

Report of the Pension Fund Committee - Matters for Information

The following matters were considered by the Pension Fund Committee at its meeting on 5 June 2015.

Part I

1. Lancashire County Pension Fund - Report on Administering Authority Discretions

The Committee received a report on Administering Authority discretions, outlining proposals in relation to five key policy areas:

- Abatement of pensions
- Transfer in of pension rights
- Commutation of pensions
- Admissions and Terminations
- Bulk Transfers

There was some discussion around setting the threshold for abatement at £30k. It was suggested that the Committee would benefit from further information around commutation, a proposed Equality Impact Assessment and the increments that would result if the threshold was set lower than £30k, before going out to consultation.

Decision taken:

The Committee agreed that consideration of the recommendations set out at Appendices 'A', 'B', 'C', 'D' and 'E' of the report be deferred to the next ordinary meeting of the Committee to be held on 4 September 2015, to allow for further information to be included on the impact of different pension threshold levels, an Equality Impact Assessment and commutation of pensions.

2. Infrastructure Investment Strategy Report

The Committee received a report outlining the proposed Infrastructure Investment Strategy for the fund.

The Fund had successfully deployed 6% of the Fund in infrastructure assets. The Fund had sought a diversified portfolio of income producing infrastructure assets accepting some economic risk. This has produced net returns over the first four years of investment of around 16% per year.

The report proposed that the target of the infrastructure allocation should be a split weighted towards direct investment as follows:

Direct investment: Two thirds
Fund- based investments: One third

The report proposed that the Fund should actively build a portfolio of direct investments in regulated and economic infrastructure where the investment case

indicates that the asset will achieve at least the benchmark return of 8% per year even using a pessimistic set of assumptions.

There was a discussion around how the Committee could effectively be kept up to date on the work of the Investment Panel. It was agreed that the Director of the Pension Fund would discuss options with the Chair in due course, having regard to the issues of corporate confidentiality.

Decision taken:

The Committee approved the Infrastructure Investment Strategy.

3. Lancashire County Pension Fund - Annual Governance Statement 2014/15

The Committee received the LCPF Annual Governance Statement 2014/15. The statement outlined the Fund's responsibilities, the Governance Framework, measurement of quality of services, definition of roles and responsibilities, a review of the effectiveness of the decision making framework, fulfilling the core functions of an Audit Committee and compliance with laws and regulations, a review of effectiveness, and actions planned for 2015/16.

Decision taken:

The Committee approved the statement to be signed by the Chair and Director of the Pension Fund.

4. Your Pension Service - Annual Administration Report

The Committee received the Annual Administration Report for Your Pension Service, describing the performance of Your Pension Service against the standards set out in the SLA during 2014/15, including performance, customer service, legislative change, appeals, e-development and charges.

Decision taken:

The Committee noted the report.

5. Responsible Investment

The Committee considered an update on the Fund's 'Responsible Investment (RI)' related activities.

The report provided the latest quarterly update for the Committee on the work undertaken on the Fund's behalf by Pensions and Investment Research Consultants Ltd (PIRC) in accordance with current voting guidelines and the engagement activity undertaken by LAPFF. It was noted that during the period 01 January 2015 to 31 March 2015 the Fund had voted on 441 occasions and had opposed or abstained in 27% of votes.

The report also included an updated action plan from the Member Working Group on RI. The Committee were informed that additional resource had been allocated to this

area, and a project to map work in this area was ongoing, with a view to bringing a proposal to the Committee regarding how the work was managed and aspirations for the RI work. This would be brought to the meeting scheduled for 04 September 2015.

The Committee was informed that LAPFF had proposed a mentoring scheme to support investment officers and managers working in the Pension industry. It was suggested that the Chair should be consulted and a further report brought to the meeting scheduled for 02 July 2015 for the Committee's consideration.

Decision taken:

The Committee:

- (i) Noted the report;
- (ii) Noted that a further report on the mentoring scheme be received at the meeting scheduled for 2 July 2015.

6. Internal Audit Service Annual Report 2014/15 and Plan 2015/16

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 around the internal controls in place for the Pension Fund. Further details around the areas of administration, the accounting system and investment management were presented.

The Committee also received details of the internal audit plan of work for 2015/16.

Decision taken:

The Committee:

- (i) Noted the internal audit annual report for 2014/15;
- (ii) Approved the internal audit plan for 2015/16.

Part II

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)

Aoifinn Devitt, a new independent advisor to the Pension Fund, was welcomed to the meeting.

The Committee received a report from the Investment Panel setting out the work of the Panel from its meeting held on 26 March 2015, and giving market context for the second quarter.

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 is operating
- Annual Property Manager Review
- Infrastructure Strategy Paper
- Further Credit Allocations
- Liability Management
- Investment Panel Work-plan

Decision taken:

The Committee noted the report.

8. 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 2015, 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.

Decision taken:

The Committee noted the report.

9. 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 Pensions 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.

A high level business case for the LCPF/LPFA Asset and Liability Management was presented at annex 3 to the report. The Committee was asked to note the benefits set out in the business case.

Committee members were encouraged to attend the workshops run by the Director of the Pension Fund in advance of the special meeting of the Committee on 2 July which would give further consideration to the proposals.

Decision taken:

The Committee:

- (i) Noted the content of the report and progress made in discussions with the LPFA;
- (ii) Noted the minutes of the Joint Member Working Group;
- (iii) Approved the Sovereignty Agreement;
- (iv) Noted the business case.

The following matters were considered by the Pension Fund Committee at its meeting on 2 July 2015.

Part I

1. Local Authority Pension Fund Forum - Mentoring Proposal

The Committee considered a report setting out further details of a mentoring scheme to be offered by the Local Authority Pension Fund Forum (LAPFF). This followed a report on the mentoring scheme considered by the Committee at its meeting on 5 June 2015.

Having consulted with the Chair, as agreed at the 5 June meeting, it was now proposed that feedback from officer participation in the first phase of the scheme be awaited prior to a decision being taken on participation by Committee Members in future phases.

Decision taken:

The Committee:

- (i) Agreed to await feedback on the benefits of the mentoring scheme from an officer of the Fund who has volunteered to participate in the first phase;
- (ii) Agreed that, subject to receiving positive feedback, the Committee seeks to facilitate member participation in future phases.

Part II

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

The Committee considered a report on the creation of an Asset and Liability Management Partnership with the London Pension Fund Authority.

Decision taken:

The Committee:

- (i) Approved the proposal to proceed further with the creation of the Asset and Liability Management Partnership;
- (ii) Approved the preparation and submission of an application to the FCA for registration of both an operator and an Authorised Contractual Scheme, including identifying named individuals, from within those staff identified as being in scope, to perform specific regulated functions;
- (iii) Instructed Officers to prepare a 5 year business plan for the entire operation of the Partnership both in support of the FCA application, which requires a 5 year plan, and in order to facilitate a final decision on viability in November;
- (iv) Authorised Officers and the Joint Member Working Group to undertake the following actions in support of the above processes:
 - a. The appointment through procurement of a depositary for the ACS;
 - b. The appointment through a recruitment process undertaken by the Joint Member Working Group of an Independent Chair and 3 Independent Non-Executive Directors for the Partnership.
 - c. The designation of individuals to carry out regulated functions within the FCA regulated business from within the staff in scope to form part of the new entities.
 - d. To secure external advice in the following areas to support this work, in addition to the legal advice and FCA consultancy already commissioned:
 - i. Specialist advisors for the procurement of the depositary and associated asset servicing functions;
 - ii. Recruitment consultants to support the recruitment of non-executives to the Board.
 - iii. A financial and tax adviser for the development of the business plan for the new corporate entity.
 - iv. A tax adviser in relation to the ACS and the transition of assets to the ACS.
 - v. A specialist in pensions related communications to assist the two Funds in ensuring that consistent key messages reach fund members and employers as well as other immediate stakeholders such as external clients.
 - vi. Any other additional specialist advice that might be required in order to achieve the submission of the FCA application within the allocated budget.
- (v) Allocated resources of £595,000, the costs to be met equally by the two funds for this work;
- (vi) Noted that the Director of Governance, Finance and Public Services and the Interim Director of Financial Resources have commissioned independent financial and legal advice to support the Council and the Pension Fund Committee in the remaining stages of the process, to be funded through the release of contract provisions maintained by the Pension Fund Service that are not required for their original purpose;
- (vii) Approved that LCC and the LPFA be invited to each nominate an individual as a shareholder appointed non-executive director, using their own appointment processes;