

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 22nd March, 2013 at 10.00 am in Cabinet Room 'C' - County Hall, Preston

Present:

County Councillor David Westley (Chair)

County Councillors

T Aldridge	M Parkinson
M Brindle	T Pimblett
M Devaney	S Riches
K Iddon	G Roper
J Lawrenson	M Welsh
F De Molfetta	K Young

Co-opted members

Bob Harvey, (Trade Union representative)
Councillor Paul Leadbetter, (Lancashire Leaders' Group representative)
Councillor Mark Smith, (Blackpool Council representative)
Ron Whittle, (Trade Union representative)

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

1. Apologies

Apologies for absence were received from County Councillor P Evans and Councillors I Grant and Mrs D Walsh.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 30 November 2012

The Minutes of the meeting held on 30 November 2012 were presented.

It was noted that the attendance of Eric Lambert and Noel Mills, Independent Advisers, had been omitted from the Minutes.

Resolved: That, subject to the above mentioned amendment, the Minutes of the meeting held on 30 November 2012 be confirmed and signed by the chair.

4. Exclusion of Press and Public

Resolved: That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the paragraph of Part 1 of schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

5. Fund Performance Report

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

The Committee considered a report on the performance of the Fund as at 19 March 2013, focussing on the key areas of:

- the funding position;
- cash flow;
- investment performance and allocation; and
- risk management of the Fund, including compliance with statutory and Fund limits.

Resolved: That the report be noted.

6. Investment Panel Report

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

The Committee received a report from the Investment Panel setting out the work of the Panel at its meeting held on 29 January 2013. The Committee's attention was specifically drawn to the following key areas:

- The investment context in which the Fund was currently operating particularly in the context of the US economy and Europe's financial markets.
- Investment decisions in respect of emerging market debt;
- A Local Investment Strategy; and
- Further allocation work i.e. Regulatory Driven Investment.

Resolved: That the report be noted.

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

7. Report of the Administration Sub-Committee

The Committee received the minutes of the Pension Administration Sub-Committee from its meeting on 6 February 2013.

It was noted that the Sub-Committee had considered reports on:

- The transfer of Your Pension Service to One Connect Limited
- Membership of Local Government Pension Scheme and Auto-enrolment
- Statutory Consultation on the new Local Government Pension Scheme 2014 and related proposals

The Committee's attention was particularly drawn to the following:

1. The transfer of Your Pension Service to One Connect Limited

The Sub-Committee had requested that assurances from One Connect Limited with regard to maintaining the quality of the Service and the security of information be brought to the attention of the Committee.

The Committee was informed that the following statement had been provided to give assurance to the Committee that the high quality of the existing service to members and their families as set out in the current Service Level Agreement would be maintained. Specifically, One Connect Limited undertook to ensure that:

- Any expansion of the Service would not affect current service standards.
- The Service would continue to be cost effective; and
- The integrity of the service, including data integrity, would remain secure.

The Committee also noted that the transfer would enable Your Pension Service to benefit from One Connect Limited's commercial skills, as well as its ongoing focus on high performance, continuous service improvement and placing the customer at the heart of the organisation. The transfer would see benefits arising from One Connect Limited's systems expertise which would enhance, improve and grow existing and future business without detriment to current levels of service.

In summary, the future delivery of the Service would remain in line with current standards and performance targets as set out within the existing Service Level Agreement.

There was a lengthy discussion on this matter and some further concerns were expressed about the transfer of the Service particularly around the need to maintain data security and also the high level of service to members and their families. The Committee was informed that existing staff would continue to

deliver the same high quality service and that security of information would not be compromised. It was also noted that the County Treasurer would continue to be accountable for the delivery of the Service under the terms of the Service Level Agreement. Any examples of data breaches should immediately be brought to the attention of the County Treasurer.

It was reported that the transfer of Your Pension Service had been included on the original list of council services to be transferred to One Connect Limited.

Mr Harvey asked that his opposition to the transfer of Your Pension Service be recorded

2. Membership of Local Government Pension Scheme and Auto-enrolment

The Sub-Committee requested a further break-down of County Council employee opt-outs following auto-enrolment on 1 January 2013.

The Committee was informed that as at end of February the opt out rate was 37% (opt out target was less than 50%). A detailed breakdown of the opt outs by job groups, postcode, gender, age salary and fulltime/part time was presented. The Committee was also informed that the number of County Council employees in the Lancashire County Pension had increased by 7% (target increase was 5%).

The Committee also received an update on the situation in Cyprus. It was reported that on 19 March 2013, due to the banking crisis in Cyprus, the Chancellor of the Exchequer decided that all public sector pension payments to Cypriot bank accounts should be temporarily halted.

Members were informed that Your Pension Service currently processed pension payments for 32 pensioners who currently had a Cyprus address location, of which 17 pensioners had a UK bank account. However, 15 pensioners were paid via Citibank, who processed overseas payments on behalf of Your Pension Service. Citibank had confirmed that these payments had been frozen. The Service had contacted all 15 affected pensioners to ask them if they would like their payments redirected to a UK bank account. Six pensioners had chosen to have their payments redirected whilst the rest had decided to leave their payments frozen until the situation had been resolved.

Resolved:

1. That the minutes of the Pension Fund Administration Sub-Committee meeting held on 6 February 2013 be noted.
2. That the update on the situation in Cyprus, as mentioned above, be noted.

8. 2013 Actuarial Review – Framework for Setting Contribution Rates

The Committee considered a report on a proposed framework within which employer contribution rates would be set as a result of the 2013 actuarial valuation of the Fund.

The Committee was informed that the 2013 actuarial valuation of the Fund was probably the most significant valuation in the history of the Local Government Pension Scheme. There were a number of significant factors coming together at one point in time which would impact on the actuary's calculations. These included:

- The introduction of the new CARE scheme from April 2014 which would affect the calculation of the future service contribution rate.
- The continuing instability in the financial markets, particularly the bond markets which impacted on various factors used within the actuary's calculations.
- The introduction and the effects of auto-enrolment which would impact on fund membership, contributions received and future liabilities.
- The continuation of public sector austerity which would have an impact both on pay growth, scheme membership and the cash flow profile.
- The need to continue to make progress in reducing the past service deficit within the context of ongoing pressure on employers' budgets.

The Committee was asked to approve the proposed framework presented at Appendix 'A' as a basis for engagement with Fund employers and the initial development of the Funding Strategy Statement. By setting a clear set of ground rules for the valuation now the Committee would be ensuring that all stakeholders were clear on the parameters for the valuation and had time to prepare to deal with their impact. It also allowed the Committee to fulfil its responsibility to engage with Fund employers around the preparation of the Funding Strategy Statement which formed one of the key outputs from the valuation process.

It was noted that a further report would be presented to the Committee on 29 November 2013

Resolved: That the proposed framework, as presented at Appendix 'A', be approved as a basis for engagement with Fund employers and the initial development of the Funding Strategy Statement.

9. Credit and Fixed Income Strategy

The Committee considered a report on the Investment Panel's proposed approach to the management of the Fund's allocation to Credit and Fixed Income investments in order to achieve the objectives of the Fund.

The Committee was informed that the Panel recommended that, subject to appropriate ongoing governance and risk management, the Pension Fund should seek higher returns than the historic investment portfolio (comprising mainly Sterling Investment Grade Bonds and Gilts) could be expected to deliver.

The Panel considered that the current economic situation and particularly the change in the regulatory environment to which banks were subject was presenting opportunities to achieve better yields in the Credit and Fixed Income sphere without necessarily taking on significantly more risk.

The Panel therefore supported a strategy that sought to diversify away from Investment Grade credit into other areas, including but not limited to: *secured* lending to certain higher risk counterparties; long-term lending, preferably secured, where the Fund could earn an attractive term and liquidity premium; non-sterling lending to governments and other high-grade counterparties; investment opportunities driven by changes to banking regulation; and loans delivering a degree of inflation protection through indexation.

The proposed credit and fixed income strategy was presented at Appendix 'A'.

Resolved: That the credit and fixed income strategy, as presented at Appendix 'A', be approved.

10. The Management of Local Investment Allocations

The Committee at its meeting in November 2012 requested that officers bring forward proposals for the management of a local investment allocation.

This matter had been discussed by the Investment Panel and a report on the proposed adoption of various principles in managing an allocation of this sort (around 3% of the Fund) was presented at Appendix 'A' for the Committee's consideration.

The Committee agreed that whilst local investment could have a place in the assets of the Pension Fund, it was vital that the focus on the over-riding investment objectives of the Fund was maintained through ensuring robust appraisal and due diligence processes which were demonstrably independent and therefore able to provide an objective appraisal of any opportunities presented to the Fund. Members stressed that local investment must not override the fiduciary duties of the Fund. The Committee also agreed that:

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- Local investment would be defined as the Lancashire Sub-region i.e. the 1974 county area covered by the county council and the two unitary councils of Blackburn with Darwen and Blackpool.
- At least initially local investment should be concentrated in the area of property in line with the Investment Strategy's preference for real income generating assets. A number of current local developments could present strong opportunities for the Funding including the Enterprise Zone and the Preston City deal;
- The Fund should avoid exposure to construction risk; and
- Any allocation should be managed by an external manager in line with a clear investment mandate. The manager would undertake both the impartial evaluation of opportunities and the ongoing management of any local allocation.

The Committee noted that the Greater Manchester Pension Fund had a successful local investment allocation in the North West region including Lancashire. It was agreed that officers should seek a meeting with representatives of the Greater Manchester Fund to discuss the issue of local investment allocations and to learn from that Fund's experience.

Following this a report setting out a procurement strategy for the appointment of an appropriate manager, together with details of the relevant local investment mandate would be presented to the Committee. It was noted that a procurement exercise in respect of the Fund's property mandate would be undertaken during the 2013/14 financial year and it was proposed to include the local allocation within that mandate.

Resolved:

1. That the implementation, in line with the Investment Strategy, of an allocation of 3% of the Fund to local property within the Lancashire area as set out in Appendix 'A' be approved.
2. That officers be requested to seek a meeting with representatives of the Greater Manchester Pension Fund to discuss local investment allocation issues and to learn from that Fund's experience.
3. That officers be requested to bring forward a procurement strategy paper for the appointment of an appropriate manager, together with details of the relevant local investment mandate to the next meeting of the Committee.

11. Fiduciary duties and ethical investment

The Committee at its meeting on 30 November 2013 requested a report setting out the Fund's fiduciary duties with regard to ethical investment decisions. A particular concern that was raised at that meeting related to investments in the tobacco industry and any conflict which this could bring with the imminent transfer of public health responsibilities to the County Council from April 2013.

The Committee considered a report which set out the meaning of fiduciary duties pertaining to the Fund, relevant case law, relevant research and regulatory duties. With specific regard to investments in tobacco related interests, and any potential conflict with the transfer of public health responsibilities to the County Council, the report explained how these two seemingly conflicting positions could be reconciled through the maintenance of appropriate separation of duties in carrying out these particular responsibilities.

The Committee agreed that the judgements arising from relevant case law made it clear that in order to meet its fiduciary duties, the Fund could not unilaterally decide to divest from an individual investment type without regard to the overall objectives of the Fund, or without taking appropriate professional advice including risk and return considerations.

Resolved: That the report be noted.

12. Fund Shareholder Voting and Engagement Report

The Committee considered a comprehensive report on the Fund's shareholder voting arrangements and voting activity for the period 1 October to 31 December 2012. It was noted that the Fund had voted on 193 occasions during this period and had opposed or abstained in 38% of votes.

Resolved: That the report be noted.

13. Urgent Business

None.

14. Date of Next Meeting

It was noted that the next meeting of the Committee would be held on Friday 7 June 2013 at 10.00 am at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston