

PENSION FUND INVESTMENTS PANEL MINUTES

6 MARCH 2013

Chairman: * Councillor Keith Ferry

Councillors: * Mano Dharmarajah * Richard Romain
* Tony Ferrari

Co-optee (Non-voting): * Howard Bluston † Steve Compton
Sanjay Karia

Mr Sion Cole, Mr Craig Nowrie and Ms Emily McGuire attended as representatives of Aon Hewitt, the Council's Adviser.

* Denotes Member present

† Denotes apologies received

201. Attendance by Reserve Members

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

202. Declarations of Interest

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

203. Minutes

RESOLVED: That the minutes of the meeting held on 8 January 2013 be taken as read and signed as a correct record.

204. Public Questions, Petitions and Deputations

RESOLVED: To note that no petitions were received, questions put, or deputations received under the provisions of the Committee Procedure Rules 17, 15 and 16.

RESOLVED ITEMS

205. Information Report - Update Report and Action Points from Previous Meetings

The Panel received a report of the Corporate Director of Resources which provided an update on actions taken since the last meeting. An officer added that two of the outstanding items were on the agenda for this meeting. He further advised the Panel that an actuarial review was due, and that the Council's Actuary would present their findings to the Panel at the July meeting.

Members considered if the review would result in a recommendation to increase contributions, and any possible impact on the budget. The Corporate Director of Resources stated that there was provision for this in the Medium Term Financial Strategy, and that if an increase was considered necessary it would be accommodated.

RESOLVED: That the report be noted.

206. Meeting Plan 2013-14

The Panel received the report of the Corporate Director of Resources, which set out the expected routine agenda items for the next 12 months and invited Members' views on any additional matters the Panel wished to add to the programme.

Members discussed the content and frequency of meetings, in the light of both the timelines for statutory reports, and recent proposals to reduce the number of meetings from 5 to 4. An officer added that in addition to the 4 formal meetings, there would be two further informal meetings, at which Panel members could meet with fund managers to assess and discuss their strategy and performance, and also receive briefings on other relevant matters. These informal meetings could be held during the day, and in school holiday periods, and he proposed to arrange the first meeting during the May half term break.

Suggested topics for consideration included:

- new investment opportunities;
- the CIPFA skills framework;
- the revised Pensions Bill, currently going through parliament;
- governance and decision making;
- risks and controls;
- ethical and / or responsible investment.

A Member observed that the existing frequency of meetings had worked well, and provided the flexibility to respond to events – it was easier to cancel a planned meeting than to factor in an extra meeting. The Chairman stated that this was part of a broader strategy to reduce the number of meetings and thereby the reliance on Democratic Services, and that the proposal was to cut the number of formal meetings, but to continue the regular work of the panel through informal briefings and working groups, which would in fact mean an increase in the number from 5 to 6 meetings. He added that if this proved to be impractical, then the frequency could be reviewed and revised in the following municipal year. What was important was the timing of meetings to accommodate statutory reporting cycles, and optimise the receipt of up-to-date information and data.

A Member was happy to support the proposal to reduce the number of meetings, but wanted to ensure that any savings realised through efficiencies relating to the Panel should be retained within the fund.

The Corporate Director of Resources informed the Panel that this was likely to be her last meeting as the interim Section 151 Officer; the new Director of Finance and Assurance would be joining the Council on 25 March and would take over this role.

RESOLVED: That

- (1) the report be noted;
- (2) an informal meeting to meet the equity fund managers be arranged for the May half term break;
- (3) training be provided prior to the commencement of the next meeting on 'good governance' and the CIPFA skills and knowledge framework;
- (4) an item on investing in infrastructure be added to the agenda for the next meeting.

207. Any Other Urgent Business

London Pension Fund Merger

In accordance with the Local Government (Access to Information) Act 1985, this item was raised following agenda publication as the information had not been available at the time the agenda was printed and circulated, namely that a working party had recently been formed to take opinions from Councils on this issue, and a response was required before the next meeting of the Panel.

An officer provided a brief summary of outline proposals to consider the desirability and practicality of a pan-London Pension Fund, encompassing all 34 London boroughs. The intention was to rationalise and harness the purchasing and negotiating power of the combined pension funds and achieve economies of scale to deliver lower costs and better returns, and it appeared to be an objective supported by the Mayor of London. Two organisations, the

London Leaders' Committee and the Society of London Treasurers had considered the proposals, and a working party had been formed to consider the Price Waterhouse Coopers report and make recommendations. A similar exercise had been undertaken in Wales, and authorities were invited to make expressions of interest in such a scheme.

The officer pointed out that there were wide variations in practice, performance and workforce profiles among London boroughs in respect of their Pension Funds, and the conclusions that a single entity would deliver savings had to be tested and justified; as yet there was insufficient data to confirm this.

Emily McGuire of Aon Hewitt gave her opinion that it could be possible to achieve many of the objectives through greater collaboration and framework agreements, without the need for a total merger.

Members were unanimous in their view that the Harrow Pension Fund should retain its autonomy, with all activities, investments and decisions being determined by the Pension Fund Panel Members. Members were not averse to consideration of collaboration and framework agreements for specified purposes, and had recently conducted such an exercise with Croydon to procure actuarial advice. Members were not persuaded that the stated objectives would be achieved, or the expected savings delivered. Furthermore, they believed they had a high-functioning and collaborative approach on the Panel which aimed to achieve apolitical consensus in decision making.

The Chairman added that the West London Waste Authority, which numbered 6 local authorities, had been unable to achieve consensus on a project over a number of years. He was sceptical that the Pension Fund merger project was desirable or achievable, and experience suggested that it would create its own bureaucracy, which would negate any benefits or savings.

In conclusion, the Panel expressed its strong and unanimous opposition to any move towards a merger of London Pension Funds, and if such a proposal had support, the Panel would look to join with other, like-minded authorities in resisting any such action.

Legal Action Against the Royal Bank of Scotland

In accordance with the Local Government (Access to Information) Act 1985, this item was raised following agenda publication as the information had not been available at the time the agenda was printed and circulated, namely that the Council had been notified on 14 February 2013 that there was an option to join a group legal action against the Royal Bank of Scotland (RBS). The Legal Department were reviewing this option and had alerted officers that it might require the Panel's approval to incur legal costs.

An officer explained the background to the Council's position; shares in RBS which had been bought prior to the bank's purchase by the government had fallen to a fraction of their purchase value following the bailout. A group legal

action had been proposed, to be funded by shareholders similarly affected. Advice from Counsel suggested a 60% chance of success.

Members queried and discussed the following points:

- the likely cost of the action;
- the probability of success;
- the quality of the case for RBS;
- the level of compensation and how this would be apportioned;
- the view and involvement of Harrow's Legal Department.

Members acknowledged that a sophisticated level of expertise would be necessary to assess the likelihood of success in such a complex and technical legal case. They were unable to agree a definite course of action, other than to explore the matter further. They requested more information on those authorities already committed to the group action, and further advice on the probable outcome of any action.

208. Exclusion of the Press and 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 for the reason set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
11.	DGF Manager Selection and Strategy Update	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
12.	Information Report - Investment Manager Monitoring	
13.	Information Report – Performance of fund Managers for Quarter Ended 31 December 2012	

209. DGF Manager Selection and Strategy Update

The Panel received the report of the Corporate Director of Resources, which sets out options for investment in Diversified Growth Funds (DGFs), and seeks approval for the revised investment strategy.

An officer outlined the options and proposals contained within the report, and explained the different policies for charging between the two selected fund managers.

Members were generally happy with the selection of the two fund managers, and observed that their strategies complemented one another well, but they disputed the terminology used to describe the asset classes and strategies

used by the funds. A Member explained that because membership of the Panel would change over the years, it was important to have accurate and descriptive terminology in order that historical context could be understood. Using the funds' full title in reports would clarify the managers' styles.

Members noted that the initial agreement had been to invest £20m of cash deposits, but they were now being asked to agree to an investment of £80m, with a 50/50 split between the two selected fund managers. A lengthy discussion followed, during which members debated the following:

- the nature and security of the selected funds;
- the total amount to be invested;
- the split of investment between the selected fund managers;
- the source of funds for investment, if a figure larger than £20m were agreed.

The Corporate Director of Resources stated that the recommendations in the report had been prepared by officers following the presentations by fund managers and consideration of all the information available. It was for Members to agree, amend or refuse the recommendations, but the matter had come to the Panel for decision on three occasions, and a decision was necessary.

A Member observed that if the strategy was correct, and offered an acceptable balance between return and risk in an uncertain economic climate, then a higher figure for investment was desirable. Another Member urged caution, citing previous investments which had not delivered the expected returns.

Members agreed to address the points in turn, and having voted on each of them, it was

RESOLVED: That

- (1) 10% of the fund be invested in the selected fund managers (5% each to Standard Life and Barings);
- (2) the new managers be funded from available cash and the balance to be withdrawn from the Fidelity mandate;
- (3) the revised strategy as shown in Appendix 2 of the report be approved subject to reflecting the lower 10% allocation to DGF mandates;
- (4) the equity mandates be reviewed at the next meeting;
- (5) the alternative fixed income products available from BlackRock be reviewed at a later date;
- (6) authority be delegated to the Section 151 Officer (or deputy) to sign any documentation required to complete the appointment of the selected DGF managers.

210. Information Report - Investment Manager Monitoring

The Panel received Aon Hewitt's quarterly report on Harrow's Fund managers, detailing strengths and weaknesses and overall ratings, and noted that the ratings remained unchanged from the January report.

RESOLVED: That the report be noted.

211. Information Report - Performance of Fund Managers for Quarter Ended 31 December 2012

The Panel received a report which set out the performance of the investment managers and of the overall Fund for the quarter, year and three years ending 31 December 2012.

RESOLVED: That the report be noted.

212. Termination of the Meeting

In accordance with the provisions of Committee Procedure Rule 14 (Part 4B of the Constitution) it was

RESOLVED: At 9.55 pm to continue until 10.15 pm.

(Note: The meeting, having commenced at 6.45 am, closed at 10.10 pm).

(Signed) COUNCILLOR KEITH FERRY
Chairman