

## **Lancashire County Council**

### **Pension Fund Committee**

**Minutes of the Meeting held on Friday, 1st December, 2017 at 10.00 am in Committee Room 'C' - The Duke of Lancaster Room, County Hall, Preston.**

#### **Present:**

County Councillor Eddie Pope (Chair)

#### **County Councillors**

J Burrows	T Martin
S Clarke	J Mein
G Dowding	A Riggott
C Edwards	A Snowden
K Ellard	A Schofield
J Fillis	

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

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

#### **Independent Advisers**

A Devitt and E Lambert

#### **1. Apologies**

Apologies for absence were received from Councillor M Smith (Blackpool Council representative) and Mr W Bourne (Chair of the Lancashire Local Pension Board).

#### **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 15th September 2017**

The Chair informed the Committee that the Lancashire County Pension Fund and the London Pension Fund Authority had recently won the Collaboration Award at the LAPF Investments 2017 Awards.

**Resolved:** That the Minutes of the meeting held on the 15<sup>th</sup> September 2017 are confirmed as an accurate record and signed by the Chair.

#### **4. Lancashire County Pension Fund Strategic Plan 2018/19 to 20/21**

The Head of Fund presented a report on the new draft Strategic Plan for the Fund which focused on areas of activity relating to Governance, Asset and Liability Management, Administration and Communication and had been developed in accordance with the Risk Register.

**Resolved:** That the Lancashire County Pension Fund Strategic Plan for 2018/19 to 2020/21, as set out in Appendix 'A' to the report presented, is approved.

#### **5. Lancashire County Pension Fund 2017/18 Q2 budget monitoring**

A report was presented on the income and expenditure of the Fund for the period 1st April to 30th September 2017 which included a comparison to the budget for the same period and an explanation for any variances against the budget in order to assist with the monitoring of the financial position of the Fund.

In considering the report the Committee noted the variance between budgeted and actual investment management fees and discussed the difficulties in accurately predicting transfers in and out.

**Resolved:**

1. That the analysis of variances between actual results and the budgeted income and expenditure for the period 1st April to 30th September 2017, as set out in the report presented, is noted.
2. That the Head of Fund consider the future phasing of the budget in order to ease pension strain payments and to also highlight on the Risk Register the concerns expressed at the Committee regarding investment management fees and transfers in/out.

#### **6. Responsible Investment**

A detailed report was presented to update the Committee on activity associated with responsible investment in the following areas – Voting Globally, Engagement through Partnerships, Shareholder Litigation and Active Investing.

The Chair informed the Committee of comments received from Councillor M Smith (the co-opted member representing Blackpool Council) suggesting a reduction in the level of investment by the Fund in fossil fuels, tobacco and alcohol. It was noted that the Responsible Investment Working Group was in the process of exploring how to further support responsible investment in the future and an update from the Group was presented at the next item on the agenda.

**Resolved:**

1. That the update on responsible investment activity, as set out in the Appendix to the report presented, is noted.
2. That the comments received from Councillor Smith regarding a proposed reduction in the level of investment by the Fund in fossil fuels, tobacco and alcohol be forwarded to the Responsible Investment Working Group for further consideration.

## **7. Update from the Responsible Investment Working Group**

County Councillor Ellard (the Chair of the Working Group) presented a report on the discussions which had taken place at meetings held on the 20th September and 8<sup>th</sup> November 2017.

He reported that the Working Group had met with representatives from the LPFA and had agreed that the two authorities should work towards adopting a single approach/policy for responsible investment and identify any areas where policies could be aligned in order to strengthen the Partnership and assist with pooling in the future. He added that the Working Group was due to meet again in December and would consult with the Pension Board before presenting recommendations to the Committee in March 2018.

The Committee discussed the level of influence that could be exercised via shareholder voting and it was suggested that consideration should be given to divesting from certain companies if voting on responsible investment matters was not considered to be effective. In response the Managing Director and Chief Investment Officer explained that LPP Investments had a dialogue with companies which the Partnership invested in and would consider divestment in the event that relationship were to break down. It was suggested that a clearly defined policy, which reflected the agreed position of the LPP shareholders regarding responsible investment and specified the conditions where divestment would be acceptable, would assist future decision making regarding investments.

### **Resolved:**

1. That the discussions to date at the Working Group, as set out in the report presented, are noted.
2. That a further report, with specific recommendations regarding responsible investment, be presented to the Committee in March 2018 for consideration and approval.

## **8. Lancashire County Pension Fund Risk Register**

A report was presented on the latest version of the Risk Register which had been updated following a review by the Lancashire Local Pension Board and County Council officers in consultation with colleagues from the Local Pensions Partnership.

The Head of Fund highlighted those risks which were currently identified as being high and the measures which had been adopted to mitigate that risk.

**Resolved:** That the updated Risk Register, together with the LCPF Risk Summary document, as set out respectively at Appendices 'A' and 'B' to the report presented are noted.

## **9. Lancashire County Pension Fund Voluntary Scheme Pays**

The Committee was informed that where a member of the LGPS had breached their Annual Allowance (the amount of pension savings they could make without having to pay additional tax) it was possible, in prescribed circumstances, for them to request the Fund to pay that tax charge in return for having a reduction applied to their pension once that came into payment, in a process known as 'scheme pays'.

Details of the availability of Voluntary Scheme Pays, which effectively gave the Fund the discretion to extend the current criteria under which members can ask the Fund to pay a tax charge where the annual allowance was breached, were set out in the report. It was noted that the number of members who would be affected by the extension to the criteria was not considered to be significant and would not represent an administrative burden on the Fund.

**Resolved:** That the use of Voluntary Scheme Pays in relation to the Lancashire County Pension Fund is approved in the following circumstances:

1. Where a member's pension savings are subject to the tapered annual allowance and the tax breach relates only to Lancashire County Pension Fund benefits rather than as a result of growth in multiple pension schemes.
2. Where a member, as a result of administrative difficulties beyond their control, misses the 'mandatory scheme pays' deadline (e.g. where the member was not provided with the necessary information on time).
3. Any other cases which are not covered under the mandatory requirements for 'scheme pays' or covered under the 'voluntary scheme pays' criteria identified in (1) and (2) above where it can be demonstrated that exceptional circumstances apply, approval is delegated to the Head of Fund.

## **10. Implementation of the Markets in Financial Instruments Derivative (MiFID II)**

The Committee considered a report on the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 and in particular the risk to the administering authority of becoming a retail client on 3rd January 2018 which had also been the subject of a recent training workshop.

It was noted that while LPP Investments would opt up for the majority of investments the Lancashire County Pension Fund was also required to opt up to elected professional status itself in relation to a number of legacy investments which were still managed directly by the Fund.

**Resolved:**

1. That the potential impact on the investment strategy of the administering authority becoming a retail client with effect from 3rd January 2018, as set out in the report presented, is noted.
2. That the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure the administering authority can continue to implement an effective investment strategy is approved.
3. That in electing for the professional client status specified at 1 above the Committee acknowledge and agree to forgo the protections available to retail clients as set out in Appendix 'A' to the report presented.
4. That the Head of Fund be given delegated authority for the purposes of finalising the applications and determining the basis of the application as either full or single service.

**11. 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 internal/external pension related training events since the last meeting.

It was noted that since the agenda had been circulated some members had also attended a workshop on the General Data Protection Regulations and the Markets in Financial Instruments Derivative on the 23 November 2017.

County Councillor Schofield reported that he had attended the well organised and informative LGPS in Flux Investment Issues and Solutions Conference on the 23 November 2017 which had covered a number of areas, including private debt, fixed income opportunities and managing climate risk in investment portfolios.

Members of the Committee gave feedback on the various conferences, events and workshops referred to in the report and it was noted that while some had been informative others had not been considered useful and would not be recommended for attendance in the future. There was also agreement amongst members of the Committee that the standard of internal training workshops was high and it was suggested that consideration be given to how future training was delivered in order to ensure that it was cost effective.

**Resolved:**

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

2. That future internal pensions workshops be arranged in relation to responsible investment and the Local Pensions Partnership.
3. That the Head of Fund review existing arrangements for internal and external training in order to ensure that it is both relevant and cost effective.
4. That the 2018 programme for internal pension related workshops be circulated to members of the Committee in due course.

## **12. Urgent Business**

No items of urgent business were raised under this heading.

## **13. Date of Next Meeting**

It was noted that the next meeting of the Committee would be held at 10.30am (preceded by a 30 minutes briefing) on the 23<sup>rd</sup> March 2018 in Committee Room 'C' – the Duke of Lancaster Room at County Hall, Preston.

## **14. 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 items. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

## **15. Investment Panel Report**

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

The Committee received a report on matters considered by the Investment Panel since the last meeting which included:

- The Investment and Market context in which the LCPF operated
- The performance of the LCPF

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

## **16. Investment Strategy Review**

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

The Head of Fund informed the meeting that the Investment Panel had undertaken a detailed review of the Strategic Asset Allocations and performance benchmarks in the Investment Strategy Statement and recommended some minor amendments. With regard to Infrastructure it was noted that the recommended range increase was 5.0%.

**Resolved:** That the following changes to the Strategic Asset Allocations within the Investment Strategy Statement are approved and implemented with effect from the 1<sup>st</sup> January 2018.

2.5% reduction in Private Equity.

2.5% increase in Infrastructure (5% increase in the top range).

1% decrease in Alternative Credit.

1% increase in Cash.

## **17. Local Pensions Partnership Quarter 2 update**

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

The Director of Strategic Programmes and Group Company Secretary from the Local Pensions Partnership (LPP) presented an update report on the investment and administration activity of the partnership since the last meeting.

It was reported that LPP had received a positive response from the Department for Communities and Local Government in relation to the current level of pooling. The pension administration transformation was on target, with further recruitment planned, and a report would be presented to the next meeting following the installation of a new telephone system at the dedicated pension administration helpdesk.

**Resolved:**

1. That the report is noted
2. That updates in relation to the operation of the new telephone system to be installed at the dedicated pensions helpdesk and the level of VR Estimates/Payments are presented at the next meeting.

## **18. Lancashire County Pension Fund Performance Overview September 2017**

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

Mr Lambert presented a report on the performance of the Lancashire County Pension Fund and highlighted key areas to the Committee, including the level of contributions and asset allocations. It was noted that the Fund continued to perform well both for the quarter and over the longer term.

**Resolved:** That the summary of performance up to 30<sup>th</sup> September 2017, as set out in the report presented, is noted.

Both Independent Advisers to the Committee and the representatives from the Local Pensions Partnership had left the meeting before the next item of business was discussed.

## **19. Appointment of Independent Investment Adviser to the Pension Fund**

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

A report was presented regarding the proposed extension of the contract of one of the independent advisers to the Committee, for an additional three years, on their existing terms of appointment. When considering the report the Committee noted that the Fund was in a period of transition with the Local Pension Partnership and the investment strategy being reviewed and it was agreed that it was essential to retain the independent adviser with existing knowledge of the Fund.

**Resolved:** That the extension of the contract of an independent adviser to the Committee, for an additional three years to the 30<sup>th</sup> June 2021 on the existing terms of appointment as set out in the report presented, is approved.

I Young  
Director of Governance, Finance  
and Public Services

County Hall  
Preston