

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 27th March, 2015 at 10.45 am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Present:

County Councillor Terry Burns (Chair)

County Councillors

L Beavers	J Oakes
D Borrow	M Otter
M Brindle	A Schofield
G Dowding	K Sedgewick
J Gibson	Crewe

Co-opted members

Bob Harvey, (Trade Union representative)
Alastair Milloy, (Blackpool and The Fylde College)
Councillor Edward Pope, (Lancashire Leaders' Group representative)
Councillor Ron Whittle, (Blackburn with Darwen Borough Council representative)

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

Announcements

It was reported that Mr Bob Harvey had been appointed to serve as a pensioner representative on the new Lancashire Local Pension Board. This meant that Mr Harvey would be resigning as a member of the Committee at the end of the meeting. It was noted that Mr Harvey had served as a Trade Union representative on the Committee since 1987 and the Committee thanked Mr Harvey for his long standing commitment to the Pension Fund.

It was reported that Mr Harvey would be replaced as a Trade Union representative on the Committee by Mr James Tatersall.

The Committee was informed that Mr Paul Crewe had filled the remaining Trade Union vacancy and that Alastair Milloy had filled the HE/FE sector vacancy on the Committee. Mr Crewe and Mr Milloy were welcomed to the Committee.

The Committee was also informed that Gill Kilpatrick, Treasurer to the Fund, was leaving the County Council. The Committee wished to place on record its

appreciation of the work and support given by Gill as Treasurer to the Fund and it was agreed that the Committee's best wishes be extended to her for the future.

1. Apologies

Apologies were received from County Councillors M Parkinson and D Westley, and Councillors Paul Leadbetter and Mark Smith.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 28 November 2014

The Minutes of the meeting held on 28 November 2014 were presented.

Resolved: That the Minutes of the meeting held on 28 November 2014 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 appropriate 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 31 December 2014, focussing on the key areas of:

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

The Committee was informed that a draft infrastructure strategy for the Fund would be presented to the July meeting.

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 27 November 2014, 13 January and 20 February 2015. The report also included details of the equity manager annual reviews undertaken by the Panel on 11 and 12 November 2014 and on 13 March 2015.

The Committee's attention was specifically drawn to the following key areas considered by the Panel:

- The Investment and Market Context in which the Fund was operating;
- The proposed Eurostar project;
- Credit Portfolio rebalancing; and
- Items arising from manager reviews.

Resolved: That the report be noted.

7. Project Comet

(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 outcome of the Fund's bidding process (Project Comet) to acquire HM Government's 40% stake in Eurostar International Limited.

Members noted that the Investment Panel had overseen the bidding process in accordance with the authority delegated to it by the Committee, including the costs at risk and that the Panel had ultimately approved the final bid.

Whilst the Fund's bid was successful in reaching the final stage, it had finished 'runner-up' having been out-bid by the winning bidder. This was disappointing but the bidding process had been hugely valuable to the Fund's Investment Team in building knowledge, experience and relationships that were likely to be called upon again in future. It had demonstrated that the Fund was a serious and

credible investor at the highest level and had the internal expertise to successfully manage external transaction teams.

There was a lengthy discussion on the bidding process including the level of fees incurred by the Fund. Whilst the Committee endorsed the approach taken by the Investment Panel on this occasion, Members stressed the need for robust governance particularly when bidding for a project of this size and nature. Officers were asked to review the Fund's governance arrangements including the relationship between the Investment Panel and the Committee to ensure maximum transparency, communication and understanding. Members agreed that the Fund also needed to ensure that the arrangements that it had in place for securing external advice in circumstances such as this were sufficiently robust.

Resolved:

- i. That the cost of the bidding process, as set out in the report, be noted, and that the bid approach taken, including the assembling and procuring of external advisers at short notice be endorsed.
- ii. That a review of the Fund's governance arrangements in relation to major direct investments be undertaken and a report be presented to a future meeting.
- iii. That the Committee be provided with appropriate independent assurance in terms of the value for money provided by the fee structure used in this case in order to provide a baseline for any similar processes in future.

8. Creation of an Asset and Liability Management Partnership with the London Pension Fund Authority

(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 further report on the positive progress of discussions with the London Pension Fund Authority (LPFA) on the creation of an Asset and Liability Management Partnership in furtherance of the Committee's support for increased collaboration between LGPS Funds.

It was proposed that a high level business case be presented to the next meeting of the Committee on 5 June and that a special meeting of the Committee be held on 2 July at the same time as the LPFA Board meeting when both bodies would be asked to make a go/no go decision. It was also proposed to establish a member working group to provide support and direction to officers during the remaining period of discussions with the LPFA.

Whilst the progress was welcomed, Members stressed the need for them, as Trustees of the Fund, to be fully consulted on the proposals. It was important

that Members were given maximum opportunity to discuss the proposals and to fully understand the implications for the Fund, its members and employees before any decision on whether to proceed with a collaborative relationship with the LPFA could be taken. It was suggested that a series of informal workshops involving a LPFA representative could be held around key aspects of the business plan that was being developed (Also see 'Update on the Establishment of the Lancashire Local Pension Board' item set out later in these minutes).

The Committee was assured that the Independent Advisers to the Fund would act solely on behalf of the Fund and they would not support any moves that would put the Fund at risk.

Resolved:

- i. That the content of the report and the positive progress made in discussions with the LPFA be noted.
- ii. That a special meeting of the Committee be held on 2 July 2015 in order to make a decision on whether or not to proceed further with the partnership.
- iii. That a member working group comprising 2 Labour and 1 Conservative county councillors (names to be confirmed by political groups) and 1 co-opted member (Councillor E Pope) be established to provide support and direction to officers.
- iv. That the proposal of the Director of the Pension Fund to provide regular email updates to all members of the Committee and to arrange member briefings at key stages in the process be noted.

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

9. Lancashire County Pension Fund - Strategic Plan 2014/15 - 2016/17

The Committee considered a report on a draft three year Strategic Plan for the Fund.

The Fund's Annual Governance Statement 2014 had identified a need to define more clearly the overall objectives and strategic planning framework for the Fund. The Committee was informed that given the dependence of the Fund on the three yearly actuarial valuation cycle as a driver for much of its activity, it was proposed to place a three year strategic plan at the centre of its planning framework.

A copy of the proposed plan was presented at Appendix 'A'. It was noted that the plan would be based on four areas of activity i.e. Governance, Asset and Liability, management, Administration and Communication.

Resolved: That the draft Lancashire Pension Fund Strategic Plan 2014/15 – 2016/17, as set out at Appendix 'A', be approved.

10. Pension Fund Budget Forecast 2015/16

The Committee considered a report setting out a Budget Forecast for the Fund for 2015/16.

In recent years the Committee had concentrated its attention on improving the monitoring of the overall performance of the Fund and ensuring that the Investment Strategy was being effectively implemented. These processes were intended to have a beneficial impact on the overall financial position of the Fund and therefore the next stage in developing the Committee's work in the performance management area was to look at the impact of these activities on the overall financial position of the Fund. It was also important for the Committee to examine the costs of running the Fund and ensure that downward pressure continued to be exerted on costs.

To assist with this a Budget Forecast for the Fund for 2015/16 had been produced and was presented at Appendix 'A'. The report presented an income and expenditure forecast for 2015/16 compared to the forecast outturn for 2014/15 and actuals for 2013/14. It was noted that the format of the forecast was based on the new format for the Fund Account which provided for a greater degree of transparency around fees and the cost of running the Fund.

It was stressed that this was not a formal budget, there was no constitutional requirement for the Committee to approve a budget, and it was extremely difficult to estimate both the levels of incoming contributions and the levels of investment income and fund management costs as all of these could be significantly impacted by external factors. The Committee was informed that the forecast was an informed estimate for Members to consider when assessing the overall financial position of the Fund.

The Committee noted that a report on the fees paid to asset managers would be presented to a meeting later in the year. Members also requested details of the County Council's Pension Fund related costs that were charged to the Fund.

Resolved: That the budget forecast for the Fund for 2015/16 be welcomed and noted.

11. Update of the Governance Policy Statement and Statement of Investment Principles

The Committee considered a report on the updated Governance Policy Statement and Statement of investment Principles.

The revised Governance Policy Statement, as presented at Appendix 'A', reflected the various changes to the organisational structure of the County Council which impacted on the Fund, as well as the changes to the Committee's terms of reference in the light of the creation of the Local Pension Board.

The revised Statement of Investment Principles, as presented at Appendix 'B', incorporated the recommendations of the Working Group in relation to the Fund's approach to this area of activity.

Resolved: That the updated Governance Policy Statement and the updated Statement of Investment Principles, as set out at Appendices 'A' and 'B' respectively be approved.

12. Lancashire County Pension Fund Risk Register

The Committee considered a report on the six monthly review of the Fund's risk register.

It was reported that the risk register had been reviewed by risk owners in order for any new risks to be identified, and for details of existing risks to be confirmed or amended in order to ensure that, where possible, appropriate controls were in place. The updated risk register was presented at Appendix 'A'.

Officers were asked to consider a change to the format of the risk register so that the 'high' risk areas appeared together at the start of the register with the 'low' risk areas being moved to the end of the register. It was also suggested that the risk register item should appear earlier in the Committee agenda.

Resolved: That the updated risk register, as set out at Appendix 'A', be approved.

13. Responsible Investment

The Committee considered an update on the Fund's 'Responsible Investment' related activities. It was noted that this report had replaced the 'Shareholder voting and engagement' report that was normally presented to the Committee.

The report provided the latest quarterly update for the Committee on the work undertaken on the Fund's behalf by PIRC in accordance with current voting guidelines and the engagement activity undertaken by LAPFF. It was noted that during the period 1 October 2014 to 31 December 2014 the Fund had voted on 351 occasions and had opposed or abstained in 35% of votes. Further details were presented at Appendix 'A'. Members would also be able to discuss the implications and impact of the Fund's voting activity at that meeting. The engagement report from LAPFF (Appendix 'B') also covered the quarter to 31 December 2014.

Details of actual and potential actions in relation to companies in which the Fund currently owned shares or had previously owned shares were presented.

The report also provided an update on the implementation of the actions agreed from the Socially Responsible Investment member working group, which completed its considerations towards the end of 2014. In particular, it was noted that the application to become an asset Owner signatory to United Nations Principles of Responsible Investment (UNPRI) had been formally approved and this acceptance was now recognised on the UNPRI website.

Resolved: That the report be noted.

14. Update on the Establishment of the Lancashire Local Pension Board

The Committee considered a progress report on the establishment of the Lancashire Local Pension Board.

It was reported that since the last meeting of the Committee work had concentrated on making sure appointments were made in line with the arrangements approved by the County Council so that a training programme for members of the Board could be delivered prior to the first meeting of the Board in July 2015. Details of the appointments made to date were presented.

It was agreed that the role and work of the new Board should be given due consideration as part of the planned workshops to discuss the arrangements and implications of a collaborative relationship with the London Pension Fund Authority mentioned earlier in the meeting.

Resolved: That the appointments to the Lancashire Local Pension Board be noted.

15. External Audit Lancashire County Pension Fund Annual Audit Plan 2014/15

The Committee considered the External Auditor's Annual Audit Plan for 2014/15 including the process, as well as the main risk areas which the audit work would focus on.

It was noted that the total audit fee was the same as that charged in 2013/14.

The Committee was informed that whilst work would focus on financial statements and information, the external auditor would keep a watching brief on the Fund's governance arrangements to ensure that measures were in place to mitigate risk.

Resolved: That the Audit Plan 2014/15 be noted.

16. Transaction of Urgent Business

The Committee received a report on a matter which had been dealt with under the Council's Urgent Business Procedure.

It was reported that a procurement exercise had been undertaken to appoint a bench of transition managers from 1 February 2015 for a period of two years with the option to extend for a further two years.

Resolved: That the report be noted.

17. Feedback on External Pension Fund Training Events Attended by Members

The Committee received feedback from those members who had attended external pension fund training events, as follows:

- NAPF Investment Conference 'Living Longer, Investing Smarter' 11-13 March 2015, Edinburgh
The event was attended by County Councillor David Borrow
- 'LGPS Reform-Ethical, Efficient, Effective 2015' conference, 18 March 2015, London
The event was attended by County Councillor Barrie Yates and Councillors Edward Pope and Ron Whittle
- 'Local Authority Pension Fund Investment Strategies and Current Issues' conference, 19 March 2015, London
The event was attended by County Councillor David Borrow and Lorraine Beavers

The members confirmed that the events were informative and provided a broad and detailed insight into investment strategies, as well as issues facing the Local Government Pension Scheme. Whilst some aspects of the events were technical in nature, attendance was considered to be worthwhile and the events were recommended to other members of the Committee.

It was also confirmed that the Lancashire Pension Fund had been mentioned on numerous occasions during the events and that many delegates had commented on the Fund's bid for Eurostar. This confirmed the views expressed earlier in the meeting about the Fund being recognised as a serious and credible investor at the highest level.

Resolved: That the feedback provided by members of the committee in relation to recently attended external pension fund training events be noted.

18. Urgent Business

None.

19. Date of Next Meeting

It was noted that the next meeting of the Committee would be held on Friday 5 June 2015 at 10.00 a.m. at County Hall, Preston.

County Hall
Preston

I Young
County Secretary and Solicitor

