

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 29th November, 2013 at 10.45 am in Cabinet Room 'D' - The Henry Bolingbroke Room, County Hall, Preston

Present:

County Councillor Terry Burns (Chair)

County Councillors

L Beavers	J Oakes
D Borrow	M Parkinson
M Brindle	K Sedgewick
G Dowding	D Westley
R Newman-Thompson	B Yates

Co-opted members

Councillor Ian Grant, (Lancashire Leaders' Group representative)
Bob Harvey, (Trade Union representative)
Councillor Mark Smith, (Blackpool Council representative)

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

John Livesey, Mercer (Fund Actuary) also attended the meeting.

The Committee was informed that the Pension Fund had just received a special commendation in the Funds Europe Awards 2013. Members welcomed the news that the Fund had won the 'European Institutional Investor of the Year' award.

1. Apologies

Apologies for absence were received from County Councillor P White, Councillor D Walsh, Councillor P Leadbetter and Mr R Whittle.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 6 September 2013

The Minutes of the Meeting held on 6 September 2013 were presented.

It was noted that the attendance of Eric Lambert and Noel Mills, Independent Advisers, had been omitted from the Minutes. It was also noted that County Councillor Sedgewick's apologies had not been recorded in the Minutes.

Resolved: That, subject to the above mentioned amendments, the Minutes of the meeting held on 6 September 2013 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. Investment 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 30 September 2013, focussing on the key areas of:

- the funding position;
- cash flow;
- fund investment performance;
- management performance;
- investment allocations; and
- risk management of the Fund including credit, liquidity, investment and operational risks.

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 meetings held on 6 September and 28/29 October 2013. The Committee's attention was specifically drawn to the following key areas:

- The Investment Context in which the Fund was operating
- Credit Investments for consideration
- Infrastructure and Private Equity investments for consideration
- Securities Lending Mandate changes
- Management of outstanding commitments
- Review of Global Equity Managers

The Committee particularly welcomed the results of the global equities re-allocation which showed a strong overall performance.

Resolved: That the report be noted.

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

7. Actuarial Valuation of the Lancashire County Pension Fund 2013

The Committee considered the results of the 2013 Actuarial Valuation of the Lancashire County Pension Fund.

The triennial Valuation of the assets and liabilities of the Lancashire County Pension Fund as at 31 March 2013 had been carried out by the Fund Actuary, Mercer. John Livesey from Mercer attended the meeting to present the results of the Valuation.

The overall funding level based on the various updated assumptions was around 78% as at the 31 March 2013, compared to 80% at 31 March 2010. The overall deficit on the Fund had increased from £0.993bn to £1.377bn. The Committee noted that the movement in the cash value of the deficit had been due to factors which could not be influenced by either the Fund or employers. However, those factors which could be influenced had moved favourably.

It was reported that since 31 March 2013, net yields had risen by around 0.4% thus reducing liability values. This meant that, as at 31 August 2013, the revised overall funding level based on the various updated assumptions was 83% and the overall deficit of the Fund had reduced from £1.377bn to £1.039bn.

Following the Valuation the Committee needed to determine the way in which the Fund would achieve both the bridging of the deficit within the Fund and a sustainable contribution plan for employers. Proposals in relation to this were presented to the Committee at Appendix 'A'.

If agreed with stakeholders following consultation these proposals would form the core of the Funding Strategy Statement which the Fund was required to produce after each valuation.

A further report on the outcome of the consultations with employers would be presented to the Committee during the first quarter of the New Year alongside the issuing by the Actuary of the final rates and adjustments certificate.

The results of the Valuation, including amendments to individual employer contribution rates, would be effective from 1 April 2014.

Resolved:

- (i) That the results of the 2013 actuarial valuation of the Lancashire County Pension Fund be noted.
- (ii) That the measures in relation to the setting of contribution rates as set out at Appendix 'A' be approved for consultation with stakeholders as part of the preparation of the Funding Strategy Statement.

8. Pension Fund Training Plan 2013-15

The Committee considered a report in relation to the adoption of an annual training plan for officers and members of the Committee.

The purpose of the training plan was to provide officers and members with regular sessions that would contribute to their level of skills and knowledge, and thus ensure that the Fund was compliant with legislative and other pension scheme governance requirements including the CIPFA Knowledge and Skills Framework.

Details of a proposed training plan were presented at Appendix 'A'. It was noted that the proposed training would follow a self assessment exercise to identify any knowledge gap. Training would comprise a combination of internally developed training sessions, updates from officers and independent advisers, external events and self directed learning.

It was suggested that training should be open to a small number of non-committee members from each political group. This would enable suitably informed and skilled members to fill any vacancies on the committee.

It was agreed that members needed to be committed towards developing their knowledge and skills. Also it was important to ensure that training was undertaken by a cohort of members rather than just a few individuals. A number of suggestions to raise members' knowledge and skills were suggested. These ranged from the delivery of basic training to more focussed sessions on issues of national pensions related interests including consultation exercises. It was felt that committee reports could also be used as a means to train members and officers agreed to take that on board during the drafting of future reports.

Resolved:

- (i) That the proposed Pension Fund Training Plan including the external event approval process as set out at Appendix 'A' be approved.

- (ii) That all members of the Committee be committed to undertaking appropriate pension fund training to enable the Committee to meet legislative and other governance requirements including the CIPFA Knowledge and Skills Framework.
- (iii) That training be made available to non-members of the committee and that the political groups be asked to nominate members to be invited to future training events.

9. Shareholder Voting, Engagement, and Fiduciary Duty

The Committee considered a comprehensive report on the Fund's shareholder voting arrangements and activity, and engagement activity for the period 1 July to 30 September 2013.

The Committee was informed that Pensions and Investment Research Consultants Ltd (PIRC) act as the Fund's proxy and cast the Fund's votes on its investments at company shareholder meetings. PIRC were instructed to vote in accordance with their guidelines unless the Fund instructed otherwise.

It was noted that the Fund had voted on 2,866 occasions during this period and had opposed or abstained in 29% of votes.

Officers agreed to review the information provided in the PIRC report with a view to future reports being adapted to provide greater context and relevance to the Fund and its investments.

The Committee's attention was drawn to the potential class actions in relation to companies in which the Lancashire Pension Fund owned or had owned shares. It was noted that the Fund was keeping a watching brief over developments in relation to Royal Bank of Scotland in relation to alleged actions that, it is argued, caused investors to suffer losses relating to a subsequent Rights Issue on 30 April 2008. The Fund would need to determine its position prior to the deadline for filing a claim which remained April 2014.

The Committee's attention was also drawn to recent developments relating to fiduciary duties, much of which had arisen from many authorities taking on responsibility for Public Health from April 2013. It was noted that the Committee had in March 2013 considered the question of whether a conflict arose between the County Council's imminent public health responsibilities and the Fund's responsibilities regarding fiduciary duty. The Lancashire Pension Fund's position was similar to that of the Norfolk Pension Fund e.g. to maintain a policy of voting and engagement with companies whose shares were held.

Members were informed in March that in order to meet its fiduciary duties, the Pension 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. A decision to exclude particular investments on ethical grounds and thus affect

potential return could be subject to legal challenge. Securing a decent financial return in order to meet future commitments to beneficiaries was the primary objective of a pension fund.

The Committee was informed that since then, work across the LGPS had been on-going in relation to this issue. In October 2013, a sub-committee of the newly created LGPS Shadow Advisory Board considered the issue and decided upon a number of actions:

- The approach taken by Norfolk Pension Fund should be circulated to LGPS Funds as the basis of interim information;
- Counsel's opinion should be sought on the legal status of LGPS funds with regards to fiduciary duty and the limit of broader ethical considerations.

Subsequently the Law Commission had issued a consultation paper on fiduciary duty as it applied throughout the investment chain with a closing date of 22 January 2014.

Following a discussion around the issue of ethical investment and the Fund's fiduciary duty, the Committee welcomed the prospect of greater clarity over fiduciary duty that the recent developments would provide and it was agreed that the Fund would review the position when the outcome of the Law Commission's review was published.

Resolved:

- (i) That the report be noted.
- (ii) That the Law Commission's review of fiduciary duty be welcomed and that the position with regard to ethical investment and returns be reviewed when the findings of the Law Commission are published.

10. Statement of Investment Principles

The Committee considered a report on a review of the Fund's Statement of Investment Principles (SIP) which had been prompted by the Secretary of State for Communities and Local Government issuing a Statutory Instrument which increased the maximum proportion of a local government pension fund which could be invested in contributions to partnerships from 15 % to 30%.

The Fund's SIP document had been revised to incorporate the greater investment flexibility provided by the Secretary of State and a copy of the revised document was presented at Appendix 'A'.

Resolved: That the updated Statement of Investment Principles, as set out at Appendix 'A', be approved.

11. External Audit report

The Committee considered the Audit Findings Report which set out the findings of the external auditor following their audit of the Pension Fund Accounts for 2012/13.

It was noted that the report had been presented to the Council's Audit Committee on 30 September 2013 and that the external auditor had provided an unqualified audit opinion on the pension fund accounts following that meeting.

Resolved:

That the external Audit report following the audit of the County Pension Fund Accounts for 2012/13 be noted.

12. Urgent Business

None.

13. Date of Next Meeting

It was noted that the next meeting of the Committee would be held on Thursday 27 March 2014 at 10.00 a.m. at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston