

Pensions Sub-Committee

Date: Thursday, 21 June 2012
Time: 10:30
Venue: County Hall
Address: County Hall, West Bridgford, Nottingham NG2 7QP

AGENDA

- | | | |
|----------|-----------------------------------------------------------------------------------------------------------------------------|----------------|
| 1 | <u>To note the appointment by the County Council at its Annual Meeting of Councillor Michael J Cox as</u>
Details | 1-2 |
| 2 | <u>Membership of the Sub-Committee</u>
Details | 3 - 4 |
| 3 | <u>Apologies for Absence</u>
Details | 1-2 |
| 4 | <u>Declarations of Interest</u>
(a) Personal
(b) Prejudicial | 1-2 |
| 5 | <u>Proxy Voting</u>
Details | 5 - 10 |
| 6 | <u>NAPF Local Authority Annual Conference</u>
Details | 11 - 14 |
| 7 | <u>Benchmarks Training Session</u>
Details | 1-2 |

(1) Members of the public wishing to inspect background papers or Schedule 12A of the Local Government Act 1972 should contact Chris Holmes, Governance and Scrutiny, Chief Executive's Department (telephone Nottingham 977 3714).

(2) Members are reminded that Committee and Sub-Committee papers, with the exception of those which contain exempt or confidential information, may be recycled. Appropriate containers for this purpose are located in the respective Secretariats.

(3) (a) Persons making a declaration of interest should have regard to the Code of Conduct and the Council's Standing Orders. Those declaring must indicate whether their interest is personal or prejudicial and the reasons for the declaration. Any Member or Officer who declares a prejudicial interest in an item must withdraw from the meeting during discussion and voting upon it, unless a dispensation has been granted.

(b) Members or Officers requiring clarification on whether to make a declaration of interest are invited to contact Democratic Services prior to the meeting.

(4) Information in respect of this meeting is available in a wide range of languages which can be provided on request and can also be provided in large print, Braille and audio. Please contact the number referred to above.

REPORT OF THE CHIEF EXECUTIVE**MEMBERSHIP AND TERMS OF REFERENCE OF THE SUB-COMMITTEE****Purpose of the Report**

1. To report the membership and terms of reference of the Sub-Committee for 20012/13

Information and Advice

2. The Sub-Committee is asked to note that the following Members have been appointed to the Pensions Sub-Committee:-

County Councillors

Councillor Reg Adair
Councillor Michael J Cox
Councillor Mrs Kay Cutts
Councillor Carol Pepper
Councillor Sheila Place
Councillor Ken Rigby
Councillor Stella Smedley
Councillor David Taylor
Councillor Les Ward

Nottingham City Council

Councillor Alan Clarke
Councillor Thulani Molife
Councillor Jackie Morris

Nottinghamshire Local Authorities' Association

Executive Mayor Tony Egginton
Councillor Milan Radulovic MBE

Trade Unions

Mr J Hall

Mr C King

Pensioners

Mr T V Needham
Mr K Stedman

Scheduled Bodies

Mr N Timms

3. The terms of reference of the Sub-Committee are as follows:-

“This is a sub-committee of the Nottinghamshire Pension Fund Committee

1.1. The exercise of the powers and functions set out below are delegated:

1.1.1 Responsibility for making recommendations to the Nottinghamshire Pension Fund Committee on matters relating to the administration and investment of the Pensions Fund.”

RECOMMENDED

3. That the report be noted

MICK BURROWS
CHIEF EXECUTIVE

Statutory and Policy Implications

4. This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, crime and disorder and those using the service and where such implications are material they have been described in the text of the report.

Background Papers Available for Inspection

None

Electoral Divisions Affected

6. All.

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

PROXY VOTING

Purpose of the Report

1. To report on the voting of equity holdings in the first quarter of 2012.

Information and Advice

2. The Myners principles require pension funds to have an explicit strategy towards their holdings voting on issues that may affect the value of the Fund's investments. The Fund's statement on responsible investment states that "the Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds".
3. The Fund retains responsibility for voting (rather than delegating to its investment managers) and votes the majority of its equity holdings in the UK, Europe, US and Japan. Voting is implemented by Pensions Investment Research Consultants (PIRC) based on their Shareholder Voting Guidelines.
4. During the first quarter of 2012, 102 meetings were held, of which 3 were not voted mainly because share had no voting rights. Appendix A lists all meetings during the quarter at which the Fund voted. The table below shows the number of meetings by region at which votes were cast.

2012 Q1	Meetings	Meetings with oppose/abstain votes	
UK	23	20	87%
Europe	31	29	94%
US	27	27	100%
Japan	3	2	67%
Global	14	13	93%
Total	98	91	93%

5. Overall there were 91 meetings (representing 93% of the total) at which 1 or more oppose or abstain votes were cast. This high proportion of meetings with oppose or abstain votes shows that the Fund continues to take its stewardship role seriously through considered exercise of its voting rights. The full analysis of resolutions is shown in the table below.

2012 Q1	UK		Europe		US		Japan		Global		Total	
For	257	77%	276	74%	200	62%	35	90%	63	60%	831	71%
Oppose	44	13%	66	18%	66	20%	4	10%	32	31%	212	18%
Abstain	34	10%	32	8%	12	4%	0	0%	9	9%	87	7%
Withhold	0	0%	0	0%	45	14%	0	0%	0	0%	45	4%
	335		374		323		39		104		1,175	

6. Overall, 29% of votes were not in favour of resolutions, with marked regional differences – the UK having 23% of such votes compared to 40% for global companies. The main topics that led to oppose votes included executive pay schemes, independence of board members, annual reports and appointment of auditors.
7. During the first quarter there were a number of high profile cases of executive pay in the banking sector. The RBS Chief Executive Stephen Hestor voluntarily gave up a £1m share award after media and political pressure despite many considering the award to be objectively 'fair' for the Chief Executive's achievements at RBS. Lloyds were also in the news by seeking to clawback £2m of bonuses paid to its directors as a result of the mis-selling of payment protection insurance. This follows an announcement by the Financial Services Authority that bonuses should be clawed back if they are subsequently found to be undeserved.
8. The wider issue of effective corporate governance has been raised by the decision of Shell to close its final salary pension scheme, the last one of the FTSE100 companies to do so. Defined benefit scheme trustees have more of an influence on fund managers over the exercise of voting rights and engagement than in defined contribution schemes (where it is individual savers who effectively own the shares). Furthermore, the Kay Review on corporate governance highlights the reducing influence of bodies such as the ABI and NAPF (as their members have been reducing exposure to equities over recent years). Voting by fund managers often lacks transparency as, although the Companies Act 2006 provides for the disclosure of the exercise of voting rights, this clause has not been exercised.
9. The government is looking to reform executive pay as part of a wider response to the issue of 'responsible capitalism'. One measure being consulted on is to legislate to strengthen shareholders voting on remuneration by requiring a 75% vote in favour. Other potential legislation may come as a desire to increase female representation at board level by the use of quotas if companies do not voluntarily address the issue. The Prime Minister has made recent comments to the effect that the evidence suggests that greater female representation would improve business performance and therefore the country's economic prospects.

Statutory and Policy Implications

10. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights,

the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That the report be noted.

Name of Report Author: Simon Cunnington

Title of Report Author: Team Manager – Investments

For any enquiries about this report please contact: Simon Cunnington

2012 Quarter 1			
Company	Meeting Date	Meeting Type	
UK Meetings Q1			
1 ANGLO AMERICAN PLC	06 Jan 12	EGM	
2 DEBENHAMS PLC	10 Jan 12	AGM	
3 FENNER PLC	11 Jan 12	AGM	
4 BELLWAY PLC	13 Jan 12	AGM	
5 RESOLUTION LTD	13 Jan 12	EGM	
6 DIPLOMA PLC	18 Jan 12	AGM	
7 WH SMITH PLC	25 Jan 12	AGM	
8 SMITHS NEWS PLC	26 Jan 12	AGM	
9 LONMIN PLC	26 Jan 12	AGM	
10 MITCHELLS & BUTLERS PLC	26 Jan 12	AGM	
11 MARSTONS PLC	27 Jan 12	AGM	
12 SCOTTISH INVESTMENT TRUST PLC	27 Jan 12	AGM	
13 CAIRN ENERGY PLC	30 Jan 12	EGM	
14 IMPERIAL TOBACCO GROUP PLC	01 Feb 12	AGM	
15 COMPASS GROUP PLC	02 Feb 12	AGM	
16 TUI TRAVEL PLC	07 Feb 12	AGM	
17 THOMAS COOK GROUP PLC	08 Feb 12	AGM	
18 PARAGON GROUP OF COS PLC	09 Feb 12	AGM	
19 SAGE GROUP PLC	29 Feb 12	AGM	
20 OLD MUTUAL PLC	14 Mar 12	EGM	
21 SVG CAPITAL PLC	20 Mar 12	EGM	
22 SVG CAPITAL PLC	23 Mar 12	AGM	
23 RM PLC	26 Mar 12	AGM	
Meetings Not Voted			Reason Not Voted
1 DAILY MAIL & GENERAL TRUST	09 Feb 11	AGM	No voting rights

Europe Meetings Q1		
1 THYSSENKRUPP AG	20 Jan 12	AGM
2 SIEMENS AG	24 Jan 12	AGM
3 BANCA MONTE DEI PASCHI DI SIENA SPA	01 Feb 12	EGM
4 TUI AG	15 Feb 12	AGM
5 ENERGIAS DE PORTUGAL SA (EDP)	20 Feb 12	EGM
6 NOVARTIS AG	23 Feb 12	AGM
7 ROCHE HOLDING AG	06 Mar 12	AGM
8 INFINEON TECHNOLOGIES AG	08 Mar 12	AGM
9 SGS SA	12 Mar 12	AGM
10 BANCO BILBAO VIZCAYA ARGENTARIA SA (BBVA)	15 Mar 12	AGM
11 BANKINTER	15 Mar 12	AGM
12 AGEAS NV	19 Mar 12	EGM
13 UMICORE	21 Mar 12	EGM
14 CARLSBERG AS	22 Mar 12	AGM
15 GIVAUDAN SA	22 Mar 12	AGM

16 NORDEA BANK AB	22 Mar 12	AGM
Company	Meeting Date	Meeting Type
17 DANSKE BANK AS	27 Mar 12	AGM
18 ABERTIS INFRAESTRUCTURAS SA	27 Mar 12	AGM
19 ELECTROLUX AB	27 Mar 12	AGM
20 SWEDBANK AB	27 Mar 12	AGM
21 HUSQVARNA AB	28 Mar 12	AGM
22 SVENSKA HANDELSBANKEN	28 Mar 12	AGM
23 VESTAS WIND SYSTEMS AS	29 Mar 12	AGM
24 METSO OYJ	29 Mar 12	AGM
25 SKANDINAVISKA ENSKILDA BANKEN (SEB)	29 Mar 12	AGM
26 RANDSTAD HOLDINGS NV	29 Mar 12	AGM
27 ZURICH FINANCIAL SERVICES	29 Mar 12	AGM
28 SCA (SVENSKA CELLULOZA) AB	29 Mar 12	AGM
29 HOLMEN AB	29 Mar 12	AGM
30 UPM-KYMMENE OYJ	30 Mar 12	AGM
31 BANCO SANTANDER SA	30 Mar 12	AGM

US Meetings Q1		
1 WALGREEN CO.	11 Jan 12	AGM
2 INTUIT INC.	19 Jan 12	AGM
3 MICRON TECHNOLOGY INC	24 Jan 12	AGM
4 MONSANTO CO.	24 Jan 12	AGM
5 JOHNSON CONTROLS INC	25 Jan 12	AGM
6 COSTCO WHOLESALE CORP.	26 Jan 12	AGM
7 BECTON DICKINSON & CO	31 Jan 12	AGM
8 VISA INC	31 Jan 12	AGM
9 ROCKWELL COLLINS INC	03 Feb 12	AGM
10 EMERSON ELECTRIC CO.	07 Feb 12	AGM
11 ROCKWELL AUTOMATION INC.	07 Feb 12	AGM
12 ACCENTURE PLC	09 Feb 12	AGM
13 APPLE INC	23 Feb 12	AGM
14 DEERE & CO.	29 Feb 12	AGM
15 INTERNATIONAL GAME TECHNOLOGY	05 Mar 12	AGM
16 EL PASO CORP.	06 Mar 12	EGM
17 QUALCOMM INC.	06 Mar 12	AGM
18 APPLIED MATERIALS INC	06 Mar 12	AGM
19 TYCO INTERNATIONAL LTD	07 Mar 12	AGM
20 TE CONNECTIVITY LTD	07 Mar 12	AGM
21 ANALOG DEVICES, INC.	13 Mar 12	AGM
22 COVIDIEN PLC	13 Mar 12	AGM
23 WALT DISNEY CO.	13 Mar 12	AGM
24 FRANKLIN RESOURCES INC	14 Mar 12	AGM
25 AGILENT TECHNOLOGIES INC	21 Mar 12	AGM
26 STARBUCKS CORP.	21 Mar 12	AGM
27 HEWLETT-PACKARD CO	21 Mar 12	AGM

Meetings Not Voted

Reason Not Voted

Appendix A

1 APOLLO GROUP INC.	24-Jan-12	AGM	no voting rights
2 VIACOM INC.	08-Mar-12	AGM	no voting rights

Company	Meeting Date	Meeting Type
Japan Meetings Q1		
1 NICHIIKO PHARMACEUTICAL CO	28 Feb 12	AGM
2 OTSUKA SHOKAI CO LTD	28 Mar 12	AGM
3 CANON INC	29 Mar 12	AGM

Global Meetings Q1		
1 ZON MULTIMEDIA SERVICOS DE	30 Jan 12	EGM
2 ALLEGHANY CORP	06 Feb 12	EGM
3 SANMINA-SCI CORP	13 Feb 12	AGM
4 TUI AG	15 Feb 12	AGM
5 OUTOKUMPU OY	01 Mar 12	EGM
6 REINET INVESTMENTS SCA	05 Mar 12	EGM
7 SANMINA-SCI CORP	12 Mar 12	AGM
8 RAUTARUUKKI OY	14 Mar 12	AGM
9 OUTOKUMPU OY	14 Mar 12	AGM
10 FONDIARIA SAI SPA	16 Mar 12	EGM
11 CIENA CORP.	21 Mar 12	AGM
12 HUFVUDSTADEN AB	22 Mar 12	AGM
13 NOBEL BIO CARE HOLDING AG	29 Mar 12	AGM
14 FABEGE AB	29 Mar 12	AGM

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT**NAPF LOCAL AUTHORITY CONFERENCE 2012****Purpose of the Report**

1. To report on the NAPF Local Authority Conference 2012.

Information and Advice

2. The National Association of Pension Funds (NAPF) Local Authority Conference 2012 was held on 21 to 23 May 2012. In accordance with prior approval and as part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills, the conference was attended by Councillors Cox and Rigby and Mr Simon Cunnington (Team Manager – Investments).
3. Two sessions were attended prior to the first day of the main conference. The first was entitled 'Liability Driven Investing (LDI) – targeting pension scheme funding volatility'. The speaker argued that all funds use a form of LDI by managing their funding position without necessarily trying to match the liability cashflows. The main purpose of LDI is to capture improvements in funding levels by reducing risk at the appropriate time and hedging unrewarded risks. However, hedging has a number of difficulties:
 - Insufficient index-linked bonds in the market and none linked to CPI
 - Usually involves swaps which continue to be problematic for local authorities
 - Longevity swaps have few counterparties available and usually only cover pensioner members (rather than active and deferred members)One inflation hedge that most local authority funds do hold in significant amounts is equities.
4. The second session looked at alternative ways of investing in UK property including real estate finance and ground leases. Global property financing was previously dominated by banks but this is reducing following regulatory changes that are forcing correlation of banks' capital with asset risk. Insurance companies tend to provide 'senior' debt which leaves a gap for investors in 'junior' debt (accessed through fund vehicles). Ground leases are long leases (average length 250 years) granted by landowners to developers in return for annual payments. At the end of the lease (or if the ground rent is not paid) the lease and any buildings on the land revert to the landowner.

5. The main conference started with Anthony Hilton, Financial Editor of the Evening Standard, recalling the recession of the 1970s. He suggested that this was worse than now and encouraged attendees not to worry too much about the Euro, debt levels and government cuts. He argued that Europe has always been a strong Germany and weaker southern nations but overall was economically viable; using debt to pay for things over generations was nothing new (eg war bonds); and governments generally freeze expenditure before increasing again rather than making real cuts. He did however warn about the lack of economic growth and the negative impact of quantitative easing. He suggested that an economy doesn't function with very low interest rates and a rate increase would actually give a positive message.
6. The next speaker was Sir Merrick Cockell from the Local Government Association (LGA) who had wanted to outline the main features of the new Local Government Pension Scheme (LGPS). However, as agreement between the negotiating parties had not quite been reached, he outlined instead the process of negotiation. The LGA's objectives were to ensure a sustainable and affordable scheme, to minimise opt-outs and to encourage younger members to join. The tripartite process (LGA, Communities and Local Government (CLG) and Unions) had involved regular meetings and all parties had been genuinely committed to reaching agreement.
7. Two sessions followed entitled respectively 'De-risking: the devil is in the detail' and 'The Currency Iceberg'. The first looked at how and when to de-risk asset allocation. Risk can be reduced by diversifying growth assets by sector, region and into alternative asset classes. Further de-risking can only be done when fully funded but it is important to monitor this and be ready to act when the opportunity arises. The second session stated the typical currency exposure of a UK fund as 67% sterling, 19% US dollar, 7% Euro, 4% Japanese Yen and 3% other currencies. Sterling was strongest against world currencies in 1990 but weakest in 2008 and hedging should only be undertaken when currency was weak. However, difficulties in forecasting future currency movements meant the case for hedging appear flawed.
8. The first session after lunch considered liquidity in the LGPS. Peter Morris from the Greater Manchester Pension Fund has projected falls in active members to 2014 leaving a smaller membership from which to recover deficits. He identified further risks to the scheme from a wider range of employer profiles with higher risk of failure with the result that his fund is working much more closely with employers. Ewan Cameron Watt from BlackRock outlined the multiple challenges of declining membership, longevity, equity risk and artificially low interest rates. With low real returns, volatility needs to be managed to reduce the risk of big losses, and 'diversified growth' strategies can help.
9. The next session was entitled 'Automatic Enrolment – what do you need to know?'. Automatic enrolment will be phased in from October 2012 and will place a duty on LGPS employers (rather than the administering authority) to keep records of all employees who have opted out of the scheme. These employees will have to be re-enrolled every three years. Employers will also have to register with the Pensions Regulator within four months of their staging date. The LGA will be

sending a briefing document to each administering authority for distribution to all employers within the LGPS.

10. 'Value for money – where does it come from?' examined a number of initiatives to collaborate on procurement within the LGPS. David Anthony from the Wiltshire pension fund outlined how the funds within the south west region had worked together to produce two framework agreements (for legal advisory services and actuarial, benefit and investment advice). The process needed very close liaison and was incredibly time and resource intensive. Nicola Mark from the Norfolk fund then presented the first National Framework for actuarial and benefit consultancy. This will be open to all LGPS funds and is hoped to be followed by a number of other framework agreements.
11. Three speakers then presented their views on 'Project LGPS 2014'. Jeff Houston from the LGA emphasised the negotiated nature of the process with the aim of avoiding conflict and reassuring members. He stated that 99% of the proposals had been agreed with all parties keen to finalise the remaining issues. Terry Crossley from CLG described the likely regulatory process involving informal consultation on the proposals and then formal consultation on the draft regulations in autumn. The regulations need to be in force by 30 March 2013 in order for actuaries to be able to take them into account in the next valuation exercise. Mike Taylor from the London Pension Fund Authority suggested that the outcome of the negotiations was largely known apart from the accrual rate and revaluation factors. The big issue is increased complexity and this is likely to need system changes.
12. The next two speakers concentrated on infrastructure investment. Geoffrey Spence from Infrastructure UK (part of HM Treasury) stated that infrastructure investment was needed to rebalance and 'de-carbonise' the economy and to facilitate growth over the medium term. A number of financial tools previously used to finance infrastructure are no longer available so new sources of investment are needed. The government needs to be proactive to remove barriers to investing but has no desire to 'raid' pension funds. Joanne Segars, chief executive of NAPF, outlined the Pensions Infrastructure Platform being developed by NAPF in association with a number of large funds. The aim is to provide dedicated expertise and ensure deals are structured to the advantage of the investors. The suggestion is for a fund of approximately £2 billion to invest mainly in the UK with 10 to 12 founder funds providing half of the capital.
13. The conference was closed by Bob Neill MP, Parliamentary Under Secretary of State at CLG, with the promise that an agreement on the new LGPS was due within days. This promise was kept as details of the new scheme were released shortly after the conference.

Statutory and Policy Implications

14. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using

the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That the report be noted.

Name of Report Author: Simon Cunnington

Title of Report Author: Team Manager – Investments

For any enquiries about this report please contact: Simon Cunnington

Background Papers

None