

PENSION FUND INVESTMENTS PANEL MINUTES

18 JANUARY 2010

Chairman: * Councillor Richard Romain

Councillors: * Mano Dharmarajah * Keith Ferry (1)
* Tony Ferrari

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

**In attendance:
(Councillors)** Mrs Lurline Champagne Minute 216

[Note: Other Attendance: (1) Mr Andrew Elliott of Hymans Robertson attended in an advisory role, as the Council's Actuary/Adviser.]

* Denotes Member present

(1) Denotes category of Reserve Members

† Denotes apologies received

212. Attendance by Reserve Members

RESOLVED: To note the attendance at this meeting of the following duly appointed Reserve Member:-

Ordinary Member

Councillor Thaya Idaikkadar

Reserve Member

Councillor Keith Ferry

213. Declarations of Interest

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

214. Minutes

RESOLVED: That the minutes of the meeting held on 25 November 2009, be taken as read and signed as a correct record.

215. Public Questions, Petitions and Deputations

RESOLVED: To note that no public questions were put, or petitions or deputations received at this meeting under the provisions of Committee Procedure Rules 19, 16 and 17 (Part 4B of the Constitution) respectively.

RESOLVED ITEMS

216. Review of the Funding Strategy Statement and Statement of Investment Principles

An officer presented an update of the Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) for discussion and approval by the Pension Fund Investment Panel.

During the discussion, Members raised a number of issues which were responded to as follows:

- local authorities were able to take a long term view of funding the liability on the pension fund because of the nature of local government. However, the authority took a fairly cautious view based on the advice of the actuary. Active members of the fund are required to contribute to the pension fund unlike some other parts of the public sector where the pension liabilities were unfunded;
- the. Employers referred to in Annex A of the report made the required minimum employer contributions to the pension fund;
- a detailed review of the FSS took place every three years before the triennial valuation was conducted. The admitted bodies were invited to make comments on the proposed change to the FSS;
- the valuation process was based on the assumption that the fund would be sufficient to cover its liabilities and the gap identified would be addressed by the employer's future contributions;
- in theory, employers could increase the contribution rate in the interim period between valuations . The contribution rate was adjusted every 3 years as the long term view was to ensure that the liabilities of the fund were fully funded. Employees' contribution rates were set nationally;

- adjustments to the contribution rate of individual employers had been made because officers had applied different valuation assumptions against different employers in calculations. Transfer costs were applied to contribution rates if an employee was transferred into the Local Government Pension Scheme (LGPS);
- the asset values and shortfalls of assets against liabilities were included in the annual pension fund statement of accounts;
- officers would confirm the length of the debt recovery period applied to employers in the FSS and advise Members of the risk mitigation process taken if an employer ceased to exist;
- the fund would be evaluated in March 2010 when a detailed assessment of liabilities would be based on various assumptions. These included, the inflation rate, salary inflation and the discount rate which was the anticipated return on Investments. The financial health of the fund was recalculated and employer contributions were determined;
- other strains or decisions that directly affected the health of the fund had not been included. However, employers were required to absorb the cost of payments if employees had not taken early retirement on the grounds of ill health;
- officers felt that the recommendation to increase employer contributions in the Medium Term Financial Strategy to 0.5% in 2011/12 was a sensible upper limit to meet any shortfalls in employer contribution rates after the next valuation;
- the contribution rate payable by employees was banded since 1 April 2009/10. It ranged from 5.5% to 7.5% paid by higher income earners;
- changes to the LGPS were reported on a quarterly basis to the Licensing and General Purposes (L&GP) Committee. Members of the Panel would also be advised of any future reports presented to the L&GP Committee;
- an officer and the Adviser to the Panel advised that the Statement on Investment Principles (SIP) was a legal requirement. The officer added that the agreement of the Statement of Investment Principles (SIP) was subject to comments from the admitted bodies;
- the structure and strategy of the fund was decided before fund Managers were appointed. It was the decision around the strategic asset allocation which was key to the pension fund's performance;
- the SIP showed the funding objective for all new and existing fund managers.

The Chairman requested that the following amendments be made to the FSS:

- the last paragraph on page 13 should be amended to read: “... available from investing in index linked bonds at the time of the valuation”;
- paragraph 5 of page 17 of the agenda should be amended to consider the level of risk borne from using stabilisation methods. Paragraph 6 on the same page should be in bold;
- amending paragraph 6 on page 17 and the last sentence of paragraph 3.7.7 to bold;
- deleting Section 3.4 if it did not apply to Harrow Council;
- deleting paragraph 3.7.9 if it was not applicable to Harrow’s pension fund;
- deleting “currently” in the last paragraph of 4.1;
- page 29 of the FSS be rewritten to include guidance on the debt recovery period.

RESOLVED: That subject to the Chairman’s amendments the report be noted.

217. Exclusion of the Press and Public

RESOLVED: That the press and public be excluded from the meeting for the following items for the reason set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
10.	Review of Active Currency Management) Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
11.	Transition Update)

218. Review of Active Currency Management

The Panel received a report which reviewed the pension funds use of active currency management as part of the pension fund and reconsidered the approach taken by the fund managers appointed in 2006. The Panel were required to agree one of three options recommended.

In response to questions from Members of the Panel, officers and the Advisor to the Panel advised that:

- correlations between equity and currency risks and returns were not directly linked;
- due to the volatility of currency and the relationship between different currencies, a reasonable approach was taken to investment in this particular area to maximise returns;
- following the appointment of fund managers in 2006, the value of some investments had fallen. This could be attributed to the financial crisis and changing economic conditions;
- before making a decision on the future of the use of currency management as part of the Pension Fund, the Panel would need to consider the overall strategy of asset classes.

The Panel received advice from officers and the Adviser to the Panel

RESOLVED: That

- (1) Option 1 in the review paper be agreed;
- (2) a cost report on Option 3 in the review paper be presented at the next Panel meeting;
- (3) officers would investigate and prepare a report on alternative forms of investment.

219. Transition Update

The Panel received a report of which provided an update following the transition to a new pension fund management structure.

An officer reported that the actual cost of the transition, which included equity transition costs were better than anticipated.

The Panel noted that the transfer of the bond mandate had reached a satisfactory resolution.

RESOLVED: That the report be noted.

220. Any Other Urgent Business

The Chairman reminded Members that a training session by the Actuary of the Fund had been organised to take place on 10 February 2010. He added that the agenda had been circulated to Members and Reserves of the Pension Fund Investment Panel and Licensing and General Purposes Committee. He advised that a more detailed training programme would be offered following the local elections in May 2010.

RESOLVED: That the update be noted.

(Note: The meeting, having commenced at 6.31 pm, closed at 8.30 pm).

(Signed) COUNCILLOR RICHARD DAVID ROMAIN
Chairman