

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel
Date of Decision:	18 June 2010
Decision Title:	Northern Trust – annual report
Decision Reference:	1662
Report From:	County Treasurer

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1. Executive Summary

1.1. This is the third annual report to the Panel on Northern Trust's performance as custodian, following the first report in May 2008.

2. Provision of custody services

2.1. Northern Trust were appointed with effect from 1 August 2006 as the Pension Fund's first sole custodian following a tender process. Their contract runs for a seven-year period ending on 31 July 2013, subject to satisfactory performance. Previously, custody services had been provided by each fund manager's nominated custodian.

2.2. The custody services provided by Northern Trust to the Fund include:

- safekeeping of assets
- settlement of trades
- collection of income from dividends and interest
- tax reclamation services
- corporate action processing
- filing of US-based class actions
- proxy voting
- foreign exchange
- cash management
- investment manager reconciliation
- consolidated investment accounting reports

- regulatory reporting
 - transaction cost analysis reporting
 - performance measurement
 - access for Hampshire's staff to Northern Trust's on-line reporting facility, 'Passport'
 - stock lending.
- 2.3. The custody services provided by Northern Trust are of considerable importance in terms of the continuity, safety and security of the Pension Fund's assets.

3. Quality of service

- 3.1. In overall terms, the Fund has continued to receive good quality custodian services from Northern Trust over the past year.
- 3.2. Northern Trust's comprehensive range of custodian services has enabled the Fund to continue to manage its affairs with a focus on returns, reducing risk, governance and compliance.
- 3.3. Good working relationships are in place with their client liaison staff, who are both responsive and able to assist in resolving administrative problems and reconciling records. Northern Trust has recently changed its account manager responsible for the day-to-day relationship with the County Treasurer's staff. Whilst Northern Trust has given an assurance over a seamless transfer, the performance of the new account manager will be closely monitored.
- 3.4. Northern Trust provides information in both a timely and accurate manner. There are good reporting systems through which consolidated financial information, reporting and accounting of the Fund's holdings, transactions and performance monitoring can be readily accessed.
- 3.5. There is ongoing liaison to maximise the facilities offered by Northern Trust.
- 3.6. The County Treasurer will continue to monitor Northern Trust's performance and will report annually to the Panel.

4. Changes during the year

- 4.1. Stock lending had been suspended in September 2008 following the collapse of Lehman Bros. On the basis that it was now clearer that the risk of losses from stock lending were not significant, the Pension Fund Panel decided at its meeting of 20 November 2009 to permit Northern Trust to resume stock lending.
- 4.2. Income from stock lending during the four-month period to 31 March 2010 was £60,000 net of administrative fees, although earnings to the Pension Fund should be considerably higher in April and May when European companies announce their dividends. It is expected that the income received from stock lending activities should exceed Northern Trust's annual fees.

5. Fees

5.1. The fees incurred in 2009/10 for the custodian services provided by Northern Trust amounted to £334,000, which were higher than those of the previous year due to the significant rise in market value of assets. The breakdown of these fees over asset classes is as follows:

	2008/09	2009/10
	£'000	£'000
Global equities	147	176
Global bonds	91	80
Alternatives	19	22
Property	17	18
UK equities	16	29
UK bonds	4	4
Cash	2	2
Currency hedging	2	3
Total	298	334

5.2. The custody fees are based on a charge per portfolio administered, the market value of the assets (variable by country), a charge per transaction (variable per country), foreign exchange deals, third party fixed deposits, performance analysis and reporting. The level of fees reflects the increased diversification of global equities into emerging markets, which are much less well developed and transactional costs are higher.

6. Recommendation

6.1. That the satisfactory performance and quality of global custodian services being provided by Northern Trust be noted.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes/no
Corporate Business plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Business plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Business plan link number (if appropriate):	
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision for the Pension Fund Panel to note the satisfactory performance and quality of global custodian services being provided by Northern Trust.	

Other Significant Links

Links to previous Member decisions:		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Direct links to specific legislation or Government Directives		
<u>Title</u>	<u>Date</u>	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.