

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 A Antcliff.

Councillor N I Jackson was also in attendance.

Officers: - David Forbes (Assistant Director – Finance and Resources), Peter Jones (Independent Investment Advisor), Jo Ray (Group Manager – Pensions and Treasury), Nick Rouse (Investment Manager), Tony Warnock (Head of Finance – Children’s and Specialist Services) and Graham Watts (Democratic Services Officer).

35. APOLOGIES FOR ABSENCE / REPLACEMENT MEMBERS

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

The Chairman took this opportunity to welcome Mr A Antcliff to his first meeting of the Pensions Committee in his capacity as the new employee representative.

36. DECLARATIONS OF MEMBERS’ INTERESTS

Mr A Antcliff declared a personal interest in all items on the agenda as he was currently a contributing member of the Pension Fund as an employee of Lincolnshire County Council.

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 he was currently 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.

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

37. MINUTES

RESOLVED

That the minutes of the previous meeting held on 12 January 2012 be confirmed and signed by the Chairman as a correct record.

38. 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 European Central Bank had injected more funds into the European banking system and the economic news from the United States had continued to be favourable. In addition, Members noted that, globally, the economic growth rate continued to be below historic averages and would probably grow by approximately 3% in 2012. The economy for the United States of America could also grow by 3% in 2012, with news over the winter being better than expected.

Emerging markets were still growing, driven by the favourable demographics of their still young populations. However, it was noted that they were all exporters to the western world. Europe, and not the United States of America, was China's largest export market and China was facing a full blown residential 'property bubble', which had provoked the central bank to restrict bank lending and attempt to rein in inflation.

In conclusion, it was reported that academic evidence showed that economic recovery from the financial crises was abnormally slow, uncertain and drawn out. The Independent Advisor reported that equity markets, in such conditions, typically traded sideways with bouts of optimism and pessimism. This statement seemed to be accurate for the current position, with pessimism in late 2011 having seemingly given way to optimism.

RESOLVED

That the report be noted.

39. 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 October 2011 to 31 December 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.

It was reported that, over the period 1 October 2011 to 31 December 2011, the value of the Pension Fund increased in value by £63.1 million to £1,261 million.

From 1 April 2011, performance was measured by the Fund's custodian, JPMorgan. Figures for the quarter ended 31 December 2011 indicated that the Fund marginally underperformed the benchmark, returning 5.25%, against a benchmark return of 5.31%. The only portfolios that outperformed their benchmarks were the passive bond portfolio managed by Blackrock, the alternatives portfolio managed by Morgan Stanley and the Global ex UK enhanced index portfolio managed by Invesco.

It was reported that, within the WM Local Authority universe, the Fund was ranked in the 64th quartile. Comparing the Fund's performance to other Local Authority funds was not particularly useful, however, as most funds now had scheme specific benchmarks involving wide variations in asset weightings. For example, equity weightings ranged from 30% to over 90%.

Contained within the report were updates on the following aspects of the Pension Fund: -

- Summary of the Fund;
- Local Authority Pension Fund Forum;
- Pensions Administration;
- Treasury Management;
- Actuary and Investment Consultant;
- Local Government Pension Scheme 2014;
- Auto Enrolment;
- Pensions Administration Systems.

The Group Manager – Pensions and Treasury reported that negotiations between the County Council and Mouchel were still on-going in respect of the Pensions Administration System, however, it was anticipated that the system upgrade would still be delivered as planned.

In conclusion, Members noted that this reporting period saw good returns across all equity markets, with the exception of Japan. Positive returns also came from fixed interest, property and cash.

RESOLVED

That the report be noted.

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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 October 2011 to 31 December 2011.

Members were informed that the quarter saw positive returns for all managers, except Goodhart who had a negative return of 0.1%. Three managers, Invesco, Blackrock and Morgan Stanley, outperformed their relative indexes by 0.22%, 0.02% and 2.19% respectively. Over twelve months, absolute performance had been disappointing with only Blackrock producing a positive return. Returns ranged from 12% to -15%, with the three passive managers all outperforming or matching their relative index.

It was noted that representatives from Neptune, Schroders and Threadneedle would be in attendance at the Committee's meeting on 31 May 2012 to provide Members with update reports and presentations on the portfolios they managed for the Pension Fund.

RESOLVED

That the report be noted.

41. ANNUAL TRAINING PLAN

The Committee considered a report by the Group Manager – Pensions and Treasury, which set out the proposed training plan for Pensions Committee Members for 2012/2013.

The Chartered Institute of Public Finance and Accountancy, in conjunction with the Department for Communities and Local Government, introduced a Knowledge and Skills Framework in January 2010. This was created to address the first Myners principle on effective decision making and aimed to identify what knowledge and skills were actually required to carry out a particular role within the Pensions Committee. A copy of the framework was appended to the report and covered the following six areas: -

- pensions legislation and governance context;
- pensions auditing and accounting standards;
- financial services procurement and relationship management;
- investment performance and risk management;
- financial markets and products knowledge;
- actuarial methods, standards and practices.

Also appended to the report was a draft training plan, which had scheduled training sessions on the same day as Pensions Committee meetings. Discussion ensued on this point and Members expressed a preference for training sessions to be held in the morning and on separate days to meetings of the Committee, lasting no longer than three hours.

RESOLVED

- (1) That the report be noted.
- (2) That the training plan be re-drafted, taking into account the preference of Members for training sessions to be held in the morning and on separate days to meetings of the Pensions Committee, for no longer than three hours.

42. PENSIONS ADMINISTRATION STRATEGY

The Group Manager – Pensions and Treasury presented a report, which provided the Committee with an opportunity to consider the draft Pensions Administration Strategy, a copy of which was appended to the report.

Members were informed that all employers had been consulted on the Strategy, which had also been publicised at Employer Forum meetings and at the annual employer meeting held in March 2012, and that no objections or comments had been submitted.

RESOLVED

That the draft Pensions Administration Strategy be approved.

43 MORGAN STANLEY PRESENTATION – GLOBAL FRANCHISE STRATEGY

A report by the Group Manager – Pensions and Treasury was considered, which introduced a presentation from Morgan Stanley regarding a Global Franchise Strategy as an investment opportunity for the Lincolnshire Pension Fund.

RESOLVED

That the decision regarding an initial investment in the Morgan Stanley Global Franchise Strategy Pooled Fund be deferred to the next meeting of this Committee scheduled to be held on 31 May 2012.

Meeting closed at 12.30 p.m.