

Lancashire County Council

Pension Fund Committee

**Minutes of the Meeting held on Friday, 25th May, 2012 at 10.00 am in
Cabinet Room 'C' - County Hall, Preston**

Present:

County Councillor David Westley (Chair)

County Councillors

T Aldridge	M Parkinson
M Brindle	T Pimblett
M Devaney	S Riches
M France	G Roper
F De Molfetta	M Welsh

Co-opted members

Bob Harvey, (Trade Union representative)
Councillor Mark Smith, (Blackpool Council
representative)
Ron Whittle, (Trade Union representative)

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

Announcements

- (i) HE/FE sector representative

Members were informed that Jane McCann, Director of Finance at Blackburn College had replaced Peter Hyett as the HE/FE sector representative on the Committee.

- (ii) Confirmation of Chair, Deputy Chair, Constitution and Terms of Reference.

It was reported that the Full Council at its meeting on 24 May 2012 had re-appointed County Councillors D Westley and M Welsh as chair and deputy chair respectively of the Committee for 2012/13. The Constitution and Terms of Reference of the Committee remained unchanged.

It was also reported that the Full Council had re-appointed County Councillors M Welsh and G Roper as chair and deputy chair respectively of the Pension Fund Administration Sub-Committee for 2012/13.

1. Apologies

Apologies for absence were received from County Councillors P Evans, J Lawrenson and K Young, Councillor D Walsh and J McCann.

2. Disclosure of Personal and Prejudicial Interests

County Councillors M Parkinson, M Brindle, T Pimblett, M France and D Westley, and Mr R Harvey and Mr R Whittle disclosed personal non-prejudicial interests in the agenda as they were members of the Local Government Scheme.

3. Minutes of the Meeting held on 3 February 2012

The Minutes of the meeting held on 3 February 2012 were presented.

Resolved: That the Minutes of the meeting held on 3 February 2012 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. Fund 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 2012, focussing on the funding position, the investment performance and allocation, and risk management of the Fund.

There was a general discussion on the report presented and officers responded to questions on the Fund's liabilities and cash flow position, the transition portfolio, possible changes to the Local Government Pension Scheme and the need to attract new members into the Fund. A report on the take up of membership of the Fund would be presented to Administration Sub-Committee on 13 June 2012.

With regards to the Fund's liabilities, it was noted that the increase in liabilities had affected all defined benefit pension schemes and results from the change in the valuation of government gilts, which had significantly increased the level of assets needed to meet the actuarial valuation of the current value of the pensions of scheme members. It was noted that the scheme had a positive cash flow, and was expected to remain so for a minimum of 17 years. Members welcomed the

proposed development of a pro active liability management strategy that would help to manage the impact of the Fund's liabilities.

Members were informed that the funding level was intended to give trustees assurance about the Fund's ability to meet its on-going liabilities. Whilst this information was important, it was considered that the Committee needed to consider different ways of assessing its funding position. It was agreed that the Fund's cash flow position looking ahead to the medium term was a key consideration that should be reflected in the Fund performance report.

Resolved:

1. That the report be noted.
2. That the Fund's cash flow position should be included as part of future Fund performance reports.

6. Report of the Investment Panel - Appointment of Managers to the Unconstrained Global Equities Framework and Award of the Mandate

(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 results of the Fund's procurement to appoint managers to a framework to deliver the unconstrained global equity mandate. The appointments process had taken seven months to complete and the Treasurer to the Fund thanked the Panel's advisers and bfinance for the considerable amount of support and work during the procurement process.

Members were informed that the detailed procurement process compliant with OJEU, had resulted in 12 managers being appointed to the bench. The Treasurer had, on the unanimous recommendation of the Investment Panel, approved an initial allocation in respect of active equity mandates to 5 of the managers. It was envisaged that the allocations would be effective from the end of June 2012.

The allocations had been made specifically to achieve maximum complementarity between manager styles, and also to achieve the objectives set out at the commencement of the procurement process. The Committee noted that the average fee across the managers was very competitive.

Resolved:

1. That the appointment of managers to the unconstrained global equity framework be noted.

2. That the allocations made by the Treasurer to the Fund on the unanimous recommendation of the Investment Panel be noted.

7. Appointment of Independent Advisers to the Fund

(Exempt information as defined in Paragraph 1 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 Fund's Independent Advisers left the room for the duration of this item.

The Committee received a report on the appointment of Independent Advisers to the Fund.

The initial term of appointment of the Fund's two independent advisers was due to expire on 30 June 2012 and the Committee considered proposals to appoint advisers beyond that date. It was noted that one of the Fund's advisers, Mr Noel Mills, had indicated that for personal reasons he wished to step down once a replacement could be found.

Resolved:

1. That the Fund's contract with Mr Eric Lambert be extended for a period of three years up to 30 June 2015 on terms to be agreed by the County Treasurer in consultation with the Chair of the Pension Fund Committee.
2. That the Fund's contract with Mr Noel Mills be extended until a further adviser can be appointed by no later than 31 December 2012 on the same terms as Mr Lambert.
3. That the Committee place on record its thanks and appreciation of the work undertaken by Mr Mills as adviser to the Lancashire County Pension Fund.
4. That the process for the appointment of a second adviser, as set out in the report now presented, for an initial period of four years and with the option to extend for a further three years, be agreed and that an ad-hoc Appointments Sub-Committee comprising County Councillors D Westley, M Welsh and M Parkinson and Councillor M Smith be established to undertake the process on behalf of the Committee.

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

8. Fund Shareholder Voting Report

The Committee considered a comprehensive report on the Fund's shareholder voting arrangements.

From 1 October 2011, Pensions & Investment Research Consultants Ltd (PIRC) had acted as the Fund's proxy and replaced the investment managers in casting the Fund's votes at shareholder meetings. Previously investment managers were instructed to cast votes in accordance with PIRC guidelines, but there was no efficient mechanism to review how closely investment managers followed the PIRC guidelines nor bring together a report to show how the votes on the Fund's shares had been cast in shareholder meetings.

This change enabled a summary of the Fund's voting activity to be compiled and presented to the Committee for the first time.

Details of the Fund's voting activity for the six months from 1 October 2011 to 31 March 2012 were presented. It was noted that the Fund had voted on 295 occasions during this period and had abstained in 25% of votes.

The Committee agreed that future reports should include information on voting around environmental and ethical issues.

Resolved:

1. That the report be noted.
2. That information on voting around environmental and ethical issues be included in future Fund shareholder voting reports.

9. Internal audit annual report 2011/2012, including the audit plan 2012/13

The Committee considered the internal audit annual report for the Fund 2011/12.

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 Fund and pension administration.

The Committee also received details of the internal audit plan of work for 2012/13 which amounted to 75 days.

Resolved:

1. That the internal audit annual report 2011/12 be noted.
2. That the internal audit plan for 2012/13 be approved.

10. Urgent Business

None.

11. Date of Next Meeting

The Committee noted the following revised timetable of meetings for the remainder of 2012/13:

- **Friday 27 July 2012** (meeting moved from 13 July 2012)
- **Friday 30 November 2012** (meeting moved from 16 November 2012)
- **Friday 22 March 2013** (meeting moved from 1 February 2013)

The Committee also noted that the meeting scheduled to take place on 12 April 2013 had been cancelled.

I M Fisher
County Secretary and Solicitor

County Hall
Preston