

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

Councillors E R Chapman, D R Dickinson, N I Jackson, P S Pryzyszlak, J M Swanson, Mrs P F Watson and B Young;

Added Members: Mr A Antcliff, Councillor M Leaning

Officers: Peter Jones (Independent Investment Advisor), Jo Ray (Group Manager, Pensions and Treasury), Nick Rouse (Investment Manager), Dave Vickers (Pensions Manager, Mouchel) and Rachel Wilson (Democratic Services Officer).

33. APOLOGIES FOR ABSENCE

Apologies for absence were received from Mr M J Scott.

34. DECLARATIONS OF MEMBERS' INTERESTS

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, 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.

35. MINUTES OF THE MEETING OF THE PENSIONS COMMITTEE  
HELD ON 6 DECEMBER 2012

**RESOLVED**

That the minutes of the previous meeting held on 6 December 2012 be confirmed and signed by the Chairman as a correct record.

**36. INVESTMENT ADVISORS REPORT**

Consideration was given to a report by the Investment Advisor, which provided a market commentary on the current state of global investment markets.

When the report was written in mid-December, there was uncertainty over whether it would be possible to avoid the so-called 'fiscal cliff' of automatic tax increases and spending cuts which was looming in the USA, however, there was an announcement at the end of 2012 and this had been avoided for the time-being, and the markets had gone up substantially following the agreements in the US. There were still issues on the horizon, such as Congress needing to agree a limit on borrowing, even though they had already reached the existing limit.

It was also reported that so far the West's economy seemed to be doing well, and unemployment figures which were released recently were encouraging.

In terms of bond markets, the upside was very limited, and the downside was bigger, and it was expected that interest rates would return to 3 – 4% during the year. It was thought that the best strategy at the current time was to have most of the assets in equities and fixed interests, and of the County Council's portfolio, 60% was in equities and 13.5% was in fixed interests.

**RESOLVED**

That the report be noted.

**37. PENSION FUND UPDATE REPORT**

The Committee received a report which provided an update on current issues and overall Fund performance over the period from 1 July to 30 September 2012. Figures for the quarter ended on 30 September 2012 and showed that the fund marginally outperformed the benchmark in a falling market, and returned 2.65% against a benchmark of 2.63%, an outperformance of 0.02%.

It was reported that over twelve months, Fund performance, at 11.94%, was ahead of the strategic benchmark return of 11.51%. It was good news that the Fund was slightly outperforming the benchmark, and the market returns for the Fund over the three to twelve months, was highlighted to the Committee.

The LAPFF (Local Authority Pension Fund Forum) Annual Conference was held in Bournemouth on 29 and 30 November and was attended by the Group Manager – Pensions and Treasury and the Chairman of the Committee, the main topics of the conference were highlighted to the rest of the Committee.

In terms of Treasury Management, it had been a very good quarter, with the average cash balance over the quarter of £4.7m which earned interest of £28.6k, which was an outperformance of 0.48% against the benchmark.

A framework for Investment Consultancy services was currently at the "Invitation to Tender" stage, with submissions due by 4 February 2013 and suppliers being appointed to the framework in early April. The Lincolnshire Fund would call off the framework after that date, it was thought that was likely to be in June or July, after the pensions accounts had been closed.

There was also a second framework for Custody services, however, Lincolnshire did not need to tender for these services as there was already a contract in place which would run until 2018. Lincolnshire was not a founder member for this framework, but was still involved in an advisory capacity.

The Committee was advised that the formal consultation for the new LGPS 2014 had been released on 21 December 2012 and it was as expected. Officers would be working with Pensions Administration team in drafting a formal response, which would also be circulated to the members of this Committee.

The proposals in relation to workstream 2 of the LGPS were outlined, and it was highlighted that one of the proposals was to set up a national LGPS board, and although it would not have any statutory powers of its own, the board would be able to make recommendations to the Secretary of State, the regulator or professional standards bodies in order to further its remit.

It was proposed that at the local level, boards provide for a greater degree of segregation between funds and administering authorities to reduce the potential for conflicts of interest at both member and officer level. It was noted that membership of local boards was proposed to require a minimum recognised level of skills and knowledge and to include representation for fund employers and trade unions.

The Committee was informed that communicating to employees would be a vital part of the implementation of the new scheme in April 2014. The LCC Project Group was working on both auto-enrolment and the new LGPS scheme and had five days of Pensions Briefings booked in for January and February 2013 to cover pensions' awareness and auto-enrolment.

Members were reminded that invitations had been sent out for the Annual Employers meeting on the morning of 20 February 2013. This would be held in the Council Chamber and would cover the 2013 valuation, the new LGPS 2014 and a general Pension Fund administration update. The afternoon would be used for Pensions Committee training, with the Actuary giving a session on the Valuation process and governance arrangements for Committee's.

It was queried how the Pension Fund was coping with the constant changes, and the Committee was informed that the active membership had fallen, it peaked at 20,000 contributing members but was now between 18,000 – 19,000. Within Lincolnshire there had been a slight fall in active membership but there had not been a particular increase in people opting out, and with the Council proposing to become a commissioning authority, it was likely that the

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numbers would continue to decline. However, under the new scheme, payments would be based on an employee's actual salary rather than the full time equivalent, which it was hoped would encourage more part time workers to stay in the Scheme.

RESOLVED

That the report be noted.

38. INVESTMENT MANAGEMENT REPORT

Consideration was given to a report which covered the management of the County Council's Pension Fund assets, over the period from 1 July to 30 September 2012.

The Investment Manager reported that the quarter had seen positive returns for all managers and only Threadneedle and Neptune underperformed their benchmark over the period. All managers had seen positive returns over 12 months ranging from 3.9% to 19%. Relative performance to the benchmark had been positive for all managers except for three of the active global equity managers, Schroder, Threadneedle and Neptune, who underperformed by 0.5%, 0.7% and 6.4%.

The Committee was guided through the quarterly reports from each of the managers, which provided a summary of their performance, a valuation of the portfolio, information in relation to purchases and sales, turnover of holdings as well as the top 10 holdings for each manager.

RESOLVED

That the report be noted.

39. MORGAN STANLEY GLOBAL BRANDS

The Committee received a report which had been requested following the December 2012 meeting, which covered the options available to the Committee regarding further investment in the Morgan Stanley Global Brands Fund.

It was reported that Morgan Stanley presented the Global Brands Fund to the Pensions Committee in April 2012 and the Committee approved an initial investment of £20 million, of which £15 million has so far been invested. The Global Brands Fund was a concentrated portfolio of high quality companies which had the potential to generate consistent and stable returns. The Fund tended to outperform in times of market weakness, but held its ground during times when markets were performing well.

The Committee was informed that Morgan Stanley had announced that the Fund would be closing shortly to further investments but £100m of capacity

had been reserved for the Lincolnshire Pension Fund for the next six months. This did not mean that the full £100m had to be invested.

Compared with the Fund's three Global Equity Managers - Schroders, Neptune and Threadneedle, the Morgan Stanley Global Brands Fund had showed reduced volatility. Positive returns had also been seen since April 2010. The Fund also showed that downside protection had been achieved during periods of market downturn. There were also benefits in that the Fund had a low correlation with the other three managers.

The Committee discussed the three options they were presented with in relation to how they would like to progress with the Global Brands Fund.

**RESOLVED**

That the current weighting of 20% in Global Equity active management was rebalanced to give all four managers 5%, approximately £66m each.

**40. PENSION ADMINISTRATION REPORT**

Consideration was given to a report presented by the Mouchel Pension Fund Administrator, which provided the Committee with an update on current issues from the last quarter.

Since the previous update, it was reported that Mouchel had appointed a dedicated Communication Co-ordinator who would be managed locally in Lincoln, but would have a wider role to develop a communication strategy for both the Lincolnshire and Teeside Pension Fund. The role was not just to enhance the quality of what was being produced and issued to scheme members and employees, but also to look at more effective ways of communicating information, for example through increased use of e-mail, text messaging and social media sites. Scheme members would also be able to access their own record online, make changes to the personal details and even request Annual Benefits Statements online through enhancements to the Altair IT system.

A number of current issues for the Pensions Administration team were highlighted to the Committee, and these included academies, auto-enrolment, communications on 2014 Scheme proposals, pensioner newsletter and 2013 Actuarial Valuation.

**RESOLVED**

That the report be noted.

**41. MANAGER PRESENTATION – INNISFREE**

The Committee received a report which introduced a presentation from the Fund's Infrastructure manager, Innisfree which detailed an investment opportunity in a secondary infrastructure fund

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RESOLVED

That the Committee wished to make an investment of £10m in the Innisfree Fund ISF2.

(It was noted that Councillor J M Swanson abstained from voting on this item)

Meeting closed at 12.52 p.m.