

Pension Fund Committee

Minutes

29 March 2023

Present:

Chair: Councillor David Ashton

Councillors: Nitin Parekh Krishna Suresh
Norman Stevenson

Independent Advisers: Mr C Robertson Independent Adviser

Honorary Alderman R Romain Independent Adviser

Others: Richard Harbord Chair of Pension Board

In attendance (Councillors): Councillor Pritesh Patel

Absent: Pamela Belgrave GMB

29. Attendance by Reserve Members

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

30. Declarations of Interest

RESOLVED: To note that Councillor Norman Stevenson, a member of the Committee, declared a non-pecuniary interest in that he was presently a Director of Cathedral Independent Financial Planning Ltd., and that he had clients who were past and present members of the Harrow Pension Scheme.

His wife was a member of Harrow Council's Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

31. Minutes

That the minutes of the meeting held on 23 November 2023, be taken as read and signed as a correct record.

32. Public Questions

RESOLVED: To note that no Public Questions were received at the meeting.

33. Petitions

RESOLVED: To note that no petitions were received at the meeting.

34. Deputations

RESOLVED: To note that no deputations were received at the meeting.

35. Performance Dashboard and Update on Regular Items

The Committee received the report which provided updates on regular items as follows:

- Draft work programme for 2023-24.
- The investment and management performance dashboard report summarising key fund performance and risk indicators and PIRC Performance Indicators. This was reviewed and an Independent Adviser commented that the methodology underlying the PIRC report meant at least some of the report was rather meaningless. It was agreed this should be pursued.
- Fund performance to 31 December 2022 and 31 January 2023 and updates on the Pension Board and Audit of the Annual Report and Accounts for 2021-22.

The officer also gave the following highlights:

- On the quarterly update draft work programme 2023-24, The officer explained that dates for future meetings of the Committee in the 2023-24 municipal year were yet to be agreed and the Committee would be updated accordingly.
- The paper on the Investment Strategy Review had recommended a detailed session to draw out the Committee's preferences for developing the strategy ahead of the June Committee meeting. Also, advised that the Committee may consider having a "manager review day" this year. The

Chair and Members were quite keen and felt that “a manager review day” would be quite useful. The officer agreed to look at possible dates for the session.

- He further explained that the investment dashboard showed that the Pension Fund’s estimated Investment Funding Level of 112% as at 31 December 2022 and the fund assets (£928m) and liabilities (£825m). He explained that this was due to the fact that the increase in interest rate expectations had reduced the valuation of the liabilities while the value of the assets had increased. The value of the investments had since increased to just under £950M by end of February. He advised that there had been some volatility in March due to the impact of bank failures in USA and the takeover of Credit Suisse by UBS.
- There were a number of small consultations from the government since December. The anticipated major consultation on Pooling was yet to occur. It was expected that the government may be mandating stricter requirements on Pooling.
- The audit of the Fund’s draft Annual Report and Accounts for 2021-22 was being carried out by Mazars. This audit was largely complete – there had been no material changes to the draft accounts presented to the Committee in October 2022. However, the audit could not be completed until the audit of the Council’s own accounts was finalised – the reason for this being that the auditor was required to confirm that the Pension Fund Annual Report and Accounts aligned with the Council’s main accounts, and there were some technical issues being worked through in respect of the latter. Other LGPS funds and administering authorities were experiencing similar issues.
- Investment activity during this quarter involved rebalancing the asset allocation towards the benchmark by selling equities and buying index-linked gilts and corporate bonds. It also involved funding drawdowns for the London CIV Infrastructure Fund and the LCIV Renewables Infrastructure Fund through a mixture of cash and withdrawal from the Insight fund.
- A Member asked and received clarification on CARE benefits as detailed in Paragraph 28 on page 21 of the agenda.
- Members asked about the impact of the banking crisis in the US and the Aon representative made the following comments. Concerns about inflation had led central banks to raise interest rates aggressively from 0% to 4%-5%. This was a very big and unexpected adjustment and had led to concerns about recession and caused disruptions, notably in the banking sector and especially with banks which had mismatched liabilities and assets. Steps the regulators have taken in the USA have been encouraging, including guaranteeing deposits at SVB and HSBC buying some parts of the operation. The rescue of Credit Suisse had an impact on Additional Tier 1 bonds but generally the problems seemed contained at present although the situation was being closely watched. The fund had some exposure to the banks concerned. The officer explained that the fund had specific exposure in the fixed income markets – the London CIV Alternative Credit

Fund (which is the CQS MAC Fund) had a meaningful exposure to Credit Suisse Additional Tier 1 bonds. PIMCO had a smaller exposure but was unable to provide specific details at this time. The bigger risk was a wider contagion from recent events.

- The chair advised that the impact of the problem with Credit Suisse should not be underestimated.
- An Independent Adviser explained that one cause of weakness in financial markets was a loss of confidence in central banks and their ability to cope with high inflation.
- An Independent Adviser asked if valuations would be adjusted to reflect the eradication of the Fund's bank Additional Tier 1 holdings. The officer explained that The London CIV would advise as to write offs by fund managers but presently only Credit Suisse bonds were being written down to zero.

RESOLVED that:

1. that the performance and investment dashboard report be noted
2. the draft work programme for 2023-24 be approved.

36. Arrangements for Pension Fund Procurements in 2023

The Committee received a brief introduction to the report which summarised the arrangements for the procurements of the contracts for Actuarial Services and Investment Consultancy Advice as the current contracts would expire during the 2023/24 financial year.

The officer explained that in each case the estimated total value of the contracts (taking account of any flexibility to extend the contracts) was such that, to comply with the Council's procurement requirements, the process would require authority from Cabinet. This would be sought from the Cabinet's May meeting.

The national LGPS Frameworks (led by Norfolk CC) had developed a range of framework contracts to aid procurement of services common to all LGPS administering authorities. This had simplified the process as LGPS Frameworks had done a significant amount of work in evaluating and ensuring that only providers who can deliver the range of services required by an LGPS Fund are included on each framework.

RESOLVED That:

1. the report be noted.
2. the proposed arrangements for procurement of new contracts for Actuarial Services and for Investment Consultancy Advice using the National LGPS Frameworks as set out in paragraphs 13 and 18 of the report be approved.

Triennial Valuation 2022

The Committee received a report from the Fund's Actuary, Stephen Law of Hymans Robertson, which had the following highlights:

This report provided the Committee with the Actuary's final report on the valuation, and requested approval of the Funding Strategy Statement following the consultation with stakeholders on the draft reported to the Committee in November 2022.

With total Assets and Liabilities at £1.02bn and £1.06bn respectively, the whole fund results showed a deficit of £0.04bn and a funding level of 96%.

Contribution rates have fallen for most fund employers. Contribution rates for the Council are shown below.

	2020 -2023	2023-2026
Primary rate	19.1% of pay	17.8% of pay
Secondary rate +	-3.1% of pay plus £7.3m pa	-1.8% of pay plus £6.0m pa
Total	16.0 % of pay plus £7.3m pa	16.0 % of pay plus £6.0m pa

The next steps include final signing off, monitoring cash flow, investment review and GAD Section 13 Valuation.

RESOLVED That:

1. the actuary's final report on the valuation be noted.
2. the Funding Strategy Statement and associated policies as set out in Appendix 3 be approved.

38. Responsible Investment Policy

The Committee received a report which included a draft Responsible Investment Policy and updated Investment Strategy Statement. The report was an update on the draft policy presented at the last meeting of the Committee. The officer thanked all Members for their responses and comments which had been incorporated into the new draft policy.

The officer further explained that because of the changes made, some consequential changes were required to update the Fund's Investment

Strategy Statement which also needed to be updated because the GMO fund had been replaced with the London CIV Emerging Market equity fund.

An Adviser pointed out that section 13.2 on page 180 of the Investment Strategy Statement seemed to contradict section 13.3. Section 13.2 stated that “At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments.” In contrast 13.3 stated that “More recently, the Committee has taken steps to reduce its carbon exposure, through transferring the Fund’s passive global equity mandate to a passive low carbon global equity mandate”. The officer agreed.

Another Adviser felt that the 4th and 5th bullet point on page 169 should be merged as they seemed to contradict each other and that paragraph 9.2 might limit the performance of active managers in the future. Another Adviser and the Aon representative felt the paragraph on page 169 addressed different issues. The officer said the investment strategy would have to be updated with regards to paragraph 9.2 on page 173. The Chair and an Adviser felt the statement on page 173 referred to index performance benchmarks and should not in itself restrict active managers.

A Member asked if the policy would be reviewed regularly at future meetings of the Committee. The officer advised that the policy would need to be reviewed periodically. The Chair expressed some reservations as he had been at a training session about responsible investment policy with Chairs of Pension Fund Committees to establish consistency in the approach to Responsible Investment policy. He said that objectives and documentation required were discussed and he expressed concerns about reliability of the data generated and used. A representative from Aon agreed that reviewing the policy regularly would be onerous but suggested that a pragmatic approach could be adopted. An Adviser suggested evidencing alignment with the TCFD task force on financial climate disclosures and adopting a similar position to other London boroughs.

RESOLVED That:

1. the draft Responsible Investment Policy attached at Appendix 1 be approved.
2. the updated Investment Strategy Statement at Appendix 2 be approved after the changes referred to above are made.

39. Competition and Markets Authority (CMA) - Setting Investment Consultant Objectives

The Committee received a brief introduction to the report which provided a review of the Investment Consultant Objectives as required by the Competition and Markets Authority Order.

The officer explained that the Competition and Markets Authority, (“CMA”) reported in its review on the investment consultant and fiduciary management markets. Following this review, the CMA issued an Order which requires Pension Fund Trustees, (including Local Government Pension Schemes) to set objectives for their investment consultants closely linked to the pension scheme’s strategic objectives. The objectives had to be reviewed at least every three years and after a significant change to the investment strategy. The officer explained the report was due as the Committee had last considered a CMA report in 2019.

As detailed in the Committee report, Aon was re-appointed as the Fund’s Investment Consultants in 2018. The contract was recently extended by one year and would expire in January 2024. The CMA Order took effect from 10 December 2019, and the Committee reviewed and set objectives for Aon at its meeting on 18 December 2019. It was therefore appropriate to review those objectives. Aon provided regulated investment consultancy services and hence the CMA Order applied to their contract.

Aon had provided a summary of the objectives and of the work they had carried out to meet these objectives and this was attached as Appendix 1. The Committee was asked to consider the objectives and review Aon’s comments, and to comment on whether the objectives remained appropriate for the coming year.

An Adviser asked if the London CIV would be monitored. The representative from Aon explained that they were not going to rate the London CIV due to its structure but would meet with them regularly for discussions and would rather review the underlying funds and report on the underlying fund managers.

RESOLVED: That the report be noted.

40. Any Other Urgent Business

There were none.

41. Exclusion of the Press Public

RESOLVED: That, in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business, for the reasons set out below:

Agenda Item No	Title	Description of Exempt Information
14.	Performance Dashboard and Update on Regular Items - Appendices 3 & 4	Information under paragraph 3 (contains information relating to the financial and business affairs of any particular

		person (including the authority holding that information).
15.	Property Investment - LaSalle Property Fund of Funds	Information under paragraph 3 (contains information relating to the financial and business affairs of any particular person (including the authority holding that information)).
16.	Review of Investment Strategy	Information under paragraph 3 (contains information relating to the financial and business affairs of any particular person (including the authority holding that information)).

42. Performance Dashboard and Update on Regular Items

The Committee received confidential appendices to the Performance Dashboard and Update on Regular Items report. The Independent Advisers, Aon representative and the officer undertook to answer questions raised during the discussion.

RESOLVED: Please see decision on Minute 35

43. Property Investment - LaSalle Fund of Funds

The Committee received a report which provided updates on the latest position regarding the Fund's property investment in the LaSalle Fund of Funds.

RESOLVED that the report be noted.

44. Review of Investment Strategy

The Committee received a report on investment strategy from an Independent Adviser. The Independent Adviser answered questions from Members.

RESOLVED that the report be noted.

(Note: The meeting, having commenced at 6.30 pm, closed at 7.21 pm).

(Signed) Councillor David Ashton
Chair