

Lancashire County Council

Pension Fund Committee

**Minutes of the Meeting held on Friday, 6th September, 2013 at 10.45 am in
The Duke of Lancaster Room (Formerly Cabinet Room 'C'), County Hall,
Preston**

Present:

County Councillor Terry Burns (Chair)

County Councillors

L Beavers	R Newman-Thompson
D Borrow	J Oakes
M Brindle	M Parkinson
G Dowding	D Westley
K Iddon	P White
J Lawrenson	B Yates

Co-opted members

Bob Harvey, (Trade Union representative)
Jane McCann, (HE/FE sector establishments
representative)
Councillor Dorothy Walsh, (Blackburn with Darwen
Borough Council representative)
Ron Whittle, (Trade Union representative)

1. Apologies

Apologies for absence were received from Councillors I Grant, P Leadbetter and M Smith.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 7 June 2013

The Minutes of the meeting held on 7 June 2013 were presented.

It was reported that several members had experienced difficulties completing the Knowledge and Skills Framework self assessment. It was agreed that any further completion of the self assessment should be halted and that a training and development plan be developed for consideration by the Committee. The plan would include training that could be provided by the Fund's Actuary, Fund Managers and via bite size briefings, as well as elements of the Hymans Robertson self assessment tool.

Resolved:

1. That the proposed training and development plan be noted.
2. That the Minutes of the meeting held on 7 June 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 June 2013, focussing on the key areas of:

- the funding position;
- cash flow;
- 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 7 and 11 June and 24 July 2013. The Committee's attention was specifically drawn to the following key areas:

- The Investment Context in which the Fund was operating

- Private Equity and Property Strategies
- Further Allocations for discussion
- Investment Decisions
- Advisory Boards

Resolved: That the report be noted.

7. Application to become the single Pension Fund for Probation Staff

(Exempt information as defined in Paragraphs 3 and 4 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)

This item was unavailable when the agenda was despatched and the Chair of the meeting agreed, in accordance with agenda item 13 (Urgent Business), that the report should be considered at the meeting as a matter of urgency to enable the proposal, as mentioned below, to continue through selection process.

The Committee considered a report on the County Council's submission, as administering authority of Lancashire County Pension Fund (LCPF), of an application proposal to host a single pension scheme for the entities created by the Ministry of Justice as part of the Transforming Rehabilitation programme.

The Ministry of Justice had sought applications from administering authorities during the summer to host a single pension fund for Probation staff and new entities created as part of this Programme. The Committee noted that the County Treasurer had, in consultation with the Chair of the Committee, submitted the application proposal set out at Appendix 'A'.

The Ministry of Justice had now requested confirmation that, if successful, the proposal was supported and authorised by the Council of the administering authority. The Committee noted that the confirmation was needed to enable the LCPF proposal to continue through selection process.

Resolved: That the application proposal of Lancashire County Council, as administering authority of Lancashire County Pension Fund, to host a single pension scheme for the entities created by the Ministry of Justice as part of the Transforming Rehabilitation programme, as set out at Appendix 'A', be approved.

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

8. Private Equity Strategy

The Committee considered a report on a proposed new private equity strategy.

The Fund had a long standing private equity programme and as part of its programme of work to review the investment strategy in relation to each asset

class, the Investment Panel had reviewed the Fund's strategy in relation to private equity, which encompassed a wide range of investments from start ups and venture capital to large scale buy outs.

Details of the current strategy and the proposed new private equity strategy, including authorisations required for its implementation, as recommended by the Investment Panel, were presented at Appendix 'A'.

Resolved: That the new private equity strategy and the authorisations required to implement it, as set out at Appendix 'A', be approved.

9. Property Investment Strategy

The Committee considered a report on a revised strategy for property investment.

The Fund had a long standing property portfolio and as part of its programme of work to review the investment strategy in relation to each asset class, the Investment Panel had reviewed the Fund's strategy in relation to property in the context of the Fund's overall investment strategy.

Details of the revised property investment strategy, as recommended by the Investment Panel, were presented at Appendix 'A'.

Resolved: That the revised strategy for property investment, as set out at Appendix 'A' and in particular:

- a) The target long term absolute return target of 8% per annum.
- b) The split of the total property allocation between a diversified core portfolio representing 70%-80% of the allocation and a specialist / opportunity portfolio representing 20%-30% of the total allocation.
- c) A limit on the gearing in funds in which the allocation can be invested of 50%.

be approved.

10. Consultation on the Future Structure of the Local Government Pension Scheme

The Committee considered a report on the Government's consultation on structural reform of the Local Government Pension Scheme (LGPS).

The Minister responsible for the LGPS together with the Local Government Association had launched a consultation process seeking views on how the structure of LGPS might be reformed. Central to this consultation, was the belief set out in a number of speeches by the minister that there were currently too many LGPS funds and that fewer larger funds would be more efficient and effective in a range of ways.

The Committee considered a draft response (Appendix 'B') to this consultation on behalf of the Fund. The basic line taken was in favour of increasing collaboration,

an area where the Lancashire fund already had strong credentials and against forced mergers. There were a number of reasons for this. Firstly forcing mergers was likely to create some significant issues around accountability to stakeholders in the new much larger funds. Secondly a belief that while funds could be too small, the converse was also true and funds could be too big and that the LGPS should therefore be aiming for the right size funds, although there was no evidence to indicate that larger funds necessarily performed better than smaller ones.

The key factor which was emphasised in the draft response was that all moves which aimed to professionalise the way in which LGPS funds were run were supported as this in itself had the potential to drive both performance and bring out areas where costs could be reduced. Again this was an area where the Fund had significant and useful recent experience.

Members expressed concerns about the objective of Pension Funds being required to provide greater investment in infrastructure. It was agreed that infrastructure investments should only be made where such investments offered the best possible return for the Fund and officers were asked to strengthen the consultation response to reflect the views of the Committee in this area.

Resolved: That, subject to the above amendment, the draft response to the consultation on structural reform of the Local Government Pension Scheme, as set out at Appendix 'B', be approved.

11. Annual Report and Accounts of the Fund - 2012/13

The Committee considered the Annual Report and Accounts of the Pension Fund for 2012/13.

It was noted that the Statement of Accounts was currently being audited by the external auditor and the auditor's opinion, together with any changes required as a result of the audit process would be included in the published Annual Report, when this had been completed.

A copy of the Annual Report 2012/13 was presented at Appendix 'A'. The content of the Annual Report included the following sections:

- An overview of the management and financial performance of the fund;
- The Governance Compliance Statement;
- Administration of the Fund;
- Knowledge and Skills Framework
- Investments of the Fund;
- The accounts and financial statements;
- Actuarial Valuation;
- The Governance Policy Statement;
- The Communication Policy Statement;
- The Funding Strategy Statement;
- The Statement of Investment Principles

It was noted that the County Council's Constitution required the Pension Fund Annual Report to be approved by the Committee and submitted to the Full Council for information.

Resolved: That the 2012/13 Lancashire County Pension Fund Annual Report, as now presented, be approved for submission to the Full Council.

12. UK Stewardship Code compliance

The Committee considered a report on the adoption of a compliance statement to the UK Stewardship Code.

The Committee was informed that the Financial Reporting Council strongly encouraged all institutional investors to publish a statement on their website on the extent to which they had complied with the seven principles of the UK Stewardship Code. Whilst the Stewardship Code was principally aimed at asset managers, other institutional investors, including pension funds, were encouraged to report under it.

A copy of the Stewardship Code and the proposed compliance statement to the Code by the Lancashire County Pension Fund were presented at Appendix 'A' and Appendix 'B' respectively. It was noted that the adoption of the statement would ensure the Fund's compliance with the Code.

Resolved: That the Stewardship Code Compliance Statement, as set out at Appendix 'B', be approved.

13. Fund Shareholder Voting and Engagement Report

The Committee considered a comprehensive report on the Fund's shareholder voting arrangements and activity, and engagement activity for the period 1 April to 30 June 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 agreed that the training and development plan agreed earlier in the meetings should include a session on the role and work of PIRC and the Local Authority Pension Fund Forum (LAPFF).

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

The Committee received details of live class actions in relation to companies in which the Lancashire County Pension Fund had previously or currently owned shares.

Resolved:

1. That the report be noted.
2. That a session on the role and work of PIRC and LAPFF, in addition to a session on class actions, be included in the Fund's proposed training and development plan.

14. Urgent Business

The chair agreed that an item relating to an application for the Lancashire County Pension Fund to become the single Pension Fund for Probation Staff should be considered at the meeting as a matter of urgency to enable the proposal to continue through the selection process. The report was considered under Part II of the agenda for the reasons explained above.

15. Date of Next Meeting

It was noted that the next meeting of the Committee would be held on Friday 29 November 2013 at 10.00 am at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston