

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 6th June, 2014 at 10.00 am in Cabinet Room 'C' - County Hall, Preston

Present:

County Councillor Terry Burns (Chair)

County Councillors

D Borrow	M Otter
M Brindle	A Schofield
G Dowding	K Sedgewick
J Gibson	D Westley
R Newman-Thompson	B Yates
J Oakes	

Co-opted members

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

County Councillor R Newman-Thompson replaced County Councillor M Parkinson at this meeting.

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

1. Apologies

Apologies of absence were received from Councillor M Smith.

2. Constitution: Chair and Deputy Chair; Membership; Terms of Reference

A report was presented on the Constitution and membership for 2014/15.

It was reported that the Conservative Group had made the following permanent changes to its membership of the Pension Fund Committee and the Administration Sub-Committee:

Pension Fund Committee

- County Councillor M Otter had replaced County Councillor K Iddon;

- County Councillor A Schofield had replaced County Councillor J Lawrenson; and
- A nomination to replace County Councillor P White was awaited

Pension Fund Administration Sub-Committee

- County Councillor A Schofield had replaced County Councillor J Lawrenson.

It was also reported that the Lancashire Leaders' Group would consider its representation on the Pension Fund Committee at its meeting in July 2014.

A nomination to fill the Blackburn with Darwen Borough Council vacancy was expected shortly.

Resolved:

- That the appointment of County Councillors T Burns and M Parkinson as Chair and Deputy Chair respectively of the Pension Fund Committee for the 2014/15 municipal year be noted.
- That the appointment of County Councillors M Parkinson and T Burns as Chair and Deputy Chair respectively of the Pension Fund Administration Sub-Committee for the 2014/15 municipal year be noted.
- That the revised membership of the Pension Fund Committee and the Pension Fund Administration Sub-Committee, as reported at the meeting, be noted.
- That the Terms of Reference of the Pension Fund Committee and the Pension Fund Administration Sub-Committee be noted.

3. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

4. Minutes of the Meeting held on 27 March 2014

The Minutes of the meeting held on 27 March 2014 were presented.

Resolved: That the Minutes of the meeting held on 27 March 2014 be confirmed and signed by the chair.

5. 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.

6. 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 31 March 2014, 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 liability, credit, liquidity, investment and operational risks.

It was agreed that future reports would include performance 'trend' indicators.

Resolved: That the report be noted.

7. 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 26 March 2014. The Committee's attention was specifically drawn to the following key areas:

- The Investment Context in which the Fund was operating;
- Short Term "Drag Reducing" Investments for consideration
- Short Term Regulatory Capital Relief Investment for consideration
- Property Strategy Update
- Property Investments for consideration
- Infrastructure Investment for consideration
- Investment implementation update

Resolved: That the report be noted.

8. Appointment of Independent Investment Adviser - contract extensions

(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)

The Chair of the meeting agreed that this item be dealt with as a matter of Urgent Business due to the timescales mentioned in the report.

The Committee considered a report in relation to the appointment of independent advisers to the Pension Fund Committee.

Resolved:

- i. That the extension of the contract of Mr Noel Mills, as independent investment adviser to the Pension Fund Committee, until 30 June 2015 on the existing terms of appointment, be approved.
- ii. That the extension of the contract of Mr Eric Lambert, as independent investment adviser to the Pension Fund Committee, until 30 June 2018 on the existing terms of appointment, be approved.
- iii. That the process for the appointment of an additional independent adviser, as set out in the report now presented, be approved, and that an Appointments Sub-Committee be established on the basis of two members of the Labour group, one member of the Conservative group and one co-opted member, to conduct interviews and appoint an additional adviser for a three year period with effect from 1 March 2015.

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

9. Consultation on Opportunities for Collaboration, Cost Savings and Efficiencies within the Local Government Pension Scheme

The Committee considered a report on the Department for Communities and Local Government (CLG) consultation proposals for structural changes to the Local Government Pension Scheme.

The consultation document proposed a major change in the management of the assets held by individual LGPS. The Committee expressed concerns that the proposals had the appearance of "nationalising" the assets of the LGPS and setting the overall investment approach at a national level through a requirement to use two or more large pooled vehicles (known as Common Investment Vehicles, or CIVs). The constitution and accountability mechanisms around the proposals were also unclear.

A particular concern was that the proposals appeared to seek to manage the LGPS in aggregate through a form of one size fits all approach to the investment of fund assets. Members felt the approach was too simplistic, and ignored the key fact that administering authorities had a fiduciary duty regarding the payment of pension promises, as well as a duty and a responsibility for making decisions

in relation to investment strategy in the context not just of asset performance but also of the liabilities of individual funds. These responsibilities had led to individual funds developing their own specific approaches to asset management in order to maximise investment return:

Over the period since 2009 the Lancashire County Pension Fund had been engaged in a strategic move to develop a higher performing investment strategy, which had been made possible by acquiring professional investment skill and undertaking a greater degree of in house management, although not going as far as actually running an in house trading operation (other than for a very small bond portfolio). This had resulted in the Fund being able to move to a strategy of an asset allocation focussed on reducing volatility and which was alive to the characteristics of the fund's liabilities. Liabilities were a critical element within this, as movements in the Fund's liabilities have had the greatest impact on the level of funding.

This approach had enabled the LCPF to invest significant sums in infrastructure projects on favourable terms and to access a range of different forms of investment which helped to achieve the Fund's investment objectives.

It was clear that the change in investment strategy had improved the Fund's performance, and the Fund's developing approach to liability management sought to build on this further.

However, the proposals made by CLG appeared to reflect a paucity of ambition for LGPS as a whole. Rather than seeking to improve investment performance across LGPS to that of the best performers, instead CLG were proposing a lowest common denominator investment strategy. Of greatest concern was the explicit assumption that passive management of listed equities was the most appropriate means of securing an investment return which would enable the Fund to meet its liabilities. Given the importance of this, it was very concerning that the evidence presented by the CLG to support this move appeared to have significant gaps and made assumptions around investment performance without clear evidence to support the conclusions drawn.

From the consultation paper it appeared that the Fund's investment strategy decisions would be broad asset allocations between two CIV asset pools. This removed the independence of the individual funds which would remain constitutionally independent and responsible for addressing deficits and liabilities, although with little ability to utilise funds' assets in this regard. The Committee noted that there was very little actual information on how the proposals would work in practice. However, there was a clear underlying view that some degree of compulsion would sit behind the move to new arrangements.

The Committee noted that the CLG consultation document asked 5 specific questions and sought evidence based responses. However, given the time available to prepare the report it had not been possible to construct a complete fully evidenced response. Therefore a "heads of terms" for a full response was presented for the Committee's consideration. Members agreed that the Treasurer in consultation with the chair should be authorised to make a submission to CLG

based on the points raised in the report and in the "heads of terms" now presented.

Resolved:

- i. That the framework for a response to the Government's consultation on proposals for structural changes to the Local Government Pension Scheme, as set out in the report now presented, be approved.
- ii. That the County Treasurer, as Treasurer to the Fund, be authorised in consultation with the Chair to finalise the Fund's detailed evidence based response.

10. Lancashire County Pension Fund - Annual Governance Statement 2013/14

The Committee considered a report on a proposed Annual Governance Statement for the Fund.

In November 2013 Grant Thornton, the Fund's external auditors published a national report called "Coming of Age", which reflected on developments in the management of funds within the Local Government Pension Scheme. It was noted that the Lancashire County Pension Fund had been cited as an example of good practice in a number of areas. One of the questions which the national report asked Funds to consider was whether the Annual Governance Statement of the Administering Authority covered the activities of the Fund adequately.

The Committee was informed that the position in Lancashire, which would be replicated in most administering authorities, was that the Council's Annual Governance Statement made no specific reference to the activities of the Fund. Therefore in response to this officers had developed a separate annual governance statement for the Fund, a copy of which was presented at Appendix 'A'.

Resolved: That the Annual Governance Statement for the Lancashire County Pension Fund, as set out at Appendix 'A', be approved for signature by the Chair and the County Treasurer.

11. Your Pension Service - Annual Administration Report

The Committee considered the Your Pension Service - 2013/14 Annual Administration Report.

It was noted that the report had been produced in accordance with the Service Level Agreement (SLA) which existed between the County Council and Your Pension Service for the provision of pension administration services to Lancashire County Pension Fund. The report described the performance of Your Pension Service against the standards set out in the SLA during 2013/14.

It was pleasing that Your Pension Service had achieved a performance standard of 98%.

The Committee was informed that Your Pension Service had won the Local Government Quality of Service award, and had been nominated for the County Council's Countywide Service of the Year 'Pride' award.

Resolved: That the 2013/14 Annual Administration Report, as presented at Appendix 'A' be noted.

12. 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 January to 31 March 2014.

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 535 occasions during this period and had opposed or abstained in 34% of votes.

It was also noted that details of holdings of the Pension Fund in relation to meetings held in this period had been included in the report to provide more contextual information regarding the geographical and sector spread of the shareholder interests.

The Committee's attention was drawn to a question which had been raised at its previous meeting regarding the overall outcomes of the resolutions that PIRC had voted on. Producing this information was considered to be an important measure of the effectiveness of voting activity by the Fund. It was reported that officers had taken this feedback to PIRC as the information had not previously been available to individual Funds. PIRC were currently working on this development and the information would be included in future committee reports as soon as it became available.

Resolved: That the report be noted.

13. Internal Audit Annual Report 2013/14, including the Audit Plan 2014/15

The Committee considered the internal audit annual report for the Lancashire County Pension Fund.

Based on the internal audit work undertaken during the year, the internal audit service was able to provide substantial assurance over the internal control environment for the pension fund and pension administration.

The Committee also received details of the internal audit plan of work for 2014/15 which amounted to 85 days.

Resolved:

- i. That the internal audit annual report for 2013/14 be noted.
- ii. That the internal audit plan for 2014/15, as presented, be approved.

14. Urgent Business

See earlier item regarding the Appointment of independent advisers to the Pension Fund Committee.

15. Date of Next Meeting

It was noted that the next meeting of the Committee would be held on Friday 5 September 2014 at 10.00 am at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston