

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 M J Scott.

Officers: - Graham Aisthorpe-Watts (Democratic Services Officer), 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 Dave Vickers (Pensions Manager, Mouchel Business Services).

7. APOLOGIES FOR ABSENCE

Apologies for absence were received from Mr A Antcliff and Councillor M Leaning.

8. 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.

9. MINUTES

RESOLVED

That the minutes of the previous meeting held on 31 May 2012 be confirmed and signed by the Chairman as a correct record.

10. 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 economic news had deteriorated in the past few weeks, not only in the western world but more broadly across the globe to embrace economies such as Brazil, China and India. The result had been another lurch down in global equity markets and a parallel fall in fixed interest yields, to levels that many commentators would have thought impossible to imagine.

A meeting of European leaders at the end of June 2012 was very significant, whereby a package of measures was agreed for Spain consisting of an injection of one hundred billion Euros into its banks. It was anticipated that 30 billion Euros of that package should be made available to Spanish banks by the end of July this year.

In terms of implications for investment policy, the history of financial crashes was that equity markets took many years to recover. What was clear at this stage was that fixed interest markets were discounting a serious economic downturn and deflation. Equity markets, meanwhile, offered the only 'store of value' in these very difficult times.

RESOLVED

That the report be noted.

11. PENSION FUND UPDATE REPORT

The Committee considered a report by the Group Manager – Pensions and Treasury, which updated Members on current issues and overall performance of the Lincolnshire Pension Fund over the period from 1 January to 31 March 2012.

Over the period covered by the report, it was reported that the value of the Lincolnshire Pension Fund increased in value by £67.2 million to £1,328 million on 31 March 2012. Figures for the quarter ended 31 March 2012 showed that the Fund outperformed the benchmark, returning 5.33% against a benchmark return of 4.9%. All Fund Managers outperformed their relevant benchmarks, other than the in-house portfolio and Neptune which underperformed by 0.16% and 0.02% respectively. Over twelve months, fund performance at 1.49% was behind the strategic benchmark return of 2.39%.

The following documents were appended to the report, for information: -

- distribution of investments;
- purchases and sales of investments;
- changes in market indices;

- equity voting activity;
- Local Government Pension Scheme trustee training.

An update was included in the report on the Local Authority Pension Fund Forum and the following key issues that it was working to address: -

- corporate governance;
- overseas employment standards and workforce management;
- climate change;
- mergers and acquisitions;
- consultations.

In terms of Actuary and Investment consultants, it was noted that Lincolnshire had joined Norfolk, Northampton, Cambridgeshire, Derbyshire, Buckinghamshire and the London Borough of Croydon in a joint venture known as National Local Government Pension Scheme Frameworks, as reported at a previous meeting of the Committee. The first task for the group had been to tender a framework agreement for Actuarial and Benefits Consultancy services, the process for which was completed in June 2012. Four companies were appointed to Actuarial Consultancy services and two companies were appointed to Benefits Consultancy services. Now that the framework was complete, the Lincolnshire Pension Fund was required to undertake a mini-competition to select the most appropriate provider for the Fund. The Committee agreed to establish a Working Group to carry out this piece of work and would follow guidance issued by the National Local Government Pension Scheme Frameworks to ensure that proper procurement processes were followed.

As reported to the Committee at its meeting on 12 January 2012, the Government announced that headline agreements had been reached with most unions on public sector pension reform. The final proposals agreed by both the Local Government Association and trade unions were released on 31 May 2012. The main elements of these proposals were outlined in the report.

RESOLVED

- (1) That the report be noted.
- (2) That a Working Group be established to undertake a mini-competition in respect of Actuarial and Benefits Consultancy providers, consisting of Councillors E R Chapman, C Farrar, Mrs P Watson and B Young.

12. 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 January 2012 to 31 March 2012.

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The Committee was informed that the quarter saw positive returns for all managers and only the in-house fund and Neptune underperformed their benchmark over the same period. Over twelve months, absolute performance had mixed results with returns ranging from -8.9% to 12%. Relative performance to the benchmark had also been mixed over the 12 months, with most managers providing slight outperformance, whilst Neptune and Schroder's had struggled in the volatile markets.

RESOLVED

That the report be noted.

13. PENSIONS ADMINISTRATION REPORT

A report by the Pensions Manager from Mouchel Business Services was considered, which updated the Committee on current administration issues in relation to the Lincolnshire Pension Fund.

As reported at the meeting of the Pensions Committee on 14 July 2011, the service line approach to pension administration went live on 1 August 2011. This was a Mouchel project to develop joint working practices across both the Lincoln and Middlesbrough teams to allow similar processes and work flow to be developed. During the subsequent eleven months it was reported that further integration had taken place with reporting lines fully established, whether management responsibilities were based in Lincoln or Middlesbrough.

Members noted the current Lincoln officer structure for Mouchel Business Partnership's pension administration team, which was contained within the report.

The Committee was informed that an updated software system for pension administration had recently been installed, known as Altair. This system had been running live since 30 May 2012 and there had been no material impacts on the section's performance measures or noticeable drops in reported satisfaction levels from either scheme employers or members. Task management reports against national benchmarking measures for May and June 2012 were included in the report, which indicated high levels of performance.

Reference was made to additional voluntary contributions, the provider for which in Lincolnshire was the Prudential. It was suggested that representatives from the Prudential should be invited to a future meeting of the Committee in order to provide an update on additional voluntary contributions in the Lincolnshire Pension Fund.

RESOLVED

That the report be noted.

14. UK EQUITY IN-HOUSE PORTFOLIO ANNUAL REPORT

NOTE – Councillor J M Swanson declared a personal interest in this item as his son worked for Bloomberg.

The Committee considered a report by the Investment Manager, which set out the annual report for the year ended 31 March 2012 in respect of the performance of the UK Equity index-tracking portfolio managed in-house by the Council's Finance and Resource section of the Resources Directorate.

Members congratulated officers in noting that the UK Equity portfolio outperformed its benchmark over the last twelve months and was ahead since inception by 0.32% per annum.

RESOLVED

That the report be noted.

15. PENSION FUND RISK REGISTER

The Group Manager – Pensions and Treasury presented a report, which provided the Committee with an opportunity to consider the Pension Fund Risk Register for Lincolnshire.

A copy of the latest Risk Register was appended to the report and Members were taken through the document so that the Group Manager could explain the way in which risk was measured. It was emphasised that the Risk Register was an internal working document that officers used and updated on a frequent basis.

The Register had been in place since 2006 but since its development had never been reported to this Committee. Officers therefore intended to present the document to Members of the Pensions Committee on an annual basis. Discussion ensued on this point and it was suggested that specific risks could be reported as and when they became apparent as part of the regular Pension Fund update report.

RESOLVED

That the Pension Fund Risk Register for Lincolnshire be approved.

16. ANNUAL REPORT ON THE FUND'S PROPERTY INVESTMENTS

A report by the Group Manager – Pensions and Treasury was considered, which outlined the performance of the Pension Fund's property and related investments for the year ended 31 March 2012.

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Overall, it was reported that the Pension Fund's investment in property and infrastructure generated a modest return of +5.3%, which was slightly behind the benchmark return of +5.7%. The property allocation, at 11.5% was at its benchmark allocation, with a further £20 million in undrawn commitments.

RESOLVED

That the report be noted.

Meeting closed at 12.35 p.m.