approved under the Scheme of Delegation to Heads of Service	August/September 2015	Frances Deakin, (01772) 533112

Reason for inclusion in Part II, if appropriate

N/A

