

PRESENT: COUNCILLOR C FARRAR (CHAIRMAN)

Councillors D R Dickinson, A H Turner MBE, Mrs P F Watson and B Young.

Added Members: Councillor M Leaning (District Councils) and Mr M J Scott.

Councillor N I Jackson was also in attendance.

Officers: - David Forbes (Assistant Director – Finance and Resources), Nick Rouse (Investment Manager), Tony Warnock (Head of Finance – Children’s and Specialist Services) and Graham Watts (Democratic Services Officer).

12. APOLOGIES FOR ABSENCE / REPLACEMENT MEMBERS

Apologies for absence were received from Councillors E R Chapman, P S Przyszlak and J M Swanson.

Mr J Sharman (Added Member – Employee Representative) also submitted his apologies for absence.

13. DECLARATIONS OF MEMBERS’ INTERESTS

Councillor D R Dickinson declared a personal interest in all items on the agenda as he was a member of the Black Sluice Internal Drainage Board.

Mr M J Scott declared a personal interest in all items on the agenda as he was the Chairman of the Black Sluice Internal Drainage Board.

Councillor Mrs P F Watson declared a personal interest in all items on the agenda as a contributing member of the Pension Fund in her capacity as a member of Lincolnshire County Council, East Lindsey District Council and the Lindsey Marsh Internal Drainage Board.

Councillor B Young declared a personal interest in all items on the agenda as he was the Chairman of the Lincolnshire Police Authority.

14. MINUTES

RESOLVED

That the minutes of the previous meeting held on 14 July 2011 be confirmed and signed by the Chairman as a correct record.

15. INVESTMENT ADVISOR'S REPORT

A report of the Committee's Independent Advisor was considered, which provided the Members with a market commentary on the current state of global investment markets.

It was noted that there had been significant change globally in the last quarter in relation to the economic outlook for the remainder of the year and into 2012. Growth had faltered in mid-summer for many advanced economies and in the last couple of months there had been a marked reduction in confidence everywhere, amongst both consumers and the business community. As a result global growth rates were now expected to fall, embracing a slow-down in emerging economies and also countries such as Germany that were previously showing robust expansion. Essentially, outside of Brazil, Russia, India and China there would be next to no economic growth, with adverse consequences such as continuing high unemployment and below budget government tax revenues.

RESOLVED

That the report be noted.

16. PENSION FUND UPDATE REPORT

Consideration was given to a report of the Council's Group Manager, Pensions and Treasury, which updated the Committee on current issues and overall fund performance over the period from 1 April 2011 to 30 June 2011. The following supporting documents were appended to the report: -

- distribution of investments;
- purchases and sales of investments;
- changes in market indices;
- equity voting activity.

Members noted that this reporting period saw a mixed response from the world equity markets, with positive returns in the United Kingdom and Europe as well as negative returns in the emerging markets. At the end of the period the asset allocation, compared to strategic allocation, was noted as follows: -

- overweight equities, with an overweight position in United Kingdom equities;
- neutral on alternatives;
- underweight bonds and property, offset by an overweight position in cash.

Officers had recently reviewed the voting contract with Manifest, who proposed to expand the international coverage that the fund currently had for voting at company meetings. In the Stewardship Code Statement, as approved by the Pensions Committee at its meeting on 14 July 2011, it stated

that the geographic areas would be reviewed in terms of those for which it currently voted. Following discussions with Manifest, it was able to offer an expansion of the fund's current coverage to include all developed European markets, as well as the United States of America and Canada, increasing the total international coverage from around 100 companies to over 420 companies. Fees for international voting and analysis had not been increased in the last six years and Manifest would be increasing these from 1 March 2012 by £5 per stock, which allowed for inflation and additional analysis that had now been undertaken. The cost of the expanded service, at the new international voting rate, would be an additional £10,290.

Following consultation with the Chairman and Vice-Chairman, two additional meetings of the Pensions Committee had been scheduled and would be held on 8 December 2011 and 31 May 2012. The purpose of these additional meetings would be to allow managers more time to present and answer questions on the funds they were responsible for. This would also provide the Committee with a better understanding of portfolios, particularly around the more complex areas of alternative investments and absolute return bonds.

It was reported that a consultation had been launched by the Department for Communities and Local Government regarding Local Government Pensions Schemes and proposed measures to achieve savings. An item on this consultation would be considered at the additional meeting of the Pensions Committee on 8 December 2011 so that the Committee had an opportunity to submit a response, in view of the fact that the deadline was 6 January 2012.

RESOLVED

- (1) That the report be noted.
- (2) That the expansion of the Manifest Voting remit to include all developed European markets, including the United States of America and Canada, be approved.
- (3) That an item on the Department for Communities and Local Government's consultation regarding Local Government Pensions Schemes be considered at the meeting of the Pensions Committee scheduled to be held on 8 December 2011.

17. INVESTMENT MANAGEMENT REPORT

The Committee considered a report of the Council's Group Manager, Pensions and Treasury, which outlined the management of the County Council's pension fund assets over the period from 1 April 2011 to 30 June 2011.

Reference was made to two fund managers who had not met their performance targets for this particular quarter. Officers informed the Committee that they would be contacting representatives from both fund

**PENSIONS COMMITTEE
13 OCTOBER 2011**

managers in the near future to discuss the issue of underperformance. Members of the Pensions Committee would be provided with updates following these discussions in due course but were reminded that both funds were entered into on a long term basis and involved volatile markets, which had to be taken into consideration.

RESOLVED

That the report be noted.

18. MANAGER REPORT – INVESCO ASSET MANAGEMENT – GLOBAL EX UK ENHANCED INDEX EQUITY PORTFOLIO

The Committee received a presentation from representatives of Invesco Asset Management, who managed the Global Ex UK Enhanced Index Equity portfolio, which outlined how the investment in their portfolio had performed since inception in June 2005.

RESOLVED

That the presentation be noted.

19. PENSIONS VAULT PRESENTATION

The Council's Investment Manager, Pensions and Treasury, presented a report and the Committee received a presentation from representatives of a company called Pensions Vault, who provided Members with information on the services it could provide.

Pensions Vault was a not-for-profit initiative designed in conjunction with and for United Kingdom local authority pensions schemes. It provided an independent and accessible investment data storage facility, as well as analytical and governance services, including complete outsourced global securities class action management.

In discussing the services that Pension Vault could provide, the Committee sought clarification as to the governance and credibility behind the entity of Pensions Vault as a company and required references from previous or current clients. This additional information would be required before the Committee could make any decisions about using the company's services.

RESOLVED

That further consideration and enquires be undertaken by officers, in consultation with the Chairman and Vice-Chairman, to address the concerns raised by the Pensions Committee in respect of Pensions Vault and an update report be submitted to a future meeting.

20. PENSION FUND ANNUAL REPORT AND ANNUAL GOVERNANCE

The Committee considered a report of the Council's Group Manager, Pensions and Treasury, which provided Members with copies of the pension fund annual report and accounts for 2011 and the annual governance report for the pension fund 2011. Both of these documents were appended to the report.

The pension fund annual report and accounts for the year ending on 31 March 2011 had been completed and the financial accounts independently audited by the Audit Commission. These accounts formed part of the County Council's statement of accounts and received an unqualified audit opinion from the Audit Commission. Once the formal opinion had been received, a copy of the pension fund annual report and accounts would be distributed to all interested parties.

A separate annual governance report for the pension fund had been prepared by the Audit Commission, which was approved by the Audit Committee on 26 September 2011, and had been circulated to the Pensions Committee for information.

RESOLVED

- (1) That the pension fund annual report and accounts for 2011 be approved.
- (2) That the annual governance report for the pension fund 2011 be noted.

21. WM PERFORMANCE MEASUREMENT ANNUAL REPORT

Consideration was given to a report of the Council's Group Manager, Pensions and Treasury, which set out the pension fund's investment performance over various time periods ending 31 March 2011.

The pension fund's investment performance of 7.9% over the year ended 31 March 2011 was slightly ahead of the fund's specific benchmark of 7.8% and, whilst in absolute terms was a reasonable return, was behind the average local authority fund benchmark of 8.2%. Over the longer term the fund had produced returns of 4.5% per annum, marginally behind the specific 4.8% benchmark, and was behind the local authority weighted average of 5.3%. The fund was seeking to outperform the benchmark by 1% per annum over rolling three year periods. Annualised returns over three and ten year periods were ahead of inflation in pay and prices, with five year annualised returns slightly behind.

6

PENSIONS COMMITTEE

13 OCTOBER 2011

In terms of individual years there were some positive contributions from stock selection in 2002 and 2003, but in seven of the last ten years stock selection had detracted from performance. It was noted that performance measurement for segregated assets were reported prior to the deduction of any management fees.

RESOLVED

That the report be noted.

Meeting closed at 12.50 p.m.