

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

Councillors E R Chapman, D R Dickinson, N I Jackson, P S Przyszlak, J M Swanson and Mrs P F Watson.

Added Members: Mr A Antcliff, Mr M J Scott.

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

17. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor B Young.

18. 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 and East Lindsey District Council.

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 M Leaning declared a personal interest in all items on the agenda as a contributing member of the Pension Fund.

19. MINUTES

**RESOLVED**

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

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20. 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 economies of the world had continued to deteriorate in recent months, which had led to rising anxieties amongst governments and central banks. Some parts of the world continued to grow, such as China and the USA, but the growth rates were well below what had been hoped for at the start of 2012. It was believed that regions such as Europe would stagnate at best and possibly even contract. The world as a whole would grow, but not sufficiently robustly to permit reductions in unemployment, falls in debt levels or to create the conditions necessary to promote strong expansion.

It was believed that central banks had started to realise that their efforts to stimulate the economy had failed, and there had been signs that bankers were admitting that they had got it wrong and the most significant move was the statement from the UK FSA in relation to the capital of clearing banks.

RESOLVED

That the report be noted.

21. PENSION FUND UPDATE REPORT

The Committee considered a report by the Group Manager – Pensions and Treasury, which updated members on current issues and overall fund performance over the period from 1 April – 30 June 2012.

Over the period covered by the report, it was reported that the Fund fell in value by £25.7m (5.3%) to £1,302.5m on 30 June 2012. Figures for the quarter ended 30 June 2012 indicated that the fund marginally outperformed the benchmark in a falling market returning -1.64% against a benchmark return of -1.68%, which was an outperformance of 0.04%. Over the twelve months, Fund performance, at -0.89% was behind the strategic benchmark of -0.23%.

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

It was highlighted that one complaint had been logged by the Pensions Administration Section at Mouchel during the quarter, which was regarding the timing of redundancy payment and an expectation that it would have been received sooner. The Employee Liaison Co-ordinator had responded to the

complaint to explain the process and the expected date that the payment would be released.

It was reported that there would be significant changes to the Pension Scheme with the introduction of Auto Enrolment and LGPS 2014 in the following 18 months. Mouchel, the Pensions Administrators, currently reported to the Committee on an annual basis, but with the upcoming changes it was felt that quarterly reporting would be more beneficial to the Committee.

It was noted that the Treasury Manager had produced a quarterly report which detailed the performance of the cash balances managed by the Treasury. This showed an average cash balance of £4.5m over quarter, which earned interest of £13.3k, outperforming the benchmark by 0.29%.

Further to the previous meeting, where it was reported that Lincolnshire had joined Norfolk, Northampton, Cambridgeshire, Derbyshire, Buckinghamshire and the London Borough of Croydon in a National Local Government Pension Scheme Frameworks joint venture, and it was agreed to establish a working group to work alongside officers to recommend one provider for Actuarial and Benefit Consultancy services, the Committee was informed that an Invitation to Tender (ITT) was agreed by the working group on 24 September 2012. Completed submissions were to be returned by 16 October 2012 and would be considered by the working group on 22 October 2012. The suppliers which met the minimum criteria would be invited to present to the working group on 9 November 2012, following this, one supplier would be recommended and invited to present to the December 2012 meeting of this Committee. If approved by the Committee, the supplier would be appointed ahead of the March 2013 valuation.

It was noted that the County Council was looking into new arrangements for when the Pension Administrators contract came to an end and it was highlighted that the possibility of some areas of the contract coming in-house was being considered. It was believed that some aspects, such as communication with employees, could be improved by this service being brought in house. However, there were elements which were very process orientated and could be sourced externally. Tenders would be sought for all aspects of the contract, but it may not be the same contract as previously. The Committee would be able to input their views on the contract through the Chair and Vice-Chair.

At the time of the meeting, officers were still waiting for the formal consultation for the new LGPS 2014 to be released. The Public Services Pensions Bill was published on 13 September 2012, which set out the new arrangements for the creation and governance of pension schemes covering the main areas of the public service and would be the basis for new schemes going forward. The Committee would be updated with further information as to how the Pensions Bill would affect the LGPS once it became available.

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RESOLVED

1. That the report be noted;
2. That Mouchel present a Pension Administration report to the Committee on a quarterly basis rather than annually.

22. INVESTMENT MANAGEMENT REPORT

Consideration was given to a report by the Group Manager – Pensions and Treasury which updated the Committee on the management of the County Council's Pension Fund assets, over the period 1 April – 30 June 2012.

The Committee was informed that the quarter had seen mixed returns with Equity Managers all producing negative returns, whilst Fixed Income managers, Blackrock and Goodhart both produced positive returns. The In House portfolio was the only one to outperform their index over the quarter, on a relative basis. There had been mixed results over 12 months with absolute performance, with returns ranging from 11.6% to 10.8%. Relative performance to the benchmark had also been mixed over the 12 months with half of the managers providing slight outperformance whilst Neptune, Schroders and Threadneedle all struggled in the volatile markets.

RESOLVED

That the report be noted.

23. PENSION FUND ANNUAL REPORT AND ANNUAL GOVERNANCE REPORT

A report by the Group Manager – Pensions and Treasury was presented which provided the Committee with an opportunity to consider the draft Annual Report and Accounts for the Pension Fund and the Annual Governance Report (AGR) submitted by the external auditors for the Council, the Audit Commission. It was noted that these accounts formed part of the Lincolnshire County Council Statement of Accounts.

Key points from the Annual Governance Report (AGR) were highlighted to the Committee which included:

- Financial Statements – the External Auditor planned to issue an unqualified opinion on the Pension Fund's accounts. One uncorrected error was highlighted, but no audit recommendation was required;
- Key areas of risk that were considered and the auditor's findings;
- Internal control issues and findings. One weakness was found in the Pensions Administration section which would be addressed by Internal Audit as part of their audit programme. This audit would be undertaken in October/November 2012.

RESOLVED

1. That the Annual Report and Accounts be approved;

2. That the Annual Governance Report be noted.

24. PERFORMANCE MEASUREMENT ANNUAL REPORT

Consideration was given to a report presented by the Group Manager – Pensions and Treasury, which set out the Pension Fund's investment performance over various time periods ending 31 March 2012.

It was reported that the Pension Fund used two suppliers for the measurement of the Fund's performance. The Fund's investment performance was calculated and compared with the returns of the strategic asset allocation benchmark by its custodian, JPMorgan. The WM Company compared the Fund's Performance against the average Local Authority Pension Fund.

The Committee was informed that overall, the Fund had increased in value by 1.5% (net of fees), whereas the Strategic Benchmark rose by 2.4%, which showed an underperformance of 0.8% in relative terms. The total assets of the Fund increased from £1,304.8m to £1,327.6m, a rise of almost £23m over the year ended 31 March 2012. This return could be attributed to the split between asset allocation and stock selection, both of which had a negative impact on the overall performance for the fund in 2011/12. The actual performance of the Fund ranked in the third quartile in the range of Local Authority funds, at the 75<sup>th</sup> percentile.

The Fund's performance over ten years was at 4.9%, which was slightly behind the Fund's Benchmark return of 5.2%. This return was ahead of both inflation and average earnings over the last ten years. The five year returns of 2.1% were behind both price and pay inflation. In both cases, the poor performance was due to underperforming active managers. However, three year returns, at 12.4%, were ahead of both inflation and average earnings, but behind the specific benchmark return of 14.7%.

It was noted that the investment strategy would be examined after the valuation, and a lot of fund managers did outperform in the long term. It was highlighted that some major changes had been made in 2010, and it was still too soon to have any reliable judgements regarding the fund managers, and now was not the time to consider changing them. The Committee was reminded that at the time these managers were selected, the County Council would have carried out due diligence and selected the best managers for what was required at the time.

The Committee was informed that discussions had been held with both Neptune and Schrodgers regarding how the burden of the underperformance could be shared and the Group Manager – Pensions and Treasury requested delegated authority to enter into negotiations for reduced fees with Schrodgers at the three year review.

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RESOLVED

1. That the report be noted
2. That the Group Manager – Pensions and Treasury be given delegated authority to enter into negotiations with Schroders for reduced fees at the three year review.

25. 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 Enhanced Index Equity Portfolio, who reported on how the County Council's investments had performed.

RESOLVED

That the report and presentation be noted.

Meeting closed at 12.35 p.m.