

PENSION FUND INVESTMENTS PANEL MINUTES

25 JULY 2011

Chairman: * Councillor Mano Dharmarajah

Councillors: * Tony Ferrari * Stephen Wright (1)
* Thaya Idaikkadar (VC)

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

* Denotes Member present
(1) Denotes category of Reserve Members

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

(2) Mr John Harrison of Aon Hewitt attended in an advisory role, as the Council's Adviser.]

97. Attendance by Reserve Members

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

Ordinary Member

Reserve Member

Councillor Richard Romain

Councillor Stephen Wright

98. Declarations of Interest

RESOLVED: To note that the following interests were declared:

Agenda Item 7 – Investment Strategy Options and Agenda Item 12 – Investment Manager Review

Howard Bluston declared a personal interest in that he attended meetings of the National Association of Pension Funds at the Aon Hewitt offices in St. Albans. He would remain in the room whilst the matter was considered and voted upon.

Agenda Item 13 – INFORMATION REPORT – Update Report & Action Points from the Previous Meetings

Councillor Stephen Wright declared a personal and prejudicial interest in that he was a Governor at Canons High School and his wife was employed by Harrow Council as a teacher. He left the room whilst the matter was considered and voted upon.

99. Minutes

RESOLVED: That the minutes of the meeting held on 24 May 2011, be taken as read and signed as a correct record subject to the following amendment:

Declarations of Interest

Agenda Item 11 – Tender for Investment Consulting Services

Mr Howard Bluston declared a personal interest in that he had worked closely with the Aon Hewitt team based in St. Albans as a Committee Member of the North London Group of the National Association of Pension Funds.

100. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

101. Investment Strategy Options

The Panel received a report of the Adviser that set out Investment Strategy Options for their consideration. Following their appointment, Aon Hewitt had reviewed the current strategy in light of the actuarial position, status of the scheme and projected developments in the financial markets. The Panel noted that most Local Government Pension Funds had large funding deficits. The current strategic asset allocation for Harrow was capable of generating a high investment return in the long term and achieving the returns required to pay the pension liabilities.

A representative from Aon Hewitt outlined areas in which the strategy could be enhanced, and reported that:

- the long term consideration for the existing strategy was whether the liabilities of the fund could be met by employee contributions or investment returns;
- the current strategy relied mainly on investment returns to meet pension liabilities and although this was expected to limit increases in employer contributions, it would increase volatility within the fund;
- replacing the passive equity mandate with an active approach and increasing the performance targets for global equity managers would result in a higher expected return and improve the probability of achieving an actuarial discount rate;
- widening the range of asset classes within the fund would provide diversity within the existing strategy and could protect the fund against inflation and other associated investment risks;
- existing governance arrangements for decision-making should be reviewed including alternative approaches to monitoring the activities of appointed fund managers.
- Appropriate training sessions should be offered to the Panel to ensure that they had a comprehensive understanding of investment principles before making any changes to the strategy.

RESOLVED: That:

- (1) the report be noted;
- (2) Aon Hewitt prepare a briefing note outlining proposals to improve the current investment strategy.

102. INFORMATION REPORT - Annual Pension Scheme Accounts

An officer presented a report that set out the draft Pension Scheme Accounts to 31 March 2011. Members noted that:

- the external Auditors, Deloitte, were currently auditing the accounts and the final opinion was expected in the next few weeks. Their report on the annual accounts would be presented at the Governance, Audit and Risk Management Committee meeting on 6 September 2011;
- 75% of the aggregate expenses incurred by the pension fund were fund manager fees which were charged directly to the pooled fund. In future years, officers would seek to benchmark these costs with industry average expense levels.

RESOLVED: That the draft pension fund accounts be noted.

103. Exclusion of the Press and Public

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

<u>Item</u>	<u>Title</u>	<u>Reason</u>
11.	INFORMATION REPORT – Presentation by WM) Information under paragraph 3 of Part I of) Schedule 12A to the Local Government Act) 1972 (contains information relating to the) financial or business affairs of any particular) person (including the authority holding that) information).
12.	Investment Manager Review))
13.	INFORMATION REPORT – Update Report and Action Points from Previous Meetings))))))
14.	INFORMATION REPORT – Pension Fund Valuation)))

104. INFORMATION REPORT - Presentation by WM Performance Services

The Panel received a presentation from a representative of WM which set out the performance of the pension fund over 1, 3 and 5 years. Members were advised that:

- in the year ended 31 March 2011, the fund had provided a return of 9% which was 0.3% above the benchmark. The positive result had placed the fund in the top 25% of local authorities for the second consecutive year;
- the positive return could be attributed to the selection of stock and the resulting performance by some fund managers. The balance of different asset classes within the fund had generated a small negative return;
- up to 31 March 2011, the average local authority generated returns over 8%. The long term view was that the performance of the fund had lagged the benchmark over 5 and 10 years. It was anticipated by some investors that the equity market would generate lower than expected returns in the immediate future and some pension schemes had as a consequence considered moving away from equities and investing in alternative markets, such as, currency and hedge funds;

- following the Hutton review on local government pensions, the Panel should also consider whether the existing governance arrangements of the pension fund could be enhanced.

RESOLVED: That the presentation be noted.

105. Investment Manager Review

A representative from Aon Hewitt presented a report that reviewed how the pension fund was managed by the appointed fund managers and their ability to achieve the target return.

The representative advised that:

- Aon Hewitt formally rated fund managers every quarter and met with them at least once a year. All fund managers had received a copy of the Aon Hewitt report before the meeting and had the opportunity to address any issues within the report;
- the performance of fund managers was rated on a scale of 1 (below average) to 5 (above average). Two of the most important considerations related to staff turnover and risk management. Some fund managers were “strong” in some categories and “weak” in others. The total scoring currently rated six of the nine fund managers as “buy” or “hold” and the remaining three were “unrated”;
- at present, the active currency products were hugely volatile and did not perform well in relation to other funds. Members might wish to review the structure of the existing active currency mandate at a future meeting.

In response to questions, the representative from Aon Hewitt reported that meetings with the three unrated fund managers had been arranged. Aon Hewitt would advise the Panel of the outcome of these meetings.

RESOLVED: That the report be noted.

106. INFORMATION REPORT - Update Report & Action Points from the Previous Meetings

An officer provided an update on the actions agreed at previous Panel meetings. He reported that:

- discussion on the legal documentation to complete the appointment of the Investment Adviser to the Panel was underway;
- proceeds from the sale of short term equities continued to be held in cash. Officers would present a report on the options available to the Panel at a future meeting.

RESOLVED: That the update be noted.

107. INFORMATION REPORT - Pension Fund Valuation

The Panel received a report that set out the valuation of the Pension Fund as at 31 May 2011. The valuation at the end of May was £3.4 million above the March valuation of the fund. An officer reported that the valuation of the fund as at 30 June 2011 was £477.1 million.

RESOLVED: That the valuation of the pension fund be noted.

(Note: The meeting, having commenced at 6.40 pm, closed at 9.30 pm).

(Signed) COUNCILLOR MANO DHARMARAJAH
Chairman