

PENSION FUND COMMITTEE

MINUTES

8 SEPTEMBER 2015

Chair:	* Councillor Adam Swersky	
Councillors:	* Keith Ferry	* Bharat Thakker
	* Norman Stevenson	
Co-optee (Non-voting):	* Howard Bluston	* John Royle
		† Pamela Belgrave
In attendance: (Councillors)	Kanti Rabadia	Minutes - all

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

(2) Honorary Alderman, Richard Romain, and Colin Robertson attended as Independent Advisers to the Committee;

(3) Colin Cartwright and Gayathri Varatharajan of Aon Hewitt attended in an advisory role, as the Council's Investment Adviser.

(4) Christopher Head and Niren Patel of BlackRock Investment Management attended in respect of agenda item 11, 'Options for Liability Driven Investments Strategy'.]

* Denotes Member present

† Denotes apologies received

81. Attendance by Reserve Members

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

82. Declarations of Interest

RESOLVED: To note that the following interests were declared:

All Agenda Items

Councillor Norman Stevenson, a Member on the Committee, declared a non-pecuniary interest in that he was a Director of Cathedral Independent Financial Planning Ltd., and that his wife and clients were members of the Local Government Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

Councillor Kanti Rabadia, a Reserve Member on the Committee, declared that his wife was a member of the Local Government Pension Scheme. He would remain in the room whilst the items were considered and listen to the debates.

Howard Bluston declared a non-pecuniary interest in that he was Chair of Edward Harvist Charity, which was managed by BlackRock Investment Management. He added that he had regular dealings with Aon Hewitt, the Council's Investment Adviser. He would remain in the room whilst the items were discussed and make contributions as a non-voting co-optee on the Committee.

83. Minutes

RESOLVED: That, subject to the following amendments, the minutes of the meeting held on 1 July 2015 be taken as read and signed as a correct record:

Minute 63, Declarations of Interest, amend the declaration made by Colin Robertson to read as follows: 'Colin Robertson, Independent Adviser to the Committee, declared a non-pecuniary interest in that he was a consultant to State Street Global Advisors. He would remain in the room for the presentation and questions';

Minutes 77, Annual Review of Internal Controls at Fund Managers, last line to read as follows: 'reports of each of the remaining three of the Fund's investment managers'.

84. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

85. London Borough of Harrow Pension Fund: Annual Report and Financial Statements for the year ended 31 March 2015

The Committee received an information report of the Director of Finance setting out the draft London Borough of Harrow Pension Fund Annual Report

and Financial Statements for the year ended 31 March 2015, including the report of the Auditor (Deloitte LLP).

The Director of Finance informed the Committee that the Annual Report and the Financial Statements would also be reported to the November meeting of the Committee once these had been signed off by the Auditor after which they would also be published. She acknowledged that it would be helpful to provide a summary setting out the key points, challenges and conclusions and undertook to do this at the next meeting. In the interim, she asked that any queries be sent to her.

RESOLVED: That the report be noted.

86. Work Programme for 2015-16

The Committee received a report of the Director of Finance, which set out the draft Work Programme for the year to March 2016 and invited members' comments and their agreement.

In response to questions, an officer reported that the training session on 25 November, prior to the Committee meeting, would be on the Collective Investment Vehicle. He agreed that consideration of 'Long term funding' on 25 November would be premature and agreed to integrate it with triennial valuation taking place during 2016-17.

The Chair suggested the need to discuss and address Pension Fund liabilities.

It was noted that members of the Pension Board had been invited to attend the training and public sessions of the Pension Fund Committee but the legal advice received was that they could not attend the private sessions of the Committee. The Pension Fund Committee noted that the Board met twice a year but that it might wish to meet more frequently. Additionally, matters raised by the Board would be reported to the November 2015 meeting of the Pension Fund Committee.

RESOLVED: That, subject to the comments set out in the preamble above, the Work Programme for the period up to March 2016, as set out in the officer report, be agreed.

87. 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 reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
11 -15	Options for Liability Driven Investments Strategy/HB Public Law – Staff Transfer Arrangements / London	Information under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972, relating to the financial or

Borough of Harrow Pension Fund: Investment and Management Expenses 2014-15 / Performance of Fund Managers for quarter ended 30 June 2015 and Valuation at 31 July 2015 / Investment Manager Monitoring. business affairs of any particular person (including the authority holding that information).

88. Options for Liability Driven Investments Strategy

The Committee received a confidential report of the Director of Finance, which included reports from Aon Hewitt, Council's Investment Adviser, and BlackRock, responding to the decision made by the Committee at its July 2015 meeting that reports from the Investment Adviser and Bonds Fund Manager be submitted to facilitate a decision as to the future Bonds Investment Strategy.

The Chair welcomed Colin Cartwright and Gayathri Varatharajan, representatives from Aon Hewitt, to the meeting. The Committee welcomed Colin Cartwright who had replaced Tony Baily and they looked forward to a positive working relationship with Colin.

Also present at the meeting were Christopher Head and Niren Patel of BlackRock Investment Management.

Colin Cartwright reminded the Committee that at their previous meeting they had received a paper from Aon Hewitt considering two options for the investment of the bonds portfolio in addition to the current investment in corporate bonds and index-linked gilts.

The Committee had discussed changing the asset allocation to provide somewhat greater protection against movements in the value of the liabilities. Consideration was given to whether this might be done through altering the mix of the current bonds portfolio or through the use of a pooled Liability Driven Investment Strategy (LDI).

One of the "Aon Hewitt" options was to transfer the funds invested in the bonds portfolio (13% of the total Pension Fund investments) to an LDI strategy. The Committee asked that Aon Hewitt carry out a modelling analysis covering three LDI options. In the paper provided by Aon Hewitt these options were presented to the Committee.

In addition to the presentation by Aon Hewitt, the representatives from BlackRock were invited to set out some of the practical implications, both advantages and disadvantages of an LDI Strategy. They addressed the following issues and explained that the data included in their presentation was based on the 2013 actuarial valuation:

- LGPS and liability risk reduction;
- bond market outlook;

- how to address risks;
- efficient use of Capital;
- implementation considerations.

BlackRock highlighted the key drivers of the liabilities of the Fund as inflation expectations and changes in real interest rates.

The Committee was also briefed on the downside of selecting an LDI mandate where the markets were restricted. However, it was also argued that LDIs allowed for improved stewardship and governance without significant risks.

BlackRock and the Committee's advisers discussed various detailed aspects of the LDI approach including the use of collateral and leverage. They indicated that, were the LDI approach to be adopted, it would need to be decided whether to; hedge interest rates and inflation or just one of these; implement immediately or delay until investment conditions might be more favourable; use predetermined 'trigger levels' to implement at a future date.

The presentation by BlackRock was followed by a question and answer session from the Committee and thereafter a debate and discussion on the three LDI options for the Fund ensued. Individual Committee members made the following comments:

- which other local authorities pursued an LDI mandate;
- the implementation of an LDI option did not require implementation at this stage, particularly as interest rates were expected to rise, but that it ought to be explored at a future date;
- an 'in principle' decision was required and there was a need to be risk averse – be prudent;
- 'locking' of returns on an LDI for a significant number of years required careful consideration;
- timing of an LDI option was crucial, including the collateral offered;
- inflation was the key ingredient rather than interest rates as rates were not expected to rise dramatically. It was important to wait and see how the index-linked Gilts would perform and that inflation and interest rates were historically 'locked' together and dependant on economics rather than on investment principles;
- clarification of the duties of the members serving on local authority Pension Fund Committees was essential. The functions of local authority Pension Funds was markedly different from that of private companies who were more suited to an LDI Strategy;
- liabilities, when valued in 2016, may fall as the Council would continue to shed its staffing resource. Option 1 was the preferred option as it

help maximise investment returns which was the major purpose of managing a local authority Pension Fund. The Council did not have much control over its liabilities, including on the levels of employee contributions. It was therefore essential that the right asset classes were chosen. It was important to wait until 2016 and assess the valuation prior to choosing either an LDI Option 1 or 2;

- the Committee needed to understand the risks associated with LDI and a considered view needed to be taken into account on whether or not to move to a LDI Strategy.

Members sought advice from Aon Hewitt, who if the Committee were inclined to move into LDI were inclined towards Option 2. The other alternatives were LDI Option 1 or retention of the status quo. Members noted that Option 1 provided a simple change to the status quo but that Corporate Bonds were an expensive asset to sell and that the transaction costs were high. The gains from Option 1 would be minuscule. They noted that LDI Managers would provide all the support needed on any of the preferred LDI Options and that specialist Transition Managers would not add value.

The Chair was of the view that a decision needed to be taken as to whether to pursue options 1 or 2 or define a clear set of principles as to which circumstances would trigger a review. A number of members supported Option 2 but felt that it ought to be pursued at a future date.

The Committee discussed the circumstances under which Option 2 could be visited and asked Aon Hewitt to provide guidance on the catalyst that could trigger a move to an LDI Option 2 Strategy.

RESOLVED: That the status quo, a 13% Bond allocation invested in a combination of Corporate Bonds and index-linked Gilts, be retained in relation to the Fund's Bond portfolio and that Aon Hewitt be requested to provide guidance on the catalysts that would trigger a move to an LDI Strategy with Option 2 being the preferred Option.

89. HB Public Law - Staff Transfer Arrangements

The Committee received a confidential report of the Director of Finance setting out the conclusion in respect of negotiations with Barnet Council over the payment of Pension Fund liabilities relating to Legal Services staff that had transferred from Barnet to Harrow.

Following comments, it was

RESOLVED: That the recommendations in the report be agreed.

90. London Borough of Harrow Pension Fund: Investment and Management Expenses 2014-15

The Committee received a confidential report of the Director of Finance which set out the details of investment and management expenses incurred by the Pension Fund during 2014-15.

The Pension Fund Committee noted the variances, particularly the significant one by Pantheon. An officer replied that a more sophisticated calculation tool was now being applied by Pantheon in relation to investment costs levied. A Member stated that the report and the discussion at the meeting had shown that a detailed debate was required on this topic.

In response to a question from an Independent Member, the officer explained the staff costs, including overheads, incurred in the payroll and pension section of the Council.

RESOLVED: That the report be noted.

91. Performance of Fund Managers for quarter ended 30 June 2015 and Valuation at 31 July 2015

The Committee received a confidential report of the Director of Finance, which set out the performance of the investment managers and of the overall Fund for the quarter, year and three years ending 30 June 2015 and the valuation at 31 July 2015.

RESOLVED: That the report be noted.

92. Investment Manager Monitoring

The Committee received a confidential report, which set out Aon Hewitt's quarterly report on Harrow's investment managers with all managers being rated either "Buy" or "Qualified".

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 6.40 pm, closed at 9.35 pm).

(Signed) COUNCILLOR ADAM SWERSKY
Chair