

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 23rd March, 2018 at 10.00 am in Committee Room 'C' (The Duke of Lancaster Room) - County Hall, Preston

Present:

County Councillor Eddie Pope (Chair)

County Councillors

J Burrows	K Ellard
S Clarke	J Mein
C Crompton	A Riggott
B Dawson	M Salter
G Dowding	A Schofield
C Edwards	

Co-opted members

Paul Crewe, (Trade Union Representative)
Councillor Ron Whittle, (Blackburn with Darwen
Borough Council Representative)
Councillor David Borrow, (District Leaders Group)
Jennifer Eastham, FE/HE Institutions representative

Independent Advisers

A Devitt and E Lambert

1. Apologies

Apologies for absence were received from Councillor M Smith.

The Chair welcomed Mr Rule, Mr Smith and Mr Pattinson from the Local Pensions Partnership and Mr MaGahon from Grant Thornton to the meeting and reported that LCPF and the LPFA had jointly won the 2018 Pensions Age Pension Scheme Innovation Award.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

No declarations of interest were made in relation to items appearing on the agenda.

3. Minutes of the Meeting held on the 12th December 2017

Resolved: That the Minutes of the meeting held on the 12th December 2017 are confirmed as an accurate record and signed by the Chair.

4. LCPF Pension Administration Strategy Statement

It was reported that following a review by Officers of the Fund a revised draft Pension Administration Strategy Statement (PASS) had been drafted which extended the number of employer and fund performance standards to be measured and introduced charges to be levied on any scheme employer where performance fell short of the expected standards.

When considering the report the Committee noted that the Fund aimed to comply with a number of requirements in advance of the statutory deadlines set out in the PASS. The level of resources required to comply with the contents of the PASS was discussed and in response to a query it was suggested that details of the CIPFA benchmarking statistics be circulated to members of the Committee outside of the meeting for information. Reference was also made to the charges for late or underpayment of employer contributions and the Head of Fund undertook to clarify whether or not such payments would be per occasion.

It was also noted that the draft PASS would be referred to the Lancashire Local Pension Board for consideration.

Resolved:

1. That the Pension Administration Strategy Statement (PASS) set out in Appendix 'A' to the report presented is approved for consultation with Fund employers.
2. That the frequency of charges for the late or underpayment of employer contributions set out in the PASS be clarified before the document is finalised and approved.
3. That a report on the outcome of the consultation referred to at 1 above be presented to the Committee on the 8th June 2018.
4. That further information regarding CIPFA benchmarking statistics be circulated to all members of the Committee outside of the meeting for information.

5. Lancashire County Pension Fund - Admissions and Termination Policy

It was reported that on the 15th September, 2017, the Committee had approved the consultation process in relation to the revised Admissions and Termination Policy for the Fund.

The Head of Fund informed the meeting that two responses had been received during the consultation period which ended on the 20th December, 2017. Details of the responses were presented and it was noted that neither response was considered to require any changes being made to the draft policy.

Resolved: That the revised Admissions and Termination Policy, as set out at Appendix 'A' to the report presented, is approved and implemented on the 1st April 2018.

6. LCPF December 2017 budget monitoring report

The Committee considered a report on the income and expenditure of the Fund for the period 1st April to 31st December, 2017, together with a comparison to the budget for the same period and a full year forecast with comparison for the full year budget to the 31st March 2018.

In response to a query regarding the figures in the report for the net surplus before realised and unrealised profits on investments the Head of Fund clarified that investment income had proved to be higher than had been predicted when the budget assumptions were made and any dividend income would be reinvested.

Resolved:

1. That the analysis of variances between actual results and the budgeted income and expenditure for the period 1st April to 31st December 2017, as set out in the report presented, is noted.
2. That the forecast full year financial performance against budget, as set out in the report presented, is noted.

7. LCPF External Audit Plan 2017/18

Mr McGahon from Grant Thornton presented a report regarding the External Auditors Annual Audit Plan for the 2017/18 financial year, which set out in broad terms the programme of work which the auditor would focus on.

During consideration of the report it was noted that the total fee for the audit was expected to be £35,906. In response to a query the Head of Fund noted that whilst this was similar to the fee for previous years she would check the proposed fees and report back. The Committee also discussed materiality and it was suggested that a breakdown be provided in the final audit report regarding any trivial matter (less than £3.604 million) where the difference was over £1 million.

Resolved:

1. That the Audit Plan for 2017/18 as set out in the Appendix to the report presented, is noted.
2. That clarification be sought with regard to the fee to be charged for the external audit specified at 1 above and details circulated to members of the Committee outside of the meeting for information.

3. That the report produced as a result of the external audit specified at 1 above include a breakdown regarding any trivial matter (less than £3.604 million) where the difference was over £1 million.

8. Revised 2018/19 Workplan for Lancashire Local Pension Board

Mr Bourne, the Chair of the Lancashire Local Pension Board, presented a report on the proposed 2018/19 work plan for the Board which had been designed to ensure that the responsibilities set out in the Terms of Reference could be met.

It was noted that the Board intended to review the Local Pension Partnership (LPP) Administration Transformation Plan in April 2018 and it was suggested that an update on the structure of LPP should be presented as part of the LPP update report to the next meeting of the Committee.

Resolved:

1. That the 2018/19 work plan for the Lancashire Local Pension Board, as set out in Appendix 'A' to the report presented, is noted.
2. That an update report regarding the Local Pension Partnership structure be presented to the next meeting of the Committee as part of the LPP update report.

9. Investment Strategy Statement

It was reported that although within the recommended three year timeframe for review it had been considered appropriate to review the current Investment Strategy Statement following the change to Strategic Asset Allocations and performance benchmarks by the Investment Panel which had been approved at the previous Committee.

The Committee considered the revised ISS, as set out at Appendix 'A' to the report and noted that it would include reference to the Responsible Investment Policy referred to elsewhere on the agenda should it be approved. With regard to the section on Infrastructure it was agreed that the text be amended to clarify that investments would be made 'predominantly in the UK or otherwise in OECD nations'.

In response to a query Mr Rule, Chief Investment Officer and Managing Director - Investments from the Local Pensions Partnership (LPP) informed the meeting that consideration was being given to developing a model which would enable LPP work with others to invest in residential developments in the future.

Resolved:

1. That the Infrastructure section of the Investment Strategy Statement set out at Appendix 'A' to the report presented, be amended to read '...predominantly in the UK or otherwise in OECD nations.'

2. That, subject to the amendment specified at 1 above, the Investment Strategy Statement is approved.

10. Report of the Responsible Investment Working Group

County Councillor Ellard, the Chair of the Responsible Investment Working Group, presented a report which set out a number of recommendations on how the Fund could further support responsible investment, including draft Responsible Investment and Climate Change Policies.

The Committee agreed some minor amendments to the proposed Responsible Investment Policy which are highlighted in the revised version attached as an Annex to these Minutes. With regard to the proposed Climate Change Policy it was suggested that reference be made in the first paragraph to stranded assets and that further work was required on the draft, including reviewing it against the LAPFF Climate Change Investment Policy, before a final version could be presented for approval.

Resolved:

1. That the amended Responsible Investment Policy, set out as an Annex to these Minutes, is approved.
2. That the first paragraph of the draft Climate Change Policy, set out at Appendix 'B' to the report presented, be amended to include 'via stranded assets' after the words 'shareholder value'.
3. That the amended Climate Change policy referred to at 2 above be referred to the Responsible Investment Working Group for further discussion with Officers at the Local Pensions Partnership with a view to a comprehensive policy being presented to the Committee in December 2018.
4. That the response of the Working Group to the request from Councillor M Smith for a reduction in the investments in fossil fuels and tobacco/alcohol referred to it by the Committee on the 1st December 2017 is noted.
5. That future reporting by the Local Pension Partnership should include a 'Dashboard' as set out at Appendix 'C' to the report presented, and focus initially on Global Equities and Infrastructure to be followed by Real Estate, Social Housing and Property in the future.

11. Responsible Investment

The Committee considered an update report on a range of responsible investment matters. In response to a query regarding a shareholder resolution on an environmental issue which the Local Pensions Partnership (LPP) had not

supported Mr Rule undertook to provide further information on the reasoning behind the decision referred to in the report and inform members of the Committee outside of the meeting.

Resolved:

1. That the update on responsible investment set out in Appendix 'A' to the report presented, is noted.
2. That LPP provide members of the Committee with further information outside of the meeting regarding the reasoning behind the shareholder decision not to support a resolution on a specific environmental theme as referred to in Appendix 'A'.

12. Feedback from members of the Committee on pension related training since the last meeting.

A report was presented on internal and external pension related training conferences/events which had taken place since the last meeting.

The Committee received positive feedback from various members of the Committee regarding specific conferences/internal training events they had attended. It was also reported that County Councillors E Pope, J Burrows, J Fillis, T Martin, J Mein A Riggott and A Schofield together with co-opted members P Crewe and R Whittle had attended the workshop held on the 14th March 2018 on the Local Pension Partnership.

Resolved: That the report and feedback from individual members regarding the training events or conferences attended since the last meeting is noted.

13. LCPF Training Policy

The Head of Fund reported that as the current LCPF Training Policy had been approved in January 2016 a review had been undertaken and a number of minor changes were proposed to the policy, a revised version of which was set out at Appendix 'A' to the report. It was further reported that Training Plan for 2018 which set out various planned training events (including internal workshops/pre-Committee briefings and external conferences) had also been developed and was set out at Appendix 'B' to the report.

In considering the report the Committee recognised that the CIPFA Framework required all members of the Committee to have a broad knowledge of pensions and it was intended to undertake a training needs analysis to identify any gaps in knowledge which could be addressed through future training.

Resolved:

1. That the Lancashire County Pension Fund Training Policy, as set out at Appendix 'A' to the report presented is approved.

2. That the Committee agree to meet the requirements of the Training Policy which forms part of the Fund's wider risk management arrangements.
3. That all members of the Committee complete a training needs analysis to inform the development of the Training Plan for 2018 and beyond.

14. Urgent Business

No items of urgent business were raised under this heading.

15. Date of Next Meeting and additional meeting in July 2018

It was noted that the next scheduled meeting would be held on the 8th June 2018 at 10.30am (preceded by the usual 30 minute briefing) in Committee Room 'C' - The Duke of Lancaster Room at County Hall, Preston.

It was also reported that after consulting members of the Committee arrangements had been made for an additional meeting to be held at 10.00am on the 5th July, 2018, in Committee Room 'C' - The Duke of Lancaster Room at County Hall, Preston to consider the LCPF accounts.

Resolved: That an additional meeting be held at 10.00am on the 5th July, 2018, in Committee Room 'C' - The Duke of Lancaster Room at County Hall, Preston to consider the LCPF accounts before they are submitted to the Audit, Risk and Governance Committee on the 30th July 2018 for approval.

16. Exclusion of Press and Public

Resolved: That the press and 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, as indicated against the heading of each item. It is considered that in all the circumstances the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

17. Local Pensions Partnership Q3 report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of 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 Director of Strategic Programmes and Group Company Secretary from the Local Pension Partnership updated the Committee on the performance of the Fund for the third quarter of the year.

It was reported that over the period the dedicated pension helpdesk had answered 96% of calls against a target of 90% and in response to a request for further information The Director undertook to provide more detailed breakdown of activity by the helpdesk to the next meeting. The Committee also noted that additional training on cyber security, GDPR and employer risk was scheduled for an internal workshop in November 2018.

Resolved:

1. That the report and updates presented at the meeting are noted.
2. That a detailed breakdown of activity by the dedicated pension helpdesk over the next quarter be presented to the Committee on the 8th June 2018.

18. Investment Panel Report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of 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).

Ms Devitt, an Independent Adviser to the Committee, presented her detailed report on the macro economic factors in the current market and their likely impact on investments together with a breakdown of individual asset class performance since the last meeting.

The Committee was also advised of decisions taken by the Investment Panel at the meeting in November 2017.

Resolved: That the report of the Investment Panel is noted.

19. Lancashire County Pension Fund Performance Overview December 2017

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of 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).

Mr Lambert, an Independent Adviser to the Committee presented a report on the performance of the Lancashire County Pension Fund and drew attention to key areas such as the level of contributions and the performance of individual investment portfolios.

Resolved: That the summary of performance up to the 31st December 2017, as set out in Appendix 'A' to the report presented, is noted.

Lancashire County Pension Fund (LCPF) Responsible Investment Policy

1. Introduction

This policy defines the commitment of Lancashire County Pension Fund (the Fund) to responsible investment (RI). Its purpose is to detail the approach that the Fund aims to follow in integrating environmental, social and governance (ESG) issues into its investments. This is consistent with the LGPS Management and Investment of Funds Regulations (2016) and the Fund's fiduciary duty to act in the best long-term interest of our members. The Policy reflects the Fund's Investment Strategy Statement and our approach to complying with the UK Stewardship Code.

2. Responsible Investment Values and Principles

The Funds' values and principles reflect the need to deliver sustainable investment returns in order to pay pension benefits. They recognise the importance of assessing sources of risk and opportunity over an extended time horizon and emphasise the importance of diligent stewardship as part of engaged asset ownership.

Responsible Investment Values:

Consultative	The Funds' RI priorities are a reflection of the views of its members (through consultation with the Local Pension Board), and of evolving best practice within the pension arena.
Being Proactive	A proactive approach to evaluating ESG risks and opportunities is more likely to result in long term benefits for the Fund and is aligned with fulfilling our fiduciary duty.
Engagement	<p>The Fund considers engagement to be a route for exerting a positive influence over investee companies and encouraging responsible corporate behaviour.</p> <p>We will be supportive of targeted dialogue in situations where positive changes can be brought about to align governance standards with our investment needs.</p>
Collaborative	The Fund recognises that working collaboratively can achieve greater influence than acting unilaterally. The Fund seeks to align itself with likeminded investors through collective organisations such as the Local Authority Pension Fund Forum (LAPFF) of which the Fund is a member.

Flexible	The Fund considers that its RI policy and approach should be reviewed regularly in order to continue recognising and reflecting best practice and addressing emerging priorities.
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Responsible Investment Principles

The Funds' RI principles translate our values and commitments into responsible investment practices which can help to deliver a sustainable and sufficient return on all our investments. Our RI principles inform the stewardship arrangements we have agreed with the Local Pensions Partnership as our provider of pension administration and investment management services.

A summary of the key Responsible Investment principles:

- Effective management of financially material ESG risks will support the Fund's requirement to protect returns over the long term;
- Apply a robust approach to effective stewardship;
- Seek sustainable returns from well governed and sustainable assets;
- Responsible investment is core in our skills, knowledge and advice;
- Seek to innovate, demonstrate and promote RI leadership and Environmental, Social and Governance (ESG) best practice;
- Achieve improvements in ESG through effective partnerships that have robust oversight;
- Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.

The implementation of LCPF's RI policy is through the activities of Local Pension Partnership Investments Ltd (LPPI) an FCA regulated Investment Manager responsible for 100% of the Fund's assets which are managed within pooled arrangements.

3. Priorities

Identifying core priorities for RI is an important part of focussing the attention of LPP I on the issues of greatest importance to us. It also helps us to monitor the stewardship activities they undertake on our behalf. The issues we have identified as being of primary concern to us as asset owners are:

- Climate change – engaging with pension funds and other stakeholders to develop and share best practice, recognising and managing the risks and opportunities investments face from climate change;
- Corporate Governance – promoting the case for well managed companies which implement fair and just employment practices and address excessive corporate pay differentials;

The above mentioned are our main priorities. However there are a number of other RI issues which are of interest to the Fund and will be subject to review, including:

- Ethical practices regarding off shore investments and tax havens;
- Companies with a proven record of supporting the Living Wage;
- Encouraging investment **pan** Lancashire;
- Reducing investments in products such as plastics, tobacco and alcohol.

Climate change

LCPF recognise the imperative to address climate change as a systemic and long-term investment concern for the fund, as it poses material risks across all asset classes with the potential for loss of shareholder value. The Fund will endeavour to carry out the following:

- Where existing investments in fossil fuel companies are in place and identified, we expect those companies to be able to demonstrate planning for the global transition to a low-carbon economy and for the future emissions reduction targets under the Paris Agreement or other appropriate initiatives. Where they are not, and opportunities for engagement and reform of the company or project are not possible or do not exist, the Fund will make all reasonable efforts to divest provided that this will result in no material financial detriment (either through increased costs or increased investment risk).
- Where our fiduciary duty allows, the Fund will not consider new investments in fossil fuel companies directly engaged in the extraction of coal, oil and natural gas as sources of energy which are ignoring the risks of climate change.

Corporate Governance

The Fund will, through our asset managers, promote high standards of employment practice and reasonable and equitable pay differentials for employees. This will be done through actively seeking companies who demonstrate such practices and engaging effectively to encourage these standards within existing investee companies.

LPP I is a named supporter of the Workforce Disclosure Initiative (WDI), a project which aims to "bring institutional investors together behind a call for comparable workforce reporting by publicly listed companies on their global operations and supply chains".

4. Responsible Investment Implementation

The implementation of Fund's approach to Responsible Investment divides into four areas of activity.

a) Voting Globally.

The Fund recognise that effective stewardship arrangements protect the financial interest of scheme beneficiaries and contributes to enhancing the value of the Fund's investments. All aspects of shareholder voting is a fundamental part of the Fund compliance with the UK Stewardship Code.

The Fund's stewardship actions are implemented as an integral part of the investment management services LCPF receives from Local Pensions Partnership (LPP). The Fund's entire investment portfolio is under management by Local Pensions Partnership Investments Ltd (LPP I), a subsidiary of LPP and an FCA authorised investment manager.

All aspects of shareholder voting are carried out in line with the LPP I 'Shareholder Voting Policy' which can be viewed at <https://www.localpensionspartnership.org.uk/Admin/Public/DWSDownload.aspx?File=%2fFiles%2fFiles%2fLPPi+Shareholder+Voting+Policy+July+2017.pdf>

The policy covers areas including voting arrangements, 'reporting and disclosures' and voting philosophy.

The responsible investment priority areas identified by the fund for voting purposes are:

1. Action on Climate Change;
2. Strong corporate governance, with particular emphasis on reducing pay differentials;
3. Improving Employment Practices.

b) Engagement through Partnerships.

The Fund's second approach involves working in partnership with like-minded bodies. The Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join other investors with similar concerns and it does this through the Local Authority Pension Fund Forum (LAPFF) and joining appropriate lobbying activities.

In terms of its engagement approach with other investors, it is most significant through LAPFF. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies in which they invest. See the LAPFF website for further details: www.lapffforum.org

LCPF are members of LAPFF and as such representatives of the Fund attend and contribute to the quarterly business meetings.

c) Shareholder Litigation.

The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund has agreed arrangements with LPPI which ensure emerging legal cases are monitored and the Funds rights and interests are represented via class actions and other shareholder actions globally where possible and where appropriate.

d) Active Investing.

LCPF do not invest directly but, on behalf of the Fund, LPP I actively seeks sustainable investments which meet LCPF's requirements for strong returns combined with best practice in ESG and corporate governance. Such investments include renewable and clean energy, and affordable housing.

As part of its commitment to Active Ownership LPP I seeks to use the ownership rights conveyed by the assets under its management to exert a positive influence in favour of transparent and sustainable management behaviour which recognises and addresses the broader trends which bring both risks and opportunities to their business.

Finally, LCPF does not have any strategic asset allocations in specific areas in relation to RI and ESG. This is reviewed to ensure it is still appropriate by the investment panel on a 12 monthly basis.

e) Divestment.

The Fund may at its discretion prefer to divest from a sector due to RI considerations, provided that this would not result in any material financial detriment (either through increased costs or increased investment risks).

5. Definitions

Responsible Investment	The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance.
ESG	Environmental, social and governance factors which may impact on company performance and therefore investment returns. Examples include resource management and pollution prevention, climate change impacts, labour management, product integrity, executive compensation, board independence and audit function.
Governance	The process and principles by which a company or organisation undertakes its business. For LCPF, governance

	includes how it undertakes both its operational and investment responsibilities on behalf of its members.
Active Ownership	Refers to the responsibility of LCPF to participate, where appropriate, in the governance decision-making of companies in which it invests by way of voting and by engagement with company management, either directly or via its fund managers. It also recognizes the relevance of engaging with regulatory bodies and other market players to support policies that promote long-term sustainable growth.

L Sales
Director of Corporate Services

County Hall
Preston