

**PRESENT: COUNCILLOR C FARRAR (CHAIRMAN)**

Councillors E R Chapman, D R Dickinson, P S Przyszlak, J M Swanson, A H Turner MBE, Mrs P F Watson and B Young.

Added Members: Mr J Sharman.

Councillor N I Jackson was also in attendance.

Officers: - Peter Jones (Independent Investment Advisor), Jo Ray (Group Manager – Pensions and Treasury), Nick Rouse (Investment Manager) and Graham Watts (Democratic Services Officer).

**28. APOLOGIES FOR ABSENCE / REPLACEMENT MEMBERS**

Apologies for absence were received from Councillor M Leaning and Mr M J Scott.

Mr J Sharman of Unison's Lincoln branch announced that this would be his last meeting after approximately 16 years on the Committee. The Chairman thanked Mr Sharman for his valuable contributions during that time and Members of the Committee wished him well for the future.

**29. DECLARATIONS OF MEMBERS' INTERESTS**

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

Councillor P S Przyszlak declared a personal interest in all items on the agenda as a contributing member of the Pension Fund in his capacity as a member of South Holland District Council and the South Holland Internal Drainage Board. He also declared that he was currently a Director of Compass Point Business Services East Coast Ltd, a member of the Lincolnshire Police Authority and that his daughter was currently a contributing member of the Pension Fund.

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 currently the Chairman of the Lincolnshire Police Authority.

30. MINUTES

## RESOLVED

That the minutes of the previous meeting held on 8 December 2011 be confirmed and signed by the Chairman as a correct record.

31. INVESTMENT ADVISOR'S REPORT

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

It was reported that the United Kingdom should see some growth in its economy during 2012, although this was likely to be insufficient to generate a much needed boost to confidence and would certainly not lead to a material reduction in unemployment. However, inflation would fall fast and hopefully energy and transport costs would show greater stability than they did in 2011. There were two significant public events that should help the United Kingdom's economy, namely Her Majesty The Queen's Diamond Jubilee and the Olympic Games.

Members noted that Europe's economy was very likely to stagnate. The European Union summit on 8 and 9 December 2011 was notable for Britain's veto, but obscured the failure to make progress towards a durable economic solution to the Eurozone's predicament. The key question was whether that was sustainable in 26 democracies with a quite natural aversion to rising unemployment and with frequent general elections. Details on the United States of America economy and emerging markets, lead by China and India, were set out in the report.

In terms of the global banking system, 2012 would be heavily influenced by the ability of banks around the world to lend to commercial and personal customers. The report set out the risk adverse behaviour banks had shown as a result of the Lehman episode together with the implementation of the Basle Agreement.

In closing it was reported that all fixed interest markets appeared to be very expensive. Equities were not cheap, given the subdued short-term outlook, but they looked the only long-term store of value for institutional investors.

## RESOLVED

That the report be noted.

**32. PENSION FUND UPDATE REPORT**

The Committee considered a report by the Group Manager – Pensions and Treasury, which updated Members on the current issues and overall performance of the Pensions Fund over the period 1 July 2011 to 30 September 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.

Over the period covered by the report, it was noted that the value of the Pension Fund fell in value by £121.9 million to £1,198 million on 30 September 2011.

From 1 April 2011 performance of the Pension Fund was measured by the Fund's custodian, JPMorgan. Figures for the quarter ended 30 September 2011 showed the fund underperformed the benchmark, returning -9.11%, against a benchmark return of -8.14%. The only portfolios that outperformed their benchmarks were the internally managed UK Equity portfolio, the passive bond managed by Blackrock and the Global ex UK enhanced index portfolio managed by Invesco. Over the twelve months fund performance, at -0.82%, was behind the strategic benchmark return of -0.07.

The Group Manager reported that she and the Chairman of the Pensions Committee recently attended the Annual General Meeting of the Local Authority Pension Fund Forum, where the following items were considered: -

- challenges to Board integrity;
- pay and behaviour – incentivising executives;
- women on the Board;
- International Financial Reporting Standards;
- social investment;
- investor challenges of the climate change agenda.

The Pensions Committee, at its meeting on 14 April 2011, agreed a Service Level Agreement with the Treasury team at Lincolnshire County Council for the continued provision of cash management services to the Pension Fund. The latest quarterly report showed an average cash balance over the quarter of £14.2 million, earning interest of £67,600, out performing the benchmark by 0.27%. A new weighted benchmark had been adopted by the Council, which was more reflective of the investment portfolio maturity profile.

Reference was made to Actuary and Investment Consultant Services, which were last tendered in 2003, bearing in mind that it was considered good practice to review these appointments at reasonable intervals. Pension Funds were required to look at the best way of procuring services such as these, whether it was as a stand alone tender or whether a framework agreement

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could be used by Pension Funds joining together in the procurement process. Members were informed that Lincolnshire had joined Buckinghamshire, Cambridgeshire, Derbyshire, Norfolk, Northamptonshire and the London Borough of Croydon in a joint venture to tender a framework agreement for Actuarial and Benefit Consultancy Services. The deadline for completion and submission of the Pre-Qualification Questionnaire was 1 February 2012 and a timetable following their submission was set out in the report. Following the awards to the framework, the Lincolnshire Pension Fund would complete a mini-competition to select the most appropriate provider for the Fund.

Further to consideration at the previous meeting of the Pensions Committee on 8 December 2011, the formal response to the Department for Communities and Local Government's consultation on employee contribution rate increases and accrual rate changes was submitted by the deadline date of 6 January 2012. A copy of the response was appended to the report.

On 20 December 2011 the Government announced that headline agreements had been reached with most unions on public service pension reform. The Government had been in negotiations with public sector unions after it accepted the recommendations of the Independent Public Service Pensions Commission which published its final report in March 2011. The Chief Secretary to the Treasury had reported that the Government concluded Heads of Agreement on pensions reform across the public sector, including the Local Government Pensions Scheme, and further discussions would take place over the next three months to agree the final details. Further information relating to this issue was included within the report, although it was reported at the meeting that UNITE had very recently withdrawn its support to the Heads of Agreement.

During discussion, the Committee requested a breakdown of those members of the Pension Fund for Lincolnshire County Council who were active and currently paid into the Fund, those that were frozen or had been deferred and those who were classed as pensioners who currently received their pensions from the Fund. This was to help identify the impact of the recent workforce changes. Officers agreed to circulate this information to all Members of the Pensions Committee.

Concerns were expressed in respect of the performance and turnover figures of Schroders, who managed a global equities portfolio for the Pension Fund. Members were informed that an update on this particular portfolio would be presented as part of the following item on investment management.

**RESOLVED**

That the report be noted.

33. INVESTMENT MANAGEMENT REPORT

Consideration was given to a report by the Investment Manager, which updated the Committee on the management of Lincolnshire's Pension Fund assets over the period from 1 July 2011 to 30 September 2011.

The Committee was informed that the quarter saw negative absolute returns for all managers except Blackrock, who produced a positive return of 4.41%. The three passive managers Invesco, Blackrock and the in-house team all out-performed their relative index by 0.62%, 0.05% and 0.47% respectively. Active managers struggled during the quarter, with underperformance of their relative index ranging from 1.26% to 5.47%. Over twelve months, absolute performance had been mixed with returns ranging from 3% to -10%, with the three passive managers all outperforming their relative index.

Specific reference was made to Schrodgers and Neptune, whose portfolios both related to global equities and had significantly underperformed. Officers held discussions with representatives of both Fund Managers in October 2011 who were confident that their respective investment strategies would meet their targets, bearing in mind that these were long-term investments. It was agreed that such long-term investments needed more time before any judgement on their performance could realistically be made.

RESOLVED

That the report be noted.

34. INVESTMENT STRATEGY – TRAINING AND DEVELOPMENT ITEM

Representatives from Russell Investments introduced this item and lead a training and development session for the Pensions Committee on investment strategies.

Meeting closed at 1.00 p.m.