

PENSION FUND INVESTMENTS PANEL MINUTES

19 OCTOBER 2010

Chairman: * Councillor Mano Dharmarajah

Councillors: * Tony Ferrari * Richard Romain
* Thaya Idaikkadar

**Co-optee
(Non-voting):** * Howard Bluston

[Note: Other Attendance: (1) Robert Thomas attended in an observer role, as the representative of Harrow UNISON;

(2) Mr Andrew Elliott of Hymans Robertson attended in an advisory role, as the Council's Actuary/Adviser.]

* Denotes Member present

33. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance at this meeting.

34. Declarations of Interest

RESOLVED: To note that there were no declarations of interests made by Members.

35. Minutes

RESOLVED: That the minutes of the meeting held on 26 July 2010 and the Special meeting on 21 September 2010, be taken as read and signed as a correct record.

36. Public Questions, Petitions and Deputations

RESOLVED: To note that no public questions were put, or petitions or deputations received at this meeting.

RESOLVED ITEMS

37. Pension Fund Annual Accounts and the Report of the Auditor

An officer presented a report that provided an update on the main issues raised in the Auditors Report on the Pension Scheme Accounts to 31 March 2010.

The Panel was advised that the Pension Scheme Accounts were considered and approved at the GARM meeting on 28 September 2010. Officers reported on the responses to the issues raised in the Auditors report which included:

- the Statement of Investment Principles would be amended to include control asset classes within the fund and the rebalancing policy, that was agreed at the special Panel meeting on 21 September 2010;
- a separate bank account for the pension fund would be operational by the statutory deadline of 31 March 2011;
- a plan to monitor internal operational controls of Investment Managers and custodians would be presented for consideration at the next Panel meeting on 24 November 2010;
- in order to improve investment returns, officers would liaise with investment managers to maximise tax efficiencies within the pension fund.

In response to questions, officers confirmed that the fees payable to the Auditor as outlined in their report had been agreed.

RESOLVED: That the report be noted.

38. Review of the Pension Fund's Investment Strategy

The Adviser to the Panel provided a training discussion on the options available to the Panel to review the current Investment Strategy and the Statement of Investment Principles following the actuarial review at 31 March 2010.

The Adviser reported that:

- the Panel should consider reviewing the current Investment Strategy and the process for undertaking the review;
- the objective of the Pension Fund was to achieve a return that was sufficient to minimise employers' contributions to the scheme and to meet the funds' liabilities subject to appropriate level of risk and liquidity;
- the objective of the Investment Strategy was to seek a balance between investment in risky assets, such as, equities which delivered excess returns on investment and risk free assets, such as gilts. The strategy should have defined objectives that considered where assets sat and seek to optimise the right balance of asset classes in the Pension Fund;
- the fund was heavily weighted in equities and another recession would have a negative impact on the Fund as experienced in the 2008/09 financial year. Gilts were not particularly responsive to volatility in the economy and their performance would remain strong. To minimise the risk borne by the fund, it was recommended that the Panel consider adopting a long term approach to the risk return strategy of the fund;
- five per cent of the existing fund consisted of other employers that participated in the current pension scheme managed by Harrow Council. These employers were admitted or scheduled bodies that had gained admission to the fund in accordance with the prescribed admissions criteria. As a result of the fund membership, these employers may have different covenants that impacted upon the fund. The Panel may wish to consider separating these covenants from the scheme and adopting a more cautious strategy in the future;
- the Actuary to the Panel had considered the process for reviewing the current Investment Strategy and concluded that there had been no material change in cash flows since 2007. It was recommended that these cash flows should be used to monitor potential future outcomes. A long term model of the strategy that provided a snapshot of the position based on a range of scenarios over 20 years had been devised. As a result, the range of outcomes for future investment strategies could be modelled and an optimum strategy selected.

Following comments and questions by Members of the Panel, officers and the Adviser confirmed that:

- most pension schemes reviewed investment strategies every three years and the current Investment Strategy was monitored on a regular basis. Reviewing the Strategy provided the opportunity to challenge what had been agreed previously and consider putting a process in place to review the Strategy more frequently;

- Members were advised to wait to review strategy until the outcomes of the public sector pension schemes review by the former work and pensions secretary John Hutton;
- the Actuary would react to a significant reduction in the level of risk in the asset portfolio by reducing the discount rate, which would directly affect the level of deficit within the fund and increase contribution rates to the fund by employers. Scheduled bodies, such as a higher education establishment, were statutory bodies that had a right to participate in the pension scheme. Admitted bodies became members of the fund as part of a Transfer of Undertakings (Protection of Employment) (TUPE) transfer. Funding levels for these bodies were generally better than in local government and the pay back period for deficits was shorter;
- the allocations to particular asset class was the key consideration for the future as opposed to the return generated by the level of performance by individual fund managers. It was recognised that opportunities to vary the strategy without impacting on expected returns were limited as equities currently provide a higher expected return than other asset classes. It was recommended that opportunities to seek greater diversification of asset classes within the fund while maintaining expected returns be explored;
- officers would circulate the model previously used to review the Investment Strategy to the Panel with a possibility of using it as a benchmark for future strategies;
- the valuation process was ongoing. An actuarial report on the valuation of the fund for 2010 would be presented to a future Panel meeting.

RESOLVED: That

- (1) the report be noted;
- (2) officers prepare a report with detailed proposals on the current investment strategy and the Statement of Investment Principles for the next Panel meeting on 24 November 2010.

39. Exclusion of the Press and Public

RESOLVED: That the press and public be excluded from the meeting for the following items under Part I of Schedule 12A to the Local Government Act 1972, paragraph 3 as they contained information relating to the financial or business affairs of any particular person or the authority holding that information:

<u>Item</u>	<u>Title</u>
11	Information Report – Update Report and Action Points From Previous Meetings
12	Information Report – Presentation by Longview
13	Information Report – Report on Longview by Hymans Robertson
14	Performance of Fund Managers – Quarter Ending 30 June 2010
15	Tender for Investment Consulting and Actuarial Services

40. INFORMATION REPORT - Update Report and Action Points from Previous Meetings

An update report and action points from previous meetings were presented to the Panel. Referring to the appendices of the report, an officer outlined the action that had been taken, which included rebalancing the pension fund portfolio.

RESOLVED: That

- (1) the update be noted;
- (2) authority be delegated to the Corporate Director of Finance to sign an investment agreement with Aviva to manage the re-registration of the Triton property units and an in-specie investment into the Aviva property fund.

41. INFORMATION REPORT - Presentation by Longview

The Panel received a presentation by Longview that provided an update on the portfolio since it's inception in November 2009.

Representatives from Longview reported that:

- there had been an increase in Longview's client list since their appointment as Fund Managers to Harrow's pension fund. To maintain the current client base portfolios, Longview had increased its infrastructure and expanded the skills set of existing employees;
- researchers at Longview critically analysed performance data and actively challenged company's policies, corporate governance, conduct and performance arrangement before making an investment decision;
- Longview's investment process sought to optimise returns on investment. The investment model considered the structure of the industry and how a particular company utilised its operating capital. Longview sold stock when it reached a pre-determined price target or if

a company's business fundamentals changed. The current stock valuation or investment opinion on a company did not influence trading activities;

- performance of the fund managed on behalf of Harrow had been positive.

RESOLVED: That the presentation be noted.

42. INFORMATION REPORT - Report on Longview by Hymans Robertson

The Panel received a report by Hymans Robertson, on Longview Global Equity Fund Managers. The representative of Hymans Robertson reported that the relative performance of the global equity mandate managed by Longview to date had outperformed the benchmark. Following the appointment of Longview as a Fund Manager in November 2009, a number of large organisations had been added to their client list. It was recommended that the Panel consider the impact that this may have on the management of Harrow's pension fund in the future.

RESOLVED: That the report be noted.

43. Performance of Fund Managers - Quarter Ending 30 June 2010

A report on the performance of Fund Managers and the overall fund for the quarter and up to the previous three years ending 30 June 2010 was considered by the Panel. The Panel was advised that the fund had outperformed the benchmark in the previous year although three year returns remained disappointing.

RESOLVED: That the report be noted.

44. Tender for Investment Consulting and Actuarial Services

The Panel received a report on the Tender of Investment consulting and Actuarial services following a review of the services provided to Croydon Council under a framework that permitted the Council to opt into the contracts. A verbal update on the scoring of potential candidates was also provided.

Officers reported that Croydon Council had shortlisted four candidates to provide investment consulting and actuarial services. The Council was not obliged to go ahead with the proposals made following the tender exercise completed by Croydon Council.

A discussion on the suitability of the candidates shortlisted by Croydon Council took place. Members commented that it was important that the short-listed candidates were able to meet the needs of the Council before a final decision was made.

RESOLVED: That

- (1) the report and the verbal update be noted;
- (2) officers assess the suitability of the candidates shortlisted by Croydon Council and prepare a report that includes a timetable of appointment and a strategy for discussion with one of the short listed candidates at a future Panel meeting.

(Note: The meeting, having commenced at 6.30 pm, closed at 9.45 pm).

(Signed) COUNCILLOR MANO DHARMARAJAH
Chairman