Lancashire County Council

Pension Fund Committee

Friday, 30th November, 2018 at 10.00 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 the 14th September 2018** To be confirmed, and signed by the chair.	(Pages 1 - 8)
4.	**Progress on Delivering the Lancashire County Pension Fund Strategic Plan**	(Pages 9 - 22)
5.	**Lancashire County Pension Fund - Q2 Budget Monitoring**	(Pages 23 - 30)
6.	**Responsible Investment**	(Pages 31 - 48)
7.	**Report of the Responsible Investment Working Group**	(Pages 49 - 64)
8.	**Feedback from members of the Committee on pension related training, conferences and events.**	(Pages 65 - 68)
9.	**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.	

Lancashire County Council

10. Programme of meetings 2019/20

On the 18th October 2018 the full Council approved a 2019/20 programme of meetings which included meetings of the Pension Fund Committee on the following dates

Friday 21st June 2019
Friday 20th September 2019
Friday 29th November 2019
Friday 6th March 2020

At meetings will start at 10.30am (preceded by a 30 minute briefing session) and will be held in Committee Room 'C' The Duke of Lancaster Room, at County Hall, Preston.

11. Date of Next Meetings (February 2019 and March 2019)

Please note that arrangements have been made for an additional meeting to be held at 10.00am on the 1st February 2019 in Committee Room 'C' – The Duke of Lancaster Room at County Hall, Preston, in order that the Committee can consider the Local Pension Partnership budget for 2019/2020.

The next meeting will be held at 10.30am (preceded by a 30 minute briefing) on the 29th March 2019, in Committee Room 'C' – The Duke of Lancaster Room at County Hall, Preston.

12. 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 press and 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)

13. Local Pensions Partnership Update (Pages 69 - 96)

14. LCPF Performance Overview - September 2018 (Pages 97 - 112)

15. Investment Panel Report (Pages 113 - 128)

L Sales
Director of Corporate Services

County Hall
Preston

Agenda Item 3

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 14th September, 2018 at 10.30 am in Committee Room 'C' (The Duke of Lancaster Room) - County Hall, Preston

Present:

County Councillor E Pope (Chair)

County Councillors

S Clarke	T Martin
C Crompton (1)	J Mein
G Dowding	P Rigby (2)
C Edwards	A Riggott
K Ellard	A Schofield

P Steen (3)

(1) replaced County Councillor Miss K Snape.
(2) replaced County Councillor J Burrows.
(3) replaced County Councillor A Snowden.

Co-opted members

P Crewe, (Trade Union Representative)
Councillor R Whittle, (Blackburn with Darwen Borough Council Representative)
Councillor I Moran, (Borough and City Councils Representative)
Ms J Eastham, (Further Education/Higher Education Institutions)

Also in attendance

Mrs A Leech, Head of the Fund, Lancashire County Council
Ms A Devitt – Independent Adviser
Mr R McGahon, Senior Manager, Grant Thornton
Mr C Rule, Chief Investment Officer and Managing Director Investments, Local Pensions Partnership.
Mr G Smith, Director of Strategic Programmes and Group Company Secretary. Local Pensions Partnership.
Mr W Bourne, Chair of the Lancashire Local Pension Board (observer)

1. Apologies

Apologies for absence were received from Councillor M Smith, Councillor D Borrow and Mr E Lambert – Independent Adviser.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

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

3. Minutes of the Meeting held on the 5th July 2018

Resolved: That the Minutes of the meeting held on the 5th July 2018 are confirmed as an accurate record and signed by the Chair.

4. Lancashire County Pension Fund - External Audit Findings Report

Mr R McGahon, Senior Manager from Grant Thornton, presented a report on the findings of the external audit of the Pension Fund Accounts for 2017/18 and informed the meeting that the outstanding items highlighted in the Report had been finalised and the final unqualified audit opinion issued.

It was noted that the Report had been considered and approved by the Audit, Risk and Governance Committee on the 30th July 2018.

Resolved: That the findings of the external audit of the Lancashire County Pension Fund Accounts for 2017/18, as set out in the report presented, are noted.

5. Lancashire County Pension Fund - Update on 2017/18 Annual Report

The Head of Fund presented a report regarding amendments which had been made to the draft Lancashire County Pension Fund Annual Report since its approval by the Committee on the 5th July 2018.

It was reported that the amendments related to current and long term liabilities and that explanatory text was added to the final version of the Annual Report in respect of membership figures. The queries around transition costs and membership figures raised by the Committee in July were also addressed. The Committee noted that the amendments referred to in the report had been made following consultation with the Fund's external auditor.

Resolved:

1. That the amendments to the Lancashire County Pension Fund 2017/18 Annual Report, as specified in the report presented, are noted.

2. That the responses to queries regarding the contents of the Lancashire County Pension Fund 2017/18 Annual Report, as raised at the meeting on the 5th July 2018 are noted.

6. Lancashire County Pension Fund - Budget monitoring for period 1 April to 30 June 2018

The Head of Fund presented a report which set out the financial results for the Lancashire County Pension Fund for the period 1st April to 30th June 2018 and compared those results with the agreed budget for the same period.

Resolved: That the variances between the actual and budgeted results for the period 1st April to 30th June 2018 and the forecast financial results for the year ending 31st March 2019, as set out in the report presented, are noted.

7. Responsible Investment

The Head of Fund informed the meeting that the Local Pension Partnership was now a signatory to the Principles of Responsible Investment in place of the Fund and the London Pension Fund Authority. It was also noted that the Head of Fund and the Chair had recently been elected to the Executive of the Local Authority Pension Fund Forum.

The Committee also discussed publicising the Fund's current investments in renewable energy and Mr Rule, the Chief Investment Officer and Managing Director Investments from the Local Pensions Partnership confirmed that he would provide details of specific activity to the Responsible Investment Working Group for consideration.

During consideration of the report reference was made to the Transition Pathway Initiative which provided investors with information which they could use to assess the relative position of investee companies based on how they planned for and managed the risks associated with the transition to a lower carbon economy.

Resolved:

1. That the updates set out in the report are noted.

2. That the future use of the Transition Pathway Initiative by Local Pensions Partnership Investments in relation to the Fund is referred to the Responsible Investment Working Group for consideration with any recommendations to be reported to the Committee in November 2018.

3. That the Responsible Investment Working Group consider how the Fund can best promote investments in renewable energy with any recommendations to be reported to the Committee in November 2018.

8. Local Pensions Partnership Annual Report 2017/18

The Head of Fund presented a report on the Local Pensions Partnership Annual Report for 2017/18 which had been approved by the LPP Board on the 31st July 2018.

In considering the report the Committee acknowledged that the Local Pensions Partnership Group had made a loss of £2.110m in the year compared to a profit in 2017 of 3.443m and noted that the situation was expected to be rectified over the 5 year budget period.

Resolved: That the Local Pensions Partnership Annual Report for 2017/18, as set out at Appendix 'A' to the report presented, is noted.

9. Feedback from members of the Committee on pension related training, conferences and events.

A report was presented on the attendance by members of the Committee at various internal/external pension related training events which had taken place since the last meeting. Both the Chair and County Councillor Schofield provided feedback regarding their experiences at the LGC Investment Seminar on the 6-7th September 2018.

The Chair also informed the meeting that Ms Devitt, the Independent Adviser to the Committee, would attend the pension workshop at 10.00am on the 26th September 2018 on the macro backdrop for investments and the subsequent workshop at 2.00pm on the 6th November 2018 would be attended by Mr J Livesey, the Actuary.

Resolved:

1. That the report and feedback given at the meeting is noted.

2. That the arrangements for the pension workshops on the 26th September 2018 and the 6th November 2018 are noted.

10. Urgent Business

No items of urgent business were raised under this heading.

11. Date of Next Meeting

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

12. 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 paragraphs 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.

13. Pension Administration Update

(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 G Smith, Director of Strategic Programmes and Group Company Secretary from the Local Pensions Partnership updated the Committee on the performance of the Pension Administration Service for the period 1st April to 30th June 2018.

It was reported that following the introduction of a new operating model for the pension administration service on the 1st April 2018 there had been a backlog of cases which was anticipated to be cleared by the end of October 2018. Mr Smith discussed the lessons which had been learned from the experience and outlined the actions taken to address the service level failures. Mr Smith also confirmed that during August 2018 the issue of Annual Benefit statements to Active/Deferred members and the issue of a newsletter to Active members had been completed in accordance with the Service Level Agreement.

Whilst noting the remedial action which had been taken several members of the Committee expressed their disappointment at the low level of performance of the pension administration service and the subsequent impact on individuals. It was suggested that the Committee receive regular updates outside of the meeting in order to provide reassurance of the effectiveness of the service stabilisation measures and other activity outlined in the report.

Resolved:

1. That the concerns of the Committee regarding the level of performance of the pension administration service, as referred to in the report presented, be noted.

2. That members of the Committee be provided with regular updates ahead of the next scheduled meeting on 30th November 2018 in order to provide reassurance of the effectiveness of the service stabilisation measures and other activity outlined in the report in relation to the pension administration service.

14. Local Pensions Partnership Q1 2018/19 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 Pensions Partnership presented a report on the investment and administration activity of the Partnership since the last meeting.

It was reported that the addition of a new client from the 1st June 2018 would increase the total assets under management by Local Pensions Partnership which had now established 6 out of the 8 pooling vehicles. The Committee noted that the Minister for Housing Communities and Local Government continued to support for the progress made in relation to pooling and the Chair suggested that the Chairman of the Local Pension Partnership be invited to attend a future meeting to discuss progress.

Resolved:

1. That the updates on investment and administration activity of the Local Pensions Partnership since the last meeting, as set out in the report, are noted.

2. That the Chairman of the Local Pensions Partnership Board be invited to attend a future meeting to discuss progress to date on pooling and future activity of the Partnership.

15. LCPF Performance Overview June 2018

(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, Independent Adviser to the Committee, presented a detailed report on the performance of the Lancashire County Pension Fund and highlighted key areas to the Committee including the following:

- An update on the economic and market backdrop
- The total Fund return as at 30th June 2018
- Updates on the performance of the equity, credit, real estate, infrastructure and private equity
- Asset allocations
- The funding ratio at 30th June 2018 and
- Details of contributions net of benefits and investment income.

Resolved: That the report and updates on performance presented at the meeting are noted.

16. 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).

The Head of Fund presented a report on matters considered by the Investment Panel since the last meeting which included an update on the investment and Market context in which the Lancashire County Pension Fund operated. It was reported that the Panel had discussed the rate of return on a proposed development and had recommended a particular base case investment rate return be applied to the project.

Resolved:

1. That the report of the investment panel is noted.

2. That a base case investment rate of return of 4.7% per annum (based on an assumed CPI rate of 2% per annum) be applied to the proposed development referred to in the report presented.

L Sales
Director of Corporate Services

County Hall
Preston

Pension Fund Committee
Meeting to be held on Friday, 30 November 2018

Electoral Division affected:
(All Divisions);

Progress on Delivering the Lancashire County Pension Fund Strategic Plan
Appendix A refers

Contact for further information:
Abigail Leech, Head of Fund, Lancashire County Pension Fund,
abigail.leech@lancashire.gov.uk

Executive Summary

On the 1st December 2017 the Committee approved the Fund's 3 year Strategic Plan. This report provides the Committee with an update on the progress of 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.

Background and Advice

The Strategic Plan is structured around the four broad areas that impact on the running of a successful pension fund:

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

Appendix 'A' provides more information on the progress made against the various objectives set out in the plan for the 6 months of the year.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Lancashire County Council

Risk management

The Strategic Plan is part of the process of managing risk faced by the Fund.

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

Paper	Date	Contact/Tel
N/A		

Governance

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

Our objectives in this area are:

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

Outcomes	Actions	Timeframe	Progress September 2018
Implement any new governance requirements to reflect changes in the Council's management structure	• Assessment of governance policy documentation of the fund in consultation with the new S151 officer. • Review officer scheme of delegation • Implement any changes in 2018/19.	2018/19	Governance reviewed April 2018. No material changes identified.
Compliance with all statutory regulations.	• MiFID2 – ensure all appropriate documentation is completed by the deadline of Jan 2018. Continue to monitor compliance with MiFID2. • General Data Protection Regulations (GDPR) – ensure that the fund and LPP will be fully compliant with the new regulations by the deadline of May 2018 • Work with LPP representatives to implement changes	2018/19	MiFiD 2 implemented on time. It is an on-going process which will continue to be reviewed. The Fund has implemented GDPR regulations. LPP had an independent review of their implementation by a company that specialises in GDPR and data protection. LPP were rated as 'excellent'.
Ensure that LPP are operating effectively and to the agreement	• Regular meetings with LPP • Monitoring of performance and KPI's	Throughout period of Strategic Plan	Regular meetings with LPP are held. Updates and performance measures are

Appendix A

			reported to committee on a quarterly basis.
Ensuring LCPF interests are protected as other funds join the LPP Pool as clients	• Performance monitoring • Analysis of any proposal which impacts on shareholding arrangements	Throughout period of Strategic Plan as proposals are submitted	Performance of both the investment and administration services provided by LPP are monitored regularly. Reports submitted to and considered by both the Pension Fund Committee and Investment Panel.
Ensure appropriate and effective implementation of Responsible Investment	• Working group to review; • Develop an RI Policy; • Evaluate closer working with LPFA; • Review RI Reporting	June 2018	The Working Group is reporting back to the November Pension Fund Committee with a revised RI Policy and includes a new potential dashboard style reporting for RI. Closer working with LPFA regarding RI is still being explored, and as such, LPFA representatives attended the RI Working Group Meeting in October.
Continue to enhance risk management processes	• Ongoing assessment of existing and new risks; • Where appropriate linking of risk register to LPP risk register • Develop a fund risk management framework;	Risk approach to be enhanced on an ongoing basis throughout the period of the Plan	Regular reports submitted to both the PF Committee and the LPB. The LCPF continue to work closely with LPP to manage existing risks and identify and new emerging ones. LCPF are current in the process of developing a Risk Management Framework.
Implement any changes to the Local Pensions Board arising from the Advisory Board review of their effectiveness	• Assessment of Advisory Board findings and identify any weakness in the working of the Lancashire Local Pension Board	Throughout period in response to publications and recommendations	No recommendations have been issued from the SAB.

Ensure compliance with the Pension Regulator's (TPR) code of practice No. 14	Review the TPR's governance and administration 2017 report and guidance, specifically:- • Ensure scheme managers and pension board members are aware of their roles and responsibilities in running the pension scheme. • Undertake an annual data review and introduce an improvement plan (where required) • Ensure compliance with forthcoming TPR guidance on record keeping and breach reporting	March 2019	The Fund has a statement on compliance with COP 14 an update will be presented to the LPB annually. Breeches are now reported to the LPB on a quarterly basis.

Asset and Liability Management

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

Our objectives in this area are:

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

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

Outcomes	Actions	Timeframe	Progress September 2018
Ensure effective cash-flow management to meet pension fund payments in the future	• Revised Investment Strategy implemented from 1 April 2018, which increases liquidity in the portfolio, Continue to monitor cash-flow throughout the plan.	2018/19 and reviewed throughout Plan	Policy in place to manage some £70m in liquid assets by LCC's Treasury Management Team. Liaison between LPP and LCC to forecast and monitor cash flow is being undertaken.

All appropriate assets pooled. Agreed methodology for reporting savings.	• To oversee the completion of the pooling of investments • Continue development of a model to capture savings	Expected completion of pooling early 2018 Savings model established 2018/19	All appropriate assets are pooled.
Improve the transparency over the costs of the Fund	• Implement the CIPFA Code of Practice on Management expenses and the LGPS Advisory Board Code on Transparency	On-going in line with publication of the CIPFA guidance on the Codes	Work on-going with LPP and managers to implement the CIPFA code. Classification of costs is improving. CIPFA has also issued new guidance re disclosures following pooling which will be reviewed and implemented.
Ensure that the Investment Strategy is up to date and appropriate.	• To periodically review the Investment Strategy and implement any changes	Ongoing throughout the period	Investment Panel continually reviews strategy. No modifications required as Investment Strategy implemented from 1 April 2018.
Completion of the 2019 Actuarial Valuation and identification of changes, if any, required in the Investment Strategy	• Provision of data to the Actuary at individual member level. • Agreement of key assumptions with the Actuary by the PFC • Engagement with employers on an ongoing basis throughout the process, but particularly as results become available. • Review of Funding Strategy in light of results	Provision of data from April 2019. •Agreement of assumptions by PFC to be in line with Actuary's timetable. •Feedback of results from September 2019. •Revised Funding Strategy Statement PFC Feb / March 2020.	Initial discussion with actuary have been undertaken. The Head of Fund and actuary have met with the Chief Finance Officers to being the employer engagement process.

		•Implementation of revised Rates and Adjustments Certificate from April 2020	

Administration

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

Our objectives in this area are:

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

Outcomes	Actions	Timeframe	Progress September 2018
To ensure that the level of complaints and errors does not increase	To review the impact of the re-organisation of LPP administration service on LCPF	December 2019	LPP have implemented changes to the administration service. The impact of these has been monitored and reports presented to the Pension Fund Committee
Implementation of the penalty system policy from April 2018	Review and implement revised pensions administration strategy statement to include specific charging scales and ensure procedures are put in place to recover those charges from employers.	June 2018	The revised pension administration strategy statement (PASS) was approved at Pension Fund Committee in July 2018 following a consultation with scheme employers. The PASS was published and distributed to employers in Sept 2018 and now includes charging scales for penalties where an employer is in breach of their requirements under the scheme. Work is on-going with the LCC finance team and the LPP date team to ensure that procedures are in place to identify and rectify breaches promptly.
Manage Employer Risk	Develop employer engagement strategy to assess risk of individual employers which will include	April 2018	

	• A review of Pension strain factors underlying early retirement costs • Implementation of a revised Admissions and termination policy amending the actuarial assumptions used to assess the value of the liabilities at the point an employer exits the fund. • An on-going review of the employer covenant reports provided by LPP. • Consideration of on-going funding checks of scheme employer using bespoke actuarial monitoring tools.	April 2018 Annually Annually	New Admissions and termination policy completed April 2018. Work is on-going with LPP employer risk team and Mercers to identify "high risk" employers to monitor. Initial funding review of employers as at March 2018 has been passed to LPP as part of that on-going exercise.
Implementation of changes to statutory regulations	Review and implement all amending legislation including the following legislation expected in 2018 : • The 3 proposed policies covering caps and reforms being considered by government in respect of exit payments made to or in respect of a person leaving public sector employment. • LGPS amending legislation covering fair deal in the LGPS, Freedom and choice options for AVC,s and extended early release options for deferred members	Implemented in accordance statutory timetables	Consultations regarding any amendments in this area are still awaited. The Local Government Pension Scheme (Amendment) Regulations 2018 came into force on 14 May 2018. Those changes have been fully implemented by LPP. The freedom and choice options for AVC, which were included in the consultation, were not taken forward by the MHCLG in the final regulations. In addition the fair deal proposals were also not taken forward, however the MHCLG are still planning to proceed with this and will launch a separate consultation later this year.

Communication

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

Our objectives in this area are:

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

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

Outcomes	Actions	Timeframe	Progress September 2018
To ensure that all members and stakeholder appropriately identify and recognise LCPF	• Develop LCPF Branding • Develop a new website.	2018-19	A company has been engaged to produce a brand for LCPF. Website to be developed once determined.
Implementation of new AVC funds	• Communicate new approved funds being added to Prudential's portfolio	April 2018	New Lifestyle funds introduced and communicated to members in July 2018.

	• Assist employers who wish to implement Salary sacrifice shared cost AVC arrangements	Ongoing throughout period of Strategic Plan from June 2018	Availability of Salary sacrifice schemes for AVC's have been communicated to Scheme employers both directly and through the practitioner's conference. To date 4 employers have adopted the scheme. It is expected that the New scheme will be launched Feb to March 2019.

Glossary

GDPR- A European regulation which replaces data protection requirements including the UK Data Protection Act 1998

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

LCPF –Lancashire County Pension Fund.

LGPS- Local Government Pension Scheme. This is a statutory scheme with regulations stipulating the benefits available.

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

LPP - The Local Pensions Partnership is a collaboration between two LGPS funds – Lancashire County Pension Fund and London Pensions Fund Authority. It covers both investment and administration activities.

MiFID 2 -The second Markets in Financial Instruments Directive (MiFID II) is to be implemented in the UK from 3rd January 2018. Under this firms will be obliged to treat all local authorities, including Pension Funds, as retail clients unless they opt up to professional client status and meet certain criteria. These criteria include holding a minimum £10 million investment balance and employing knowledgeable and experienced staff to carry out investment transactions. LCPF will be opting up to professional status.

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

Agenda Item 5

Pension Fund Committee
Meeting to be held on Friday, 30 November 2018

Electoral Division affected:
None;

Lancashire County Pension Fund - Q2 Budget Monitoring
(Appendix A refers)

Contact for further information: Abigail Leech, Head of Fund, Lancashire County Pension Fund, Abigail.leech@lancashire.gov.uk

Executive Summary

This reports sets out the financial results of the Fund for the period 1st April to 30th September 2018 and compares those results to the agreed budget for the same period.

A forecast for the whole year is included, which is updated on a quarterly basis.

Recommendation

The Committee is asked to consider and note the variances between actual and budgeted results for the six months to 30th September 2018 and also the forecast financial results for the year ending 31st March 2019.

Background and Advice

The budget for the year ending 31st March 2019 was approved by the Committee on the 8th June 2018.

It is difficult to accurately estimate income due to the Fund and any costs associated with investment activities but it is considered essential to have an agreed budget each year to form the foundation for financial monitoring and in particular, the review of planned savings through investment pooling.

The budget takes into account the investment strategy of the Fund, historic trends and results of the year ended 31st March 2018.

Variances for the six months to 30th September 2018 against the key budget headings are outlined as follows.

Lancashire County Council

INCOME

Contributions from employers and employees
£43.2m adverse variance for 6 months to 30 September 2018

The budgeted contribution income from employers includes the recognition of the 2018/19 element of future service rate and deficit contributions received in advance from a number of Fund employers. After the budget was agreed, and on the basis of the opinion of the Fund's external auditors, Grant Thornton, an agreed adjustment was made to the statutory accounts of the Fund to recognise all advance contributions in the year of receipt. This results in a material favourable variance against budget for 2017/18 and an adverse variance of approximately £90m for the full year to 31 March 2019. Restating the budget for this amendment would result in a budget of approximately £163m for contribution income and a forecast favourable variance of £3.0m.

2019/20 contributions will be similarly affected but the 2019/20 budget will reflect the reduced level of income and no variance in respect of prepayments will be reported through the monitoring.

Transfers in to the Fund
£2.3m under recovery for 6 months to 30 September 2018

As was reported to the Committee in September there is no apparent historic trend in respect of value or timing of transfers in to the Fund. The year to date favourable variance has been carried forward to 31 March 2019 and no further variance has been assumed for the second half of the year.

Investment income
£47.2m favourable variance for 6 months to 30 September 2018

Of the £47.2m favourable variance, £46.8m is attributable to pooled investments. The budget for income from pooled investments did not assume any % growth. Pooled investment income includes dividends received into the global equities pool which are reinvested and form part of the movement in market value on the net assets statement.

Smaller, favourable variances in income from fixed income investments (£2.8m), foreign exchange (£2.8m) and other investment income (£1.6m) more than mitigate for the year to date shortfall in property rental income (£6.8m). Income from property is being reviewed but the shortfall is understood to be the result of weaker than anticipated rental rates and demand, together with general market conditions - particularly in the retail space.

A full year positive variance of £23.6m is recognised against investment income. Since income from pooled investments is reinvested this will have a net nil impact on the overall fund value as the surplus income is offset by an increase in market value of pooled investments.

EXPENDITURE

Transactions with members
£7.0m under spend for 6 months to 30 September 2018

Pensions in payment are broadly in line with budget (£1.8m adverse variance) as are refunds of contributions (£0.1m favourable).

Lump sum benefits payable and transfers out are both underspent by £4.4m against the budget to 30 September. At the end of June the under-spend was greater. The reduction in the variance indicates that this is a result of timing of expenditure rather than a recurring budget saving.

As is the case with income from transfers in, it is difficult to forecast expenditure of this nature and the full year forecast assumes payments in the second half of the year will be in line with budget, This results in a £5.2m forecast underspend for the full year against transactions with members.

Administration expenses
£0.3m saving against budget for 6 months to 30 September 2018

Budget monitoring for the first quarter of the year reported a saving of £0.3m for the full year and this position is unchanged as at 30 September 2018.

Due to timing of invoices received from the Local Pension Partnership (LPP) in the prior year, the Fund accounts for the year ended 31 March 2018 included an over accrual of £0.3m in respect of administrative expenses billed by LPP. This offsets current year actual costs.

There is no indication at present of a variance against the budget for current year expenditure which is based on a cost per member. For this reason, the saving created by the over-accrual is assumed to carry through to 31 March 2019.

Investment management expenses
£1.6m underspend against budget for 6 months to 30 September 2018

An underspend of £1.0m on pooled investments, £0.2m on transition fees and £0.7m on commission and agents charges is offset by an unbudgeted cost of £1.9m withholding tax. Withholding tax is not budgeted as it is recoverable over time.

The £1.2m underspend on property expenses is in line with expectations as the majority of cost in the current year is on capital items which are included in the property value on the balance sheet rather than included within revenue expenditure. Spend for the second half of the year is assumed to be in line with budget.

£3.2m budget for property management fees has been realigned from oversight and governance to investment management during the second quarter of the year. There is a £0.4m saving in the first six months against this budget.

Investment management expenses are reported by underlying asset managers on an arrears basis, usually quarterly. For this reason it is necessary to estimate fees on a quarterly basis and adjust in subsequent months when data becomes available. The budget includes an expectation that fees will increase as a result of the transparency agenda.

Total costs previously absorbed within asset value have not yet been separately identified and will continue to be quantified over the year. This process may not be completed by the end of the year as all Funds move towards greater transparency of cost and investment reporting.

Oversight and governance expenses
£0.3m underspend against budget for 6 months to 30 September 2018

£0.2m underspend on other advisory fees can be attributed to the review of cost reporting through the year and the alignment of budgets for performance monitoring and professional fees.

The remaining £0.1m underspend on oversight and governance is due to phasing of invoices receivable from external advisors. No full year variance has been recognised as at 30 September 2018 in this budget category.

NET POSITION

Year to date
A favourable net variance of £10.9m against budget has been reported at the end of the first half of the year and comprises over-recovery of income of £1.7m and an under-spend against expenditure budgets of £9.2m. The reduced cash flow from employer contribution income as a result of earlier prepayments is offset by higher than expected investment income in the first six months of the year.

Full year
A net variance of £57.7m overspend is forecast for the year to 31 March 2019.

It is difficult to forecast investment income accurately and for this reason the second half of the year is assumed to be in line with budget.

The full year income to the Fund is forecast to be under budget by £65.1m due to the recognition of approximately £85.1m contributions income relating to the current year in 2017/18, an under-recovery of transfers in (£2.3m) and employee contributions (£1.3m)and the carry forward of 'surplus' investment income of £23.6m from the first half.

Full year expenditure is forecast to be underspent by £7.5m, with the most significant variances being against transactions with members (£5.2m), investment management expenses (£1.7m), administration costs (£0.3m) and oversight and governance costs (£0.3m).

Actual and budget results for the nine month period to 31 December 2018 will be analysed and a revised full year forecast will be presented to the Committee at the March meeting.

Consultations

Local Pensions Partnership consulted in respect of investment management fees.

Implications:

This item has the following implications, as indicated:

Risk management

Regular monitoring against the budget of the fund will provide an explanation of key variances and will inform future budget setting and forecasting. The inclusion of a full year forecast should assist in providing an 'early warning' of potential overspends and may enable mitigating action to be taken in year.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund - Fund Account - Year Ending 31st March 2018

Appendix A

	Actual year ended 31 March 2018 £'000	Budget year ended 31 March 2019 £'000	Budget for 6 months to 30 September 2018 £'000	Actual for 6 months to 30 September 2018 £'000	Variance for 6 months to 30 September 2018 £'000	Notes - see below	Forecast year ended 31 March 2019 £'000	Forecast full year budget variance £'000	Notes - see below
INCOME									
Contributions Receivable									
From Employers	(181,374)	(193,100)	(96,550)	(54,003)	42,548	1	(108,005)	85,095	1
From Employees	(56,522)	(59,382)	(29,691)	(29,045)	646		(58,090)	1,292	
Total contributions receivable	**(237,896)**	**(252,483)**	**(126,241)**	**(83,047)**	**43,194**		**(166,095)**	**86,388**	
Transfers in	(11,518)	(11,370)	(5,685)	(3,368)	2,317		(9,053)	2,317	
Total Investment Income	(142,008)	(144,397)	(72,199)	(119,363)	(47,164)	2	(167,980)	(23,582)	2
TOTAL INCOME	**(391,422)**	**(408,250)**	**(204,125)**	**(205,779)**	**(1,654)**		**(343,128)**	**65,122**	
EXPENDITURE									
Benefits Payable									
Pensions	213,656	220,065	110,033	111,872	1,839		223,743	3,678	
Lump Sum Benefits	41,188	42,424	21,212	16,813	(4,399)		38,025	(4,399)	
Total benefits payable	254,844	262,489	131,244	128,685	(2,560)		261,768	(720)	
Transfers out	17,354	17,875	8,937	4,533	(4,404)		13,471	(4,404)	
Refund of Contributions	594	611	306	254	(52)		560	(52)	
Contributions Equivalent Premium	(27)	(28)	(14)	(2)	12		(4)	24	
Fund administrative expenses									
Administrative and processing expenses:									
LPP administrative expenses	3,712	3,300	1,650	1,367	(283)	3	3,010	(290)	3
Write off of bad debts	19	10	5	2	(3)		7	(3)	
Total administrative expenses	**3,731**	**3,310**	**1,655**	**1,369**	**(286)**		**3,017**	**(292)**	
Investment management expenses									
Investment management fees:									
LPP directly invoiced investment management fees	3,078	1,800	900	869	(31)		1,800	0	
DIRECTLY INVOICED non LPP investment management fees - direct holdings	4,662	4,662	2,331	1,999	(332)		3,998	(664)	
Investment management fees on pooled investments	45,922	52,092	26,046	25,002	(1,044)		51,048	(1,044)	
Transition costs	303	200	200	(13)	(213)		200	0	
Custody fees	99	50	25	15	(10)		30	(20)	
Commission, agents charges and withholding tax	1,421	1,421	711	1,902	1,191	4	2,612	1,191	4
LCC recharge for treasury management costs	52	52	26	34	8		67	15	
Property expenses	3,342	3,442	1,721	533	(1,189)		2,254	(1,189)	
Total investment management expenses	**58,880**	**63,720**	**31,960**	**30,340**	**(1,620)**		**62,009**	**(1,711)**	
Oversight and Governance expenses									
Performance measurement fees (including Panel)	54	75	38	9	(29)		17	(58)	
IAS19 advisory fees	70	70	35	33	(2)		66	(4)	
Other advisory fees (including abortive fees)	608	600	300	32	(268)		400	(200)	
Actuarial fees	39	50	25	15	(10)		30	(20)	
Audit fees	27	52	26	10	(16)		21	(31)	
Legal & professional fees	188	188	94	90	(3)		181	(7)	
LCC recharges	446	446	223	227	3		453	7	
Bank charges	6	6	3	2	(2)		3	(3)	
Total oversight and governance expenses	**1,439**	**1,487**	**744**	**417**	**(326)**		**1,171**	**(316)**	
TOTAL EXPENDITURE	336,814	349,464	174,833	165,596	(9,236)		341,992	(7,472)	
MONEY AVAILABLE FOR INVESTMENT BEFORE REALISED AND UNREALISED PROFITS AND LOSSES ON INVESTMENTS	**(54,608)**	**(58,785)**	**(29,292)**	**(40,182)**	**(10,890)**		**(1,135)**	**57,650**	

NOTES

1 - The budgeted contribution income from employers includes the recognition of the 18/19 element of future service rate and deficit contributions received in advance from a number of Fund employers. After the budget was agreed and on the basis of the opinion of the Fund's external auditors Grant Thornton, an adjustment was made to the statutory accounts of the Fund to recognise all advance contributions in the Fund account for 2017/18. This results in a significant favourable variance against budget for 2017/18 and an adverse variance of approximately £90m in the current year.

2 - Of the £23.6m favourable variance in investment income, £23.4m is attributable to pooled investments. Favourable income variances against fixed income investments (£1.4m), foreign exchange (£1.4m) and other investment income (£0.8m)mitigate for the year to date shortfall in property rental income (£3.4m). The budget for income from pooled investments did not assume any % increase on the prior year and represents the sum of income from investment assets in 2017/18, excluding directly held property income. Pooled investment income includes dividends received into the global equities pool which are reinvested.

3 - Over accrual of March LPP admin costs has resulted in a credit in 18/19. Assumption is that this will be a favourable variance over the year.

4 - Withholding tax of £1.9m YTD has been suffered on the LPPI PE pool and also on infrastructure and credit assets. The forecast for the second half of the line is in line with budget. Withholding tax was not budgeted - it is assumed that the Fund will recover this as income but there can be a significant timing difference due to the requirements of different tax jurisdictions.

Agenda Item 6

Pension Fund Committee
Meeting to be held on Friday, 30th November 2018

Electoral Division affected: (All Divisions);

Responsible Investment
(Appendix A refers)

Contact for further information: Mukhtar Master, 01772 532018, Governance & Risk Officer, Mukhtar.Master@lancashire.gov.uk

Executive Summary

Responsible Investment (RI) encompasses a range of stewardship activities associated with Lancashire County Pension Fund (LCPF) fulfilling its fiduciary duty to act in the best long term interests of fund beneficiaries.

The report presented at Appendix 'A' provides the Pension Fund Committee with an update on Responsible Investment matters.

Recommendation

The Committee is asked to comment on this report.

Background and Advice

RI Report LPP:

The report at Appendix 'A' has been prepared by the Responsible Investment Manager at LPP Investments Ltd and provides information on how the Fund is being supported to fulfil its commitment to long term responsible asset ownership in line with the approach set out within its Investment Strategy Statement.

For the purposes of reporting on voting, engagement and litigation monitoring activities, the information provided relates to the third quarter of 2018 and focusses on the period from 1st July 1018 to 30 September 2018. For the purposes of reporting on wider matters, more recent developments are also reflected as part of bringing current and emerging issues to the Committee's attention.

RI Working Group:

Further to a request made at the Pension Fund Committee held on the 23rd March 2018, the RI Working Group were asked to review the Climate Change Policy the outcome of this working group is presented elsewhere on the agenda.

Lancashire County Council

LPP – Additional Resource for RI:

LPP have increased their staffing resource for their Responsible Investment team. A new Senior Analyst, Clarisse Simonek has been recruited to work alongside Frances Deakin, the RI Manager.

Responsible Investment Statutory Guidance:

The LGPS Scheme Advisory Board's Investment, Governance and Engagement Sub Committee met on the 3rd September 2018. Point 6 of the minutes, which can be found on the Scheme Advisory Board website, reads "It was agreed that further statutory guidance would be of help to LGPS funds, including partitions of voting rights for pooled funds and the views of scheme members."

LINK - http://www.lgpsboard.org/images/PDF/IEOct2017/Item2_PaperA.pdf

This guidance will be shared with the Committee once it becomes available.

LGC Investment (October 18)

An article titled 'Always invest responsibly', which appeared in the LGC Investment periodical dated October 18. The article looks at how the LGPS is pursuing responsible investment and includes references to LPP and LCPF, together with comments by Frances Deakin, the LPP Responsible Investment Manager. A copy of this article is available at the following link:

https://www.lgcplus.com/investment/how-the-lgps-is-approaching-responsible-investment/7026438.article?blocktitle=More-on-investment&contentID=22587

Consultations

Frances Deakin the Responsible Investment Manager at LPP was consulted regarding this report.

Implications:

This item has the following implications, as indicated:

Risk management

It is an important component of good governance that the Fund is an engaged and responsible investor committed to actions which are in the best long term interests of fund members and beneficiaries.

As an LGPS Fund, LCPF is required to be a signatory to the UK Stewardship Code and to uphold the principles espoused by the code.

The monitoring of investee companies and the promotion of good corporate governance practices can help to reduce the risk of unexpected losses arising as a result of poor over-sight and lack of independence.

Responsible investment practices underpin the fulfilment of LCPF's fiduciary responsibilities to Fund beneficiaries and are implemented in practice through the advisory and investment management services provided by LPP I.

Quarterly RI Reports provide information to the Pension Fund Committee on the stewardship of the Fund's assets by LPP I and enable the committee to monitor the activities undertaken.

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.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate
N/A

Appendix A

LOCAL PENSIONS PARTNERSHIP INVESTMENTS LIMITED

Lancashire County Pension Fund

Pension Fund Committee
Responsible Investment Report

30 November 2018

Title of Paper	Quarterly Report on Responsible Investment (2018 Q3)
Lead Officer:	Frances Deakin Responsible Investment Manager Local Pensions Partnership Investments Ltd frances.deakin@localpensionspartnership.org.uk
Appendices	Annex A1 – LPP I RI Policy - Annex on Climate Change Annex A2 – Press Release

1. Executive Summary

This report provides members of the Pension Fund Committee of Lancashire County Pension Fund (LCPF) with a quarterly update on Responsible Investment (RI) matters.

2. Introduction

The Fund's approach to RI is articulated within an Investment Strategy Statement (ISS) which confirms that the objective of RI is to decrease investor risk, improve risk-adjusted returns and assist the Fund's adherence to the UK Stewardship Code. LCPF’s ISS is supplemented by a Responsible Investment Policy which explains that the Fund's preferred approach to RI encompasses four main areas of activity:

- Voting Globally
- Engagement through Partnerships
- Shareholder Litigation
- Active Investing

Responsibility for the practical implementation of the Fund's approach to RI is devolved to Local Pensions Partnership Investments Ltd (LPP I) as LCPF's provider of investment management services. The report which follows provides the Committee with an update on RI activity during the period 1 July to 30 September 2018 plus insights on current and emerging issues.

3. Voting Globally

Through its investment in the LPP I Global Equities Fund (GEF) LCPF owns units in a pooled fund which invests in listed companies globally. Investors in the GEF delegate the control and exercise of shareholder voting to LPP I. This reflects that clients owning units in the GEF are beneficial owners in common but do not directly own shares in underlying companies.

LPP I exercise shareholder voting rights for the GEF centrally rather than delegating voting to individual asset managers and take account of voting recommendations from an external provider of proxy voting and governance research (ISS) in accordance a Sustainability Voting Policy designed to ensure the consideration of ESG factors within analysis. LPP I review voting recommendations and take the final decision on all voting.

In the third quarter of 2018 shareholder voting headlines for the GEF were as follows:

LPP I Global Equities Fund (GEF)

Total company meetings taking place	69
Total resolutions (management and shareholder proposals)	674
Total company proposals in the period	665
Total shareholder proposals in the period	9

Company Proposals

Voting Supported Management	608	91%
Voting Opposed Management	57	9%

Shareholder Proposals

Shareholder proposals supported by LPP I	7	78%
Votes against shareholder proposals	2	22%

The following table summarises resolutions by type and indicates where opposition voting was concentrated in Q3.

	Proposals			
	For	Against	Withhold	Total
Anti-takeover Related	7			7
Capitalization	75			75
Director Related	279	34	3	316
Non-Salary Compensation	55	7		62
Preferred/Bondholder	4	6		10
Reorg. and Mergers	13	4		17
Routine/Business	175	3		178
SH-Compensation	1	1		2
SH-Director Related	1	1		2
SH-Health/Environment	1			1
SH-Other/Miscellaneous	2			2
SH-Routine/Business	2			2
Total	615	56	3	674

LPP I voted against management proposals in 56 instances.
This included opposing management nominations in the election / re-election of 31 directors. Voting reflected concerns with the composition and independence of company boards as a whole, and with the independence of individual Board members but also

addressed instances of poor attendance at board and committee meetings in the prior year.

Management proposals on compensation arrangements prompted 7 opposition votes which mainly reflected the inadequate disclosure of information around performance conditions, vesting periods and the basis of some of the sub-components included within compensation calculations.

At the BT Group AGM, LPPI voted against the Remuneration Report as a reflection of misalignment between the bonuses due to be paid to the CEO and Financial Director and Corporate Performance (and the experience of shareholders via share price) in the same period.

LPP supported 7 shareholder proposals across 6 company meetings in Q3.
Most reflected what are now familiar (Governance) themes and gained a reasonable level of support whilst ultimately falling short of the majority required for adoption:

- improved shareholder rights
  H&R Block Inc (US Consumer Services)– require shareholder approval for byelaw amendments agreed by the Board – 2% support, McKesson Corp (US Healthcare) - reduce the ownership threshold for Shareholders to call Special Meetings – 47% support.
- greater transparency
  McKesson Corp – provide a report on political lobbying - 38% support,
  Nike Inc (US Consumer Durables & Apparel) provide a report on political contribution policies - 27% support.

A shareholder resolution on a more individual (Social/Environmental) issue arose at the Darden Restaurants AGM where the request was for an assessment (by the USA's largest restaurant chain) of the feasibility of phasing out the routine use of medically important antibiotics from its meat supply chain. The resolution received 40% support, which was a significant increase on similar resolutions at the last two AGMs which gained 9% and 13% support respectively. The two previous proposals asked for the adoption of a policy to eliminate the use of medically important antibiotics for disease prevention purposes, while this year's proposal asked for a report evaluating the feasibility of adopting such a policy.

Support for the resolution reflected that a growing number of Darden's peers have committed to eliminating the use of medically important antibiotics in their animal agriculture supply chains, and Darden could be at risk of becoming a laggard.

Members can view details of voting for all meetings via the LPP website where quarterly reports for the GEF are made publicly available.

https://www.localpensionspartnership.org.uk/what-we-do/investment-management

4. Engagement through Partnerships

LPP I regularly participates in collaborations which aim to make progress on commonly held issues by co-ordinating the efforts of multiple investors. Key partners include the Local Authority Pension Fund Forum (LAPFF) the Pensions and Lifetime Savings Association (PLSA) the Principles of Responsible Investment (PRI) the Institutional

Investor Group on Climate Change (IIGCC) the LGPS Cross Pool RI Group, and the UK Pension Scheme RI Roundtable.

LAPFF

LAPFF has long been LCPF's preferred engagement partner.
The Forum's most recent quarterly Business Meeting took place on 10 October 2018 and received a range of papers including:

Board-level employee representation

An update on new requirements around employee representation introduced under the recently revised UK Corporate Governance Code, which includes 3 options for company engagement with staff:

- a director appointed by the workforce;
- a formal workforce advisory panel;
- a designated non-executive director.

The new requirement applies on a comply or explain basis after 1 Jan 2019 for premium listings. LAPFF will be engaging with a sample group of companies around their planning and preferences in order to produce further guidance for Funds wishing to engage with companies on this theme going forward.

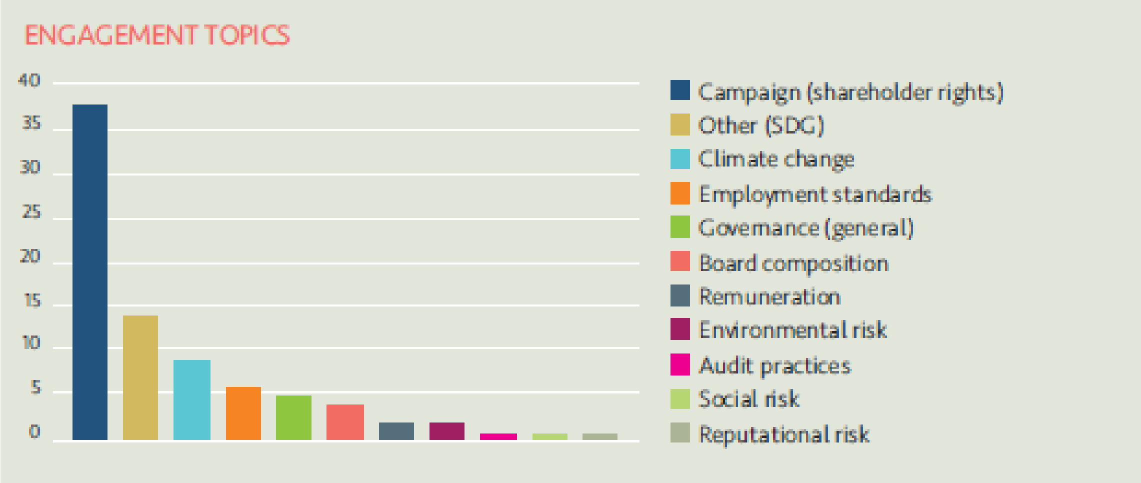
Industry associations and lobbying

LAPFF is to refresh current guidance around expectations of companies who are members of trade and other representative bodies. Changes will address the issue of a potential mis-alignment between what a company may state publicly and to their shareholders (e.g. about their commitments on climate change and sustainability) and what trade bodies acting in their name may be doing, such as lobbying against progressive policy change.
We have seen examples of shareholder resolutions seeking better disclosure on the lobbying activities of companies (mainly in the US) in Q3 2018 and prior periods which are addressing a similar issue in seeking to encourage good practices which reflect and supports the interests of shareholders.

LAPFF Q3 Engagement Report

The LAPFF engagement programme reflects the Forum's assessment of key priorities from across the collective equity holdings of LAPFF members. On a quarterly basis LAPFF provides a summary of the engagement activities undertaken on behalf of member funds which is available from the LAPFF website. http://www.lapfforum.org/publications/qrtly-engagement-reports/

Quantified across thematic topics, engagement activity by LAPFF in Q3 was as follows:



The 63 companies engaged with and the topics covered by LAPFF in Q3 were as follows:

Q3 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
A3M Company	Letter	Campaign (Shareholder rights)	Dialogue
ABB Ltd	Letter	Campaign (Shareholder rights)	Dialogue
Abbott Laboratories	Letter	Campaign (Shareholder rights)	Dialogue
American Electric Power Company Inc	Letter	Campaign (Shareholder rights)	Dialogue
Barratt Development plc	Letter	Other (SDGs)	Dialogue
Berkeley Group Holdings plc	Letter	Other (SDGs)	Dialogue
Bovis Homes Group plc	Letter	Other (SDGs)	Dialogue
BP plc	Meeting	Climate Change	Substantial improvement
Bristol-Myers Squibb Company	Letter	Campaign (Shareholder rights)	Dialogue
Brown-Forman Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Cairn Energy plc	Letter	Board composition	Dialogue
Caterpillar Inc	Letter	Campaign (Shareholder rights)	Dialogue
Conocophillips	Letter	Campaign (Shareholder rights)	Dialogue
Cummins Inc	Letter	Campaign (Shareholder rights)	Dialogue
Deere & Company	Letter	Campaign (Shareholder rights)	Dialogue
Devon Energy Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Dow DuPont Company	Letter	Campaign (Shareholder rights)	Dialogue
Eli Lilly and Company	Letter	Campaign (Shareholder rights)	Dialogue
Emerson Electric Co	Letter	Campaign (Shareholder rights)	Dialogue
ExxonMobil Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Fluor Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Ford Motor Company	Meeting/Letter	Climate change/Campaign (Shareholder rights)	Small improvement
General Electric Company	Letter	Campaign (Shareholder rights)/ Climate change	Dialogue
Glencore plc	Letter	Audit practice	Dialogue
Go-Ahead Group plc	Letter	Other (SDG)	Dialogue
Intel Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Johnson & Johnson	Letter	Campaign (Shareholder rights)	Dialogue
Johnson Controls Inc	Letter	Campaign (Shareholder rights)	Dialogue
Leggett & Platt Inc	Letter	Campaign (Shareholder rights)	Dialogue
Lockheed Martin Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Marathon Petroleum Corporation	Letter	Campaign (Shareholder rights)	Dialogue
McCormick & Company Inc	Letter	Campaign (Shareholder rights)	Dialogue
Merck & Co Inc	Letter	Campaign (Shareholder rights)	Dialogue
Microsoft Corporation	Letter	Campaign (Shareholder rights)	Dialogue
National Grid plc	Letter	Climate change	Dialogue
Nestle SA	Letter	Other (SDG)	Dialogue
Nostrum Oil & Gas plc	Letter	Board composition	Dialogue
Novartis AG	Letter	Campaign (Shareholder rights)	Dialogue
Pearson plc	Meeting	Governance/Remuneration	Moderate improvement
Pennon Group plc	Letter	Other (SDG)	Dialogue
PepsiCo Inc	Letter	Other (SDG)	Dialogue
Persimmon plc	Letter	Other (SDG)	Dialogue
Pfizer Inc	Letter	Campaign (Shareholder rights)	Dialogue
PPG Industries Inc	Letter	Campaign (Shareholder rights)	Dialogue

Procter & Gamble Company	Letter	Campaign (Shareholder rights)	Dialogue
Rio Tinto Group (GBP)	Meeting	Climate change	Moderate improvement
Ryanair Holdings plc	Alert issued/AGM	Employment standards/Board composition	Change in process
Sainsbury (J) plc	Meeting	Governance (General)	Dialogue
Severn Trent	Letter	Other (SDG)	Dialogue
Southern Company	Letter	Climate Change/Campaign (Shareholder rights)	Dialogue
Sports Direct International plc	Alert issued/AGM/ Letter	Employment standards/Board composition	Dialogue
Stagecoach Group plc	Letter	Other (SDG)	Dialogue
Suez Environment	Letter	Other (SDG)	Dialogue
Taylor Wimpey plc	Letter	Other (SDG)	Dialogue
Textron Inc	Letter	Campaign (Shareholder rights)	Dialogue
The Boeing Company	Letter	Campaign (Shareholder rights)	Dialogue
The Coca-Cola Company	Letter	Other (SDG)	Dialogue
The Goodyear Tire & Rubber Company	Letter	Campaign (Shareholder rights)	Dialogue
Tullow Oil plc	Letter	Board composition	Dialogue
Unilever plc	Meeting	Environmental risk/Social risks/ Governance	Small improvement
United Technologies Corporation	Letter	Campaign (Shareholder rights)	Dialogue
United Utilities Group plc	Letter	Other (SDG)	Dialogue
Verizon Communications Inc	Letter	Campaign (Shareholder rights)	Dialogue

The campaign (shareholder rights) is focussed on the issue of contradictory lobbying which was touched upon above. Along with 80 investors, LAPFF have been named on letters to 45 US companies that serve on the National Association of Manufacturers' (NAM) board. NAM has commissioned a report on shareholder engagement which conveys negative messaging about investor engagement and shareholder resolutions in general and about climate change in particular. The joint letter expresses particular concerns at the report funded and distributed by NAM, which asserts that shareholder resolutions diminish company value. The letters call for companies to distance themselves from NAM's position and to communicate their concerns to NAM leadership, arguing that NAM's stance is in direct contradiction to the dialogue companies are having in private with their investors and messaging within their public reporting to shareholders and stakeholders.

Principles of Responsible Investment (PRI)

LPP became a signatory to the PRI in place of LCPF and LPFA over the summer which has removed prior barriers to accessing policy and guidance materials and to considering participation in collaborations under the co-ordination of the PRI.

LPP I recently met with PRI staff directly to begin a dialogue, explore resources available and be introduced to opportunities for consideration within future planning (subject to there being a good fit with our engagement priorities).

Shareholder Litigation

LPP I employ Institutional Protection Services (IPS) as an external provider of litigation monitoring services to ensure shareholder litigation cases affecting securities owned by the GEF are known about, claims are filed in a timely way and progress is monitored and followed up with Claims Administrators. In addition, IPS monitor cases relating to shares held by LCPF in the period before the Fund pooled its listed equity investments from November 2016. Litigation can arise quite some time after shares have been sold and monitoring new cases and referring back to historic holdings records to establish rights of ownership is an ongoing task.

IPS provide LPP I with monitoring information on a quarterly basis detailing the number of cases investigated. The monitoring report for Q3 2018 confirms that of 10 potential cases identified where the Fund might have an entitlement to join a class action, further analysis had discounted 2. There are 3 cases where eligibility is still being assessed and 5 where eligibility has been confirmed and a claim will be filed.

5. Active Investing

The LCPF Responsible Investment Policy describes active investing as the search for sustainable investments which meet LCPF's requirements for strong returns combined with best practice in ESG and corporate governance. The Fund has not set allocations for investments within specific sectors but favours sustainable investments with positive social characteristics.

The following examples share information on developments which will contribute to ensuring the sustainability of the portfolio over the long term.

LPP I Policy on Climate Change

As a supplement to the LPP I Responsible Investment Policy, LPP I has published an Annex on Climate Change which describes the approach to understanding and managing the risks and opportunities climate change presents for the portfolios we manage on behalf of client pension funds.

A copy of the new Annex on Climate Change is attached at **Annex A1** and describes steps LPP I is already taking and broader areas identified for further development going forward.

Details include

- a commitment to cease investing in thermal coal extraction through our Global Equities Fund by divesting existing holdings and placing an exclusion on further investments in this sector. We are working through the challenges associated with expanding the exclusion to include other asset classes.
- qualitative targets around our investment in companies involved in fossil fuel extraction. These reference the Transition Pathway Initiative (TPI) Management Quality stairway which assigns companies to one of 5 levels based on their recognition and management of transition risks.
  Our target is that fossil fuel companies we invest in should be rated at a minimum of TPI level 2 (Building Capacity) in 2018 and TPI Level 3 (Integrating into Operational Decisions-Making) in 2019.

Climate Science and Asset Management

One of our external managers with mandates in both the LPPI Global Equities Fund and Global Fixed Income Fund (Wellington) has confirmed an exciting new collaboration with Woods Hole Research Center (WHRC), the world's leading independent climate research institute. The aim of the initiative is to advance collective understanding of the investment risks faced from climate change by bringing a deeper, fact-based understanding to the integration of climate science and asset management. The intended outcome is the creation of quantitative models which analyse how and where climate change may impact global capital markets.

As a result of the initiative, Wellington and WHRC will collaborate on a broad range of projects, including developing investor tools and innovative analytical methods to enhance climate risk assessment. A press release providing further details on the collaboration is attached at **Annex A2**.

LPP I will receive ongoing updates from Wellington on the progress of their collaboration as part of ensuring insights are shared and any tools developed can be considered for integration going forward.

LOCAL PENSIONS PARTNERSHIP INVESTMENTS LTD

Responsible Investment Policy
Annex on Climate Change

1. Introduction

This annex to our Responsible Investment Policy explains our climate change beliefs and describes our approach to understanding and managing the risks and opportunities climate change presents for the portfolios we manage on behalf of clients.

2. Our Climate Change Beliefs

Climate change poses a long-term and material financial risk to client portfolios. It has the potential to impact value across all the asset classes we invest in globally, but the route scale and timing of this impact is both complex and uncertain.

Climate change is a systemic risk which arises from the physical effects of sustained changes in weather patterns due to global warming and from human interventions to mitigate and manage these changes by adapting to new circumstances through regulation, technological innovation, or other cultural shifts.

Climate change will impact companies globally. It has the potential to destroy value where business risks are not being recognised and integrated into effective strategic planning but also presents opportunities for value creation where products and services can be developed which solve problems and meet societal needs.

The scope, dimensions, materiality and long-term significance of climate change as an investment issue merit specific attention as part of our Responsible Investment approach and the processes we develop to implement this in practice.

3. Our Climate Change Beliefs Translated into Practice

Our ultimate objective is to be able to identify, quantify, measure, act, monitor and report to clients on our management of climate change risk on their behalf. This is a significant undertaking with numerous challenges and we recognise that we are at an early stage of an ongoing task to evolve our capabilities, access insightful data, set appropriate measures and monitor and report on our progress.

The steps we are already taking and areas we have identified for further development are briefly set out below.

Investment Selection & Portfolio Monitoring

Our approach to asset selection (for internally managed assets) and to manager selection and monitoring (for assets managed by external managers) is built around detailed risk analysis and an up-to-date understanding of context as part of due diligence. This approach suits the complexity and multi-dimensional nature of climate change and the challenge it poses for strategy integration.

Our starting point is to ensure managers share our beliefs and have the capabilities to meet our requirements. In appointing third party managers we routinely assess their approach to responsible investment and the integration of environmental, social and corporate governance factors. Our Responsible Investment Due Diligence Questionnaire includes specific questions on assessing, monitoring and reporting on climate change and questionnaire responses inform our detailed selection and appointment process.

Identifying the risks client portfolios face from climate change requires quantitative measurement. Measurement and monitoring require information. We are continually seeking data and tools to help us to assess the position of individual companies and support our evaluation of the aggregate position at headline level. Our focus to date has been on listed equities where information is most readily available, but our learning will inform the more challenging task of translating this analysis to wider asset classes.

We recognise that whilst all companies may ultimately be impacted by climate change, some sectors face greater risks due to their emissions intensity or involvement in traditional energy production based on fossil fuels which will need to be significantly curtailed to meet global emissions reduction targets. We are utilising data on greenhouse gas emissions to understand the position of sectors and companies and are exploring the alignment of our Global Equities Fund with a 2°c pathway in order to reference our position relative to the goals of the Paris Agreement.

We are using data from CDP and the Transition Pathway Initiative (TPI) toolkit to ensure our review of the position of our listed equities investments is referenced against external measures of corporate progress in the planning and management of climate-related business risks.

We are closely monitoring the companies in our portfolio engaged in the extraction of fossil fuels as part of evaluating the balance of risk to return for these assets and the likelihood of material asset stranding. Our assessment of companies informs an ongoing dialogue with managers around their own evaluation of the climate change risks their portfolios encompass.

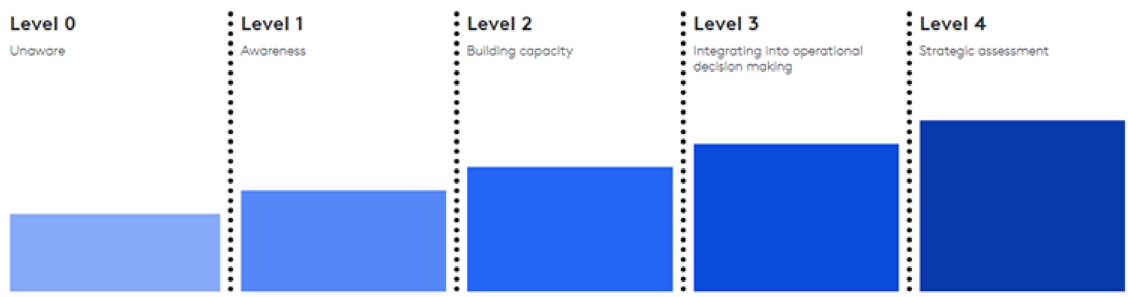
Our work has identified thermal coal extraction as a particular focus of risk. Coal is the most carbon intensive fossil fuel and the traditional energy source most likely to face declining demand in the face of rising renewable output at a reducing cost. As a consequence of this and an exception to our normal approach we have taken the decision to cease investing in thermal coal extraction through our Global Equities Fund by divesting existing holdings and placing an exclusion on further investment in this sector. This step reflects a commitment to protecting the long term financial interests of all clients invested in our Global Equities Fund. We acknowledge and are pragmatically managing the methodological challenges associated with thermal coal exclusion across other asset classes.

We have set qualitative targets around our investment in fossil fuel extraction. These reference the effectiveness of corporate governance by individual fossil fuel companies based on TPI Management Quality Scores. Setting targets is an exploratory step intended to maintain a clear focus on extractive companies and the investment risks they pose, the likelihood of value loss and the quality of corporate planning for climate related challenges.

Our target for the Global Equities Fund in 2018 is for all extractive fossil fuel companies within TPI coverage to be rated at TPI 2 or above. For 2019, the target is for companies to achieve a score of TPI 3 or above.

Transition Pathway Initiative (TPI) – Management Quality Stairway

Companies are assessed to one of 5 levels based on their position in relation to the recognition and management of transition risks. Standard questions are posed and are answered using publicly available data.



Targets apply on a comply or explain basis and Managers are required to provide a detailed justification for any alternative opinion on the preparedness of investee companies for the transition to a low carbon economy. Our focus in setting targets is to ensure we invest in companies which are addressing and assisting the transition to a lower carbon future and moving out of those which are not managing risk effectively on behalf of shareholders. This is facilitated by scrutiny and challenge based on a consistent measure. The TPI toolkit is publicly available, accessible to all managers without the need to subscribe to a proprietary data system and refreshed annually.

The efficacy of setting and monitoring to qualitative targets will be kept under review and considered in light of the availability of alternative measures and approaches for ensuring a consistent approach to corporate evaluation as part of manager monitoring.

Active Ownership (Voting and Engagement)

Our commitment to encouraging good corporate governance through our ownership activities includes a specific focus on climate related issues for investee companies.

Our shareholder voting approach explicitly identifies all upcoming resolutions on environmental themes. In appropriate circumstances we will support resolutions which encourage companies to recognise, evaluate, adapt to and report on climate related business risks and opportunities, or which urge them to evolve their current approach where further development is warranted. This is in line with our Shareholder Voting Policy which recognises the responsibility of asset owners to monitor and engage with investee companies in order to protect value.

As part of our engagement approach, LPPI is networked with a range of organisations working on climate related agendas. These include the Principles of Responsible Investment, the Institutional Investor Group on Climate Change, the Transition Pathway Initiative and Climate Action 100+. Our interactions with these groups inform our thinking and provide opportunities to support collective initiatives which encourage companies to address climate change related business risks and report transparently on their efforts.

We support the recommendations of the FSB's Taskforce on Climate Related Financial Disclosure which identified that inadequate corporate reporting creates significant information gaps which prevent investors from evaluating the quality of climate change governance by investee companies. We encourage investee companies to develop their reporting in line with the disclosures outlined by the TCFD.

We also recognise that TCFD recommendations on enhanced reporting extend to investors and Asset Managers and as part of the evolution of our approach to climate change we will be working towards alignment with the TCFD disclosure requirements.

To ensure the continuing effectiveness of our approach to addressing climate change as part of our commitment to Responsible Investment our Stewardship Committee will review this annex to our Responsible Investment Policy on an annual basis and will update it to reflect changes in approach and further progress.

This Annex was last reviewed and updated in August 2018.

PRESS RELEASE

Boston, MA, September 24, 2018 – Wellington Management Company LLP ("Wellington"), one of the world's largest independent investment management firms, and Woods Hole Research Center ("WHRC"), the world's leading independent climate research institute, today announced a collaborative initiative to integrate climate science and asset management.

This new alliance will focus on creating quantitative models to help analyze and better understand how and where climate change may impact global capital markets. Wellington and WHRC will collaborate on a broad range of projects, including developing investor tools and innovative analytical methods seeking to improve climate risk assessment and investment outcomes. WHRC will also publish academic papers that draw from the climate modeling involved in the project.

Wendy Cromwell, Vice Chair, Director, Sustainable Investment, and Portfolio Manager at Wellington Management said, "We look forward to working with WHRC to thoroughly understand and accurately interpret the latest climate science research and the potential implications of climate change for capital markets. We believe an in-depth appreciation of the risks and opportunities presented by climate change will enhance our ability to help our clients achieve their investment objectives."

"Climate change is the defining challenge of our time," said Phil Duffy, WHRC's President and Executive Director. "It will impact all areas of society, including global capital markets. I applaud Wellington for pursuing a deeper understanding of climate science and for applying related quantitative techniques as part of their efforts to try to better inform their asset management decisions. This new initiative helps display the critical nature of these issues."

California Public Employees' Retirement System ("CalPERS"), the United States' largest public pension fund, will work with Wellington and WHRC to pilot the application of these investment insights. Beth Richtman, CalPERS Managing Investment Director, Sustainable Investments said, "As a long-term investor, we're continually looking to sharpen our ability to analyze climate risk in our investment portfolio and in underwriting prospective investments."

About Wellington Management:
Tracing our history to 1928, Wellington Management is one of the world's largest independent investment management firms, serving as a trusted investment adviser to more than 2,200 institutional clients and mutual fund sponsors in 60 countries. Wellington had over US$1 trillion of client assets under management as of 30 June 2018.

About Woods Hole Research Center:
WHRC has been studying climate change impacts and solutions since 1985, and works with an international network of partners in the private and public sectors to ensure that its science is put to use. Recent major science and policy projects have taken place in Brazil, Mexico, Nepal, the Democratic Republic of the Congo, the US, and others, with collaborators such as the World Bank, NASA, USAID, and The Nature Conservancy. The International Center for Climate Governance has recognized WHRC as the world's top-ranked climate change think tank for four years in a row.

Pension Fund Committee
Meeting to be held on Friday, 30 November 2018

Electoral Division affected:
None;

Report of the Responsible Investment Working Group.
(Appendices 'A', and 'B' refer)

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Executive Summary

This report sets out the recommendations of the Responsible Investment Working Group in relation to a revised Responsible Investment Policy, proposed actions for the future development/implementation of that Policy and responses to four issues referred to the Working Group by the Committee.

The report also seeks the views of the Committee on a proposal from the London Pension Fund Authority to establish a joint Working Group on responsible investment.

Recommendations

The Committee is asked to

1. Agree not to proceed with the draft Climate Change Policy as presented to the meeting on the 23rd March 2018 and instead approve the revised Responsible Investment Policy set out at Appendix 'A' to this report.

2. Consider the responses of the Working Group in relation to the five action points to develop the Responsible Investment Policy and agree a new Action Plan (set out at Appendix 'B') for the future development/implementation of the revised Responsible Investment Policy referred to in 1 above.

3. Note the responses of the Working Group regarding the four issues referred to it by the Pension Fund Committee on the 8th June 2018 and 14th September, 2018, as set out in the report.

4. Consider the proposal from the London Pension Fund Authority to establish a joint Working Group on responsible investment on the basis set out in the report.

Lancashire County Council

Background and Advice

On the 23rd March 2018 the Pension Fund Committee considered a report on a draft Responsible Investment Policy and Climate Change Policy. After considering the report the Committee approved an amended Responsible Investment Policy and referred the draft Climate Change Policy (which included an Action Plan for the future development of that policy) back to the Working Group for further consideration.

Since then the Working Group have met with the Head of Fund, the Governance and Risk Officer and the Responsible Investment Manager from the Local Pensions Partnership on the 5th June 2018 and 11th October 2018 to consider the draft Climate Change Policy together with other issues referred to it by the Committee. The Working Group have also had discussions with representatives of the London Pension Fund Authority (LPFA) regarding a proposed joint Working Group on responsible investment.

1. Climate Change Policy/revised Responsible Investment Policy

When developing the initial draft Climate Change Policy the Working Group had sought to take account of LAPFF guidance and produce a policy that was aligned with that of the LPFA. However, having reconsidered the draft policy the Working Group recognised that the LPFA was in a different position to the LCPF as it had to take into account the views of the Mayor of London on issues such as Climate Change. Furthermore, having reviewed the LAPFF Climate Change Investment Policy the Group concluded that in some respects LCPF were ahead of the LAPFF Policy.

In view of the above the Working Group considered there was no need for a separate Climate Change Policy and acknowledged that the majority of the text in the draft was included within the 'Climate Change' section of the Responsible Investment Policy which had been approved by the Pension Fund Committee in March 2018. Therefore, it was agreed that the reference to 'stranded assets' and the paragraph which began 'LCPF expects … ' should be incorporated into the Climate Change section of the Responsible Investment Policy and that a separate Action Plan for the future development of that policy produced.

The Working Group did consider whether 'climate value at risk' or 'stranded assets' was the most appropriate term to use in the Policy and decided that the former was a technical term rather than common parlance and was more restrictive than 'stranded assets'. Therefore, it was agreed that as 'stranded assets' should remain in the 'Climate Change' section of the Responsible Investment Policy, but with the word 'including' being added before 'via' so as not to narrow application of the definition.

It was also agreed that the following paragraph in section 4 d) of the approved Responsible Investment Policy should be removed as it was not considered relevant '*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'.*

All of the recommended amendments are highlighted in the revised Responsible Investment Policy set out at **Appendix 'A'** to this report.

At the Working Group on the 11th October 2018 the Governance and Risk Officer confirmed that the Investment Strategy had been reviewed in light of the agreed Responsible Investment Policy and the Independent Advisers to the Pension Fund Committee had advised against carrying out any strategic asset allocation changes or disinvestment.

2. Action Plan for the future development/implementation of the revised Responsible Investment Policy.

The draft Climate Change Policy presented to the Pension Fund Committee on the 23rd March 2018 included an Action Plan for the future development of that policy.

Having decided to incorporate some elements of the draft Climate Change policy into a revised Responsible Investment Policy the Working Group re-examined the Action Plan and at the meeting in June 2018 agreed 5 new actions points for consideration. The conclusions of the Working Group with regard to the 5 action points are set out below together with a proposed new Action Plan (**Appendix 'B'** to this report) for the future development and implementation of the revised Responsible Investment Policy.

Action Point 1 - Instruct LPP to undertake a full audit of LCPF holdings in order to identify those investments which include positive ESG or RI exposures and not just those which are considered Non ESG RI, such as tobacco and alcohol.

As a full audit of LCPF holdings was a considerable undertaking the Working Group was provided with an initial detailed analysis of the Listed Equities Portfolio, comprising an overview with more detail on specific investments in Annexes. In considering the information the Working Group recognised the benefit of having up to date information available and acknowledged that when expressed as a percentage of the total LCPF Fund listed equity energy companies equated to only 0.7% and extractive fossil fuel companies to less than 0.5% of the current portfolio.

With regard to the utilities sector (which including the provision of water, gas and electricity) it was noted that expressed as a percentage of the total Fund Utilities companies represented 1.1% of the portfolio. Whilst holdings in listed renewable energy companies were relatively small at £3.7m it was recognised that the Fund's main interests in renewable energy were included in the Infrastructure portfolio.

The Working Group agreed that the information regarding the Listed Equity portfolio) be referred to the Pension Fund Committee on the 30th November 2018 for consideration and, subject to the approval of the Committee, that similar reports on the Infrastructure, Private Equity and Credit portfolios be presented to future meetings in order to broaden the coverage of information available to the Committee.

Note – A report on the analysis of the Listed Equities portfolio is presented in Part II of the agenda in accordance with Paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972 as it contains information which relates to the financial or business affairs of any particular person (including the authority).

Action Point 2 - Instruct LPP to consider the implications of LCPF setting a target to reduce LCPF exposure to fossil fuels from 4.8% to as near as zero as possible, including a) The practicality of LPPI implementing such a target, any potential challenges and how they can be overcome and b) The implications of the use of tolerance levels for individual investments.

The Working Group recognised that the 4.8% figure referred to in the Action Point had been taken from an externally produced report and that such reports could present an inaccurate position as they were often based on limited information that was available publicly.

Having considered the up to date information on the current exposure to fossil fuels within the Listed Equities portfolio the Working Group acknowledged that the current exposure for the LCPF was lower than expected and was less than other Funds. It was also suggested that rather than setting targets the Committee should monitor the direction of travel for the Fund's exposure to fossil fuels and should pursue active investment in order to change behaviours rather than disinvestment which was viewed as a last resort.

The Working Group agreed that in accordance with the Responsible Investment Policy LPP's immediate focus should be on identifying companies within the existing portfolio that are involved in fossil fuel extraction, quantifying this exposure accurately, and reporting this to the Committee to allow monitoring of the position. Once the quantum and nature of current exposure had been confirmed, the focus would then move to considering the implications of reducing the Fund's current and future exposure to fossil fuels (based on reviewing information about the logistical, financial, regulatory and performance aspects of potentially seeking to do so).

Action Point 3 - Instruct LPP to continue to develop the Dashboard model (as approved by the Pension Fund Committee on the 23rd March 2018) as a means of enabling the Committee to monitor progress and targets on Responsible Investment within individual assets classes.

The Working Group welcomed the up to date information circulated at the meeting in relation to Listed Equities (see Part II report later on the agenda) and agreed that it should inform the development of a Dashboard by LPP which would include the other asset classes referred to in the response to Action Point 1 above and feature the Fund's holdings in different sectors including renewable energy and broader social infrastructure.

Action Point 4 - Instruct LPP to continue to work with LAPFF to develop relationships with energy companies to enable LCPF to invest in sustainable energy infrastructure products while reducing the exposure to fossil fuels.

As LAPFF is an engagement focussed organisation rather than an investment focussed one the Working Group did not consider it to be the appropriate partner to develop relationships with energy companies.

It was noted that any investment instructions to LPP would need to be reflected in the Fund's Investment Strategy and considered by the Investment Panel which did not favour strategic asset allocation changes or disinvestments based on ESG characteristics. The Working Group agreed that, if appropriate, further conversations between the Fund and LPP take place with regard to opportunities (and routes) for increasing investment in renewable energy and reducing investments in fossil fuel extraction.

Action Point 5 - That the Head of Fund review the Asset Management Agreement to ensure that LPP implement the agreed LCPF Responsible Investment Policy and are required to report any breaches of the policy directly to the Pension Fund Committee.

It was reported that a breach of the priority areas within the current Responsible Investment Policy was not possible as the Policy did not contain any specific targets or measures which LPP were required to meet. The Working Group agreed that no amendment be made to the Asset Management Agreement as the Fund does not have any specific allocations on responsible investment and the focus of the Action Point be amended in order to emphasise ensuring that the Committee review the usefulness of the enhanced reporting to be developed by LPP to ensure that it secures appropriate insights and provides adequate assurance to the Committee that the Fund's RI policy is being implemented.

Taking account of the responses of the Working Group a revised Action Plan for the future development/implementation of the Responsible Investment Policy has been drafted, a copy of which is set out at **Appendix 'B'** to this report for the consideration of the Committee.

3. Responses to four issues referred to the Working Group by the Pension Fund Committee.

At the meeting on the 8th June, 2018, the Pension Fund Committee referred the following issues to the Working Group for consideration.

Reducing pay differentials – During a discussion on the draft Responsible Investment Policy it was suggested that the reference to reducing pay differentials in Section 4a) should be included within the 'Improving Employment Practices' priority area of the Policy. Having considered the suggestion the Working Group agreed that reference to reducing pay differentials should remain separate from the 'Improving Employment Practices' priority area.

Public sector pension fund investments in Scottish private finance schemes linked to offshore tax havens – Under 'Any Other Business' concern was raised regarding a recent report in the media regarding public sector pension fund investments in Scottish private finance schemes being linked to offshore tax havens.

The Working Group received a detailed response from LPP regarding the above and noted that whilst LCPF did have interests in investments domiciled in offshore locations those structures were not designed to (and did not in practice) save the Fund any tax.

The following items were referred to the Working Group for consideration by the Pension Fund Committee on the 14th September 2018.

Active promotion of LCPF green energy investments – The Committee asked the Working Group to consider how the Fund could best promote good news about renewable energy investments.

At the meeting on the 11th October 2018 the Working Group was presented with details of a number of renewable energy schemes and noted that the LCPF website which was being developed would include a section on responsible investment which would enable positive news items on renewable energy to be regularly promoted.

Transition Pathway Initiative – Use of the Transition Pathway Initiative (TPI) was discussed at the last meeting when the Committee agreed to ask the Working Group to consider the future use of TPI by LPPI

The Working Group recognised that the TPI process was still relatively new and would need time to develop and provide useful benchmarks by which to judge progress. It was suggested that further research was needed to establish whether TPI was a sufficiently accurate metric by which to judge progress, either on its own or in conjunction with other measures such as the Carbon Disclosure Project.

The Committee is asked to note the responses of the Working Group regarding the four issues referred to it by the Pension Fund Committee.

4. Proposal by the LPFA to establish a joint Working Group on Responsible Investment.

The Deputy Chairman of the LPFA Board and Managing Director of the LPFA attended the Working Group on the 11th October 2018 and informed the meeting that having improved the funding level of the scheme the LPFA was now considering how best to promote responsible investment in the future and had identified investing in social housing and establishing a local investment fund as potential areas to be explored. It was suggested that now was the time for both shareholders to discuss their individual approaches to responsible investment and identify differences and areas of commonality where resources could be combined in order to maximise impact.

The LPFA representatives proposed that the LCPF and LPFA (as the two shareholders in LPP) should establish a joint Working Group to discuss the future approach to responsible investment and identify specific priority areas so that future investments could be coordinated in order to maximise benefits.

The proposed joint Working Group would consist of 6 members (3 representatives from each shareholder) with Terms of Reference to be agreed with the Chair of the Committee and would meet every two months, alternating between London and Preston.

The Working Group agreed that the proposed establishment of a joint Working Group with the LPFA to discuss the future working relationship between the two shareholders with regard to responsible investment be referred to the Pension Fund Committee on the 30th November 2018 for consideration.

Consultations

The Head of Fund, the Governance and Risk Officer and the Responsible Investment Manager from the Local Pensions Partnership.

Implications:

This item has the following implications, as indicated:

Risk management

The Lancashire County Pension Fund's (LCPF) current approach to Responsible Investment is set out in the Policy which was agreed by the Committee on the 23rd march 2018. It is good practice to review LCPF's stewardship and responsible investment approach based on the current guidance and regulations and the delegation of investment functions to LPPI.

Financial implications

The LGPS Management and Investment of Funds Regulations 2016 (as interpreted by DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement) has confirmed that schemes should make the pursuit of financial return their predominant concern and must not involve significant risk of financial detriment to the scheme from taking non-financial factors into account within investment decision-making.

An evaluation of the financial return likely to be foregone in connection with any divestment required under the Responsible Investment Policy or to achieve priorities identified in that Policy will precede and inform ongoing decision-making on stock selection and retention.

Financial data included in the proposed LPP dashboard will be reviewed against custodian records on a quarterly basis. The practicalities of what information the dashboard should or shouldn't have within it to be part 1 and what divestment monitoring is practical/achievable will be subject to the Committee's approval

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion of report in Part II,
N/A

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 Fund's 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 Fund's 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	The Fund considers engagement to be a route for exerting a positive influence over investee companies and encouraging responsible corporate behaviour. We will be supportive of targeted dialogue in situations where positive changes can be brought about to align governance standards with our investment needs.
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.

Responsible Investment Principles

The Fund's 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 including via stranded assets.

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 active 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.

LCPF expects LPP to take steps to ensure that the level of exposure to climate change investment risks are evaluated and monitored. This will involve the use of appropriate investigative and analytical tools such as the Transition Pathway Initiative to increase information and provide appropriate input around investment decision making and will be reflected in regular reporting and assurance provided to LCPF.

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, 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 the Fund's approach to Responsible Investment divides into the following five 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.lapfforum.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.

Action Plan for the Implementation of the Responsible Investment Policy

Action 1 - Holdings Information

Instruct LPP to undertake a full audit of LCPF holdings in order to identify investments which include both positive ESG or RI exposures and those in more “controversial” sectors such as tobacco and alcohol. Reporting to prioritise Listed Equities with information on other asset classes (Infrastructure, Private Equity and Credit) to follow.

Action 2 - Further Review Priorities

Reflect on the holdings information presented under Action 1 and priorities identified in the Fund’s RI Policy to confirm whether follow-on work is required.

Exploration of the potential to increase or reduce the Fund’s exposure to certain sectors (e.g. renewable energy, fossil fuels) to involve further conversations with LPP and the Fund’s Independent Advisers and require detailed evaluation of logistical, financial, performance and regulatory considerations in each case.

Action 3 - Dashboard

Instruct LPP to continue to develop the RI Dashboard to ensure the Committee begins to receive information on holdings by sector to assist oversight and monitoring.

Initially the focus will be listed equities, expanding to include other asset classes (Infrastructure, Private Equity and Credit) as information is available.

Action 4 - Ongoing Monitoring and Oversight

Review the usefulness of the enhanced reporting to be developed by LPP and ensure it offers appropriate insights and adequate assurance to the Committee that the Fund’s RI policy is being implemented.

Pension Fund Committee
Meeting to be held on Friday, 30 November 2018

Electoral Division affected:
None;

Feedback from members of the Committee on pension related training, conferences and events.

Contact for further information: Mike Neville, Tel: (01772) 533431, Senior Democratic Services Officer, mike.neville@lancashire.gov.uk

Executive Summary

An update on pension related training, conferences and events attended by individual members of the Committee since the last meeting.

Recommendation

The Committee is asked to note the report and any feedback given at the meeting.

Background and Advice

At the meeting on the 23rd March 2018 the Committee agreed a revised Training Policy which set out the Fund's approach to supporting the learning and development needs of individuals with responsibility for the strategic direction, governance and oversight of the LCPF through their membership of the Pension Fund Committee or the Lancashire Local Pension Board.

Since the last meeting the members of the Committee have attended the following pension related training.

23rd/24th September 2018 - Pension Trustees Circle Seminar at the Grand Hotel, York, attended by County Councillor Schofield.

26th September 2018 - Workshop on 'Analysing the Macro Backdrop for Investing' at County Hall, Preston, attended by County Councillors J Burrows, K Ellard, J Mein, A Riggott, A Schofield and P Steen and Co-opted members Councillor D Borrow and P Crewe.

26th September 2018 - CIPFA Introduction to the LGPS at the Northern Trust Offices, Canary Wharf, London, attended by County Councillor Pope.

17th/19th October 2018 - PLSA Annual Conference and Exhibition in Liverpool, attended by County Councillors K Ellard and E Pope

Lancashire County Council

6th November 2018 – Workshop on the Actuarial Valuation at County Hall, attended by County Councillors K Ellard, T Martin, J Mein, E Pope, A Schofield and P Rigby and Co-opted members Councillor D Borrow and P Crewe,

15th November 2018 - Ministry for Housing, Communities and Local Government and Local Government Pension Scheme Advisory Board Infrastructure event at the offices of the LGA, 18 Smith Square, London, attended by County Councillor E Pope.

22nd November 2018 – SPS Northern Conference on Pension Funds in Manchester attended by County Councillor J Burrows.

Individual members of the Committee are requested to provide feedback on their experiences at the meeting.

Consultations
N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

The Training Policy seeks to apply best practice and to ensure compliance with guidance from CIPFA and the Pensions regulator. Failing to implement an adequate Training Policy and framework and to regularly review the effectiveness of training arrangements would place the County Council (as Administering Authority) at risk of non-compliance with the Pensions Regulator's Code of Practice No. 14 (Governance and administration of public service pension schemes) and the legislative requirements that this code interprets.

Financial

Decisions made by the Pension Fund Committee have direct financial implications for the Fund. The Fund's Training Policy forms part of its governance and risk management arrangements which seek to ensure Pension Fund Committee and Pension Board members are well-informed, confident, and knowledgeable participants who work effectively and consistently in the best interests of the Fund and its stakeholders.

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 and Events approved by the Head of Fund under the Scheme of Delegation to Heads of Service	September to November 2018	Mike Neville (01772) 533431

Reason for inclusion in Part II, if appropriate
N/A

(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

Appendix A

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

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Agenda Item 15

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Appendix B

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Appendix C

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