

PENSION FUND COMMITTEE

MINUTES

1 JULY 2015

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

[Note: Other Attendance: (1) J 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) Tony Baily and Emily McGuire of Aon Hewitt attended in an advisory role, as the Council's Adviser.]

* Denotes Member present

† Denotes apologies received

62. Attendance by Reserve Members

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

63. Declarations of Interest

RESOLVED: To note that the following interests were declared:

Agenda Item 8 – London Borough of Harrow Pension Fund Performance Review

Mr Colin Robertson, Independent Adviser to the Committee, declared a non-pecuniary interest in that he was an adviser to State Street Global Markets. He would remain the room for the presentation and questions.

All Agenda Items

Councillor Norman Stevenson declared a non-pecuniary interest in that he was Director of Cathedral Independent Financial Planning Ltd. He would remain in the room whilst the matters were considered and voted upon.

Howard Bluston, non-voting co-optee, declared a non-pecuniary interest in that he had attended meetings at the Aon Hewitt offices. He would remain in the room whilst the items were considered and voted upon.

64. Appointment of Vice-Chair

Having been nominated and duly seconded, it was

RESOLVED: That Councillor Bharat Thakker be appointed as Vice-Chair of the Pension Fund Committee for the Municipal Year 2015/16.

65. Minutes

RESOLVED: That the minutes of the meeting held on 25 March 2015, be taken as read and signed as a correct record.

66. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

67. Information Report - London Borough of Harrow Pension Fund Performance Review

The Committee received a presentation from State Street Global Services (WM Performance Services) on the performance of the Fund for period ending 31 March 2015.

Karen Thrumble, representing State Street Global Services (WM Performance Services), circulated a presentation titled 'Performance Review – Periods to End March 2015' and explained that the performance of the fund was measured on an aggregate basis and that a Local Authority Universe had been created to provide an overview of the Council's Pension Fund and how it was performing. She reported on:

- 2014/15 returns and explained how the investments in equities and bonds had performed, including the returns on short and long term

bonds and the performance of sterling against the US dollar which had weakened and that hedging would have been costly in this instance;

- long term performance over a period of 3, 5, 10 and 20 years where the annual returns had been strong and ahead of the actuary forecasts. Equities had performed ahead of the Bonds. Cash held had provided a marginal return, whilst investments in Alternatives had performed better. Investments in Property had been good and the return on total assets had been exceptional;
- there had been a reduction in investment in Equities over the years whilst investment in Bonds had remained the same with Alternatives being the preferred option due to the lower risks associated with such investment;
- Fund Structure and Benchmark 2014/15 – had been a year of significant change with the restructure of the Equity portfolios and replacement of Barings DG with Insight. Whilst such changes would have normally shown a difficult performance, this had not happened. The excellent performance in 2015 had brought the medium term results above benchmark;
- Longer Term Manager Performance – performance had been in line with or above benchmark;
- Performance Relative to Other Funds – in the last year, both Equity and Bond selection had added value. The Fund had benefited from having a low UK Equity weighting and from having longer duration Bonds than its peers. The Fund had comfortably outperformed the peer group over the short and medium term. The Harrow Pension Fund had performed 1.8% ahead of other LA Funds. In the last five years, the Fund had been more volatile than its peers but had been rewarded with a performance that was ahead of the average. In summary: (a) in this year of change, the Fund had achieved strong results both in absolute and relative terms (b) Equity performance had been strong with Longview in particular continuing to add significant value (c) relative to other funds, performance was good. The Fund had benefitted from having a low commitment to the UK Equity market and from having relatively long duration Bond portfolio. Currency hedging had had a negative effect over the year.

During the presentation, an Independent Adviser asked questions on the actual net value of the Fund, and highlighted the importance of understanding costs. He suggested that annual accounts, including management fees, be presented at the next meeting. Karen Thrumble reported that performance management was net of fees levied. The Chair stated that providing value for money was a valid argument but that, in relation to the LA Pension Fund, cost was also an issue.

An Independent Adviser was of the view that the hedging of 50% of Equities had, historically, dampened performance and suggested that Members may wish to examine this aspect.

RESOLVED: That the presentation be received.

68. Information Report - Establishment of Pension Fund Risk Register

The Committee received a report of the Interim Director of Finance on the revised Risk Register for the Pension Fund following a request at its previous meeting for consideration of various matters raised. It was noted that progress had been made in respect of some of the matters raised, with an update on the remainder planned for future meetings of the Committee.

An officer outlined the items that had been progressed and those that would be considered later, details of which were set out in the report. In relation to the categorisation of item 9 'The relative movement in the value of the Fund's assets does not match the relative movement in the Fund's liabilities', an Independent Adviser stated that he had revised his earlier view that the item ought to be categorised as a 'C2 red risk' rather than a 'D2 amber risk'. His revised view was that the item ought to be categorised as C3 or D2, both these being amber risks.

A Member referred to the purpose of the establishment of the Risk Register and noted that it would be shared with the external auditors during the forthcoming audit.

RESOLVED: That the report be noted.

69. Work Programme for 2015-16

The Committee received a report of the Interim Director of Finance, which set out an amended draft Work Programme for the remainder of 2015-16 for approval.

The Committee welcomed the Work Programme and noted the proposal to move the scheduled November Committee meeting from 26 to 25 November, which would be confirmed in due course. The Chair referred to the need to work through the sequencing of trainings / presentations / review of policy / options for action around Responsible Investing and made reference to some of the changes in the Work Programme following which it was

RESOLVED: That the Work Programme for the period up to March 2016 be agreed.

70. Information (Verbal) Report - Pension Board

An officer circulated a synopsis of the meeting of the Pension Board held on 25 June 2015, as outlined at appendix A to these minutes.

The Chairman 'welcomed' the Board, including its functions, and reported that he would make contact with his counterpart at the Board. A discussion

ensued on the remit of the Board, the sharing of confidential papers between the two bodies and attendance of Board members at meetings of the private sessions of the Pension Fund Committee.

In response to questions, an officer outlined the remit of the Board which was broadly to assist in the administration of the Pension Fund. A representative of Aon Hewitt, Council's Adviser, added that the role of the Board was to examine the decision making role of the Pension Fund Committee and that the Board provided a scrutinising role.

RESOLVED: That

- (1) the Committee extends its 'welcome' to the Board and its scrutinising role of the Pension Fund Committee on how investment decisions were made;
- (2) it be noted that the public sessions of the meetings of the Pension Fund Committee were open to all to attend;
- (3) subject to the outcome of resolution (4) below, an invitation to attend private sessions of meetings of the Pension Fund Committee on an adhoc basis be extended to members of the Board;
- (4) it be noted that a legal view would be sought in relation to the sharing of confidential papers/agendas between the two bodies.

71. Urgent Business

Paperless Meetings

The Chair reported that he was exploring a move towards paperless meetings and was awaiting guidance from the Democratic and Electoral Services Manager on this matter.

72. 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>Items</u>	<u>Title</u>	<u>Reason</u>
14 - 20	Presentation by Aviva Investors/Presentation by Pantheon Ventures / Review of Bond Allocation / Review of Investment Adviser Contract / Annual Review of Internal Contractors at Fund Managers / Investment Management Monitoring / Performance of Fund Managers	Information under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972, relating to the financial or business affairs of any particular person (including the authority holding that information).

73. Information Report - Presentation by Aviva Investors

The Committee received a presentation from representatives of Aviva Investors in respect of the property mandate they managed on the Fund's behalf. They circulated a brochure titled 'Aviva Investors UK Real Estate Fund of Funds' and provided a company update, Harrow's mandate with Aviva Investors and the historical performance, 12 month performance to Q1 2015 and portfolio activity and composition in relation to the UK Real Estate Fund of Funds.

The representatives from Aviva responded to questions from the Committee, which noted the performance as at Q1 2015.

RESOLVED: That the presentation be received.

74. Information Report - Presentation by Pantheon Ventures

The Committee received a presentation from representatives of Pantheon Ventures in respect of the private equity mandate they managed on the Fund's behalf. They circulated a brochure titled 'Portfolio Update' and provided a company update, its global representation and regional expertise, opinion of market trends and outlook based on Q2014 data, portfolio summary and progress, including performance drivers and comparisons, in the last year, portfolio diversification and exposures.

The Committee raised concerns over the performance of the PGSF III LP Fund and asked officers to review the fee arrangements in the light of this. The officers responded to questions from the Committee following which it was

RESOLVED: That the presentation be received and further discussions ensue amongst all parties involved, involving the Chair of the Pension Fund Committee and facilitated by the Interim Director of Finance.

75. Review of Bond Allocation

The Committee received confidential reports of the Interim Director of Finance and Aon Hewitt, the Council's Adviser, in order to allow the Committee to reach a decision on the future of the Fund's Bond portfolio following a request by BlackRock Investment Management to adjust their mandate for bonds and index linked gilts.

The Committee discussed the alternatives available in relation to Absolute return Bond Strategies (ABS) and Liability Driven Investments (LDIs) and were mindful of the need to take a balanced and informed decision, including the need to explore tangible options for further protection. As a result, it was

RESOLVED: That

- (1) tangible options to refine the Bond Portfolio to increase interest rate / inflation protection, including with the use of LDIs, be developed for discussion and decision at the next Committee meeting;

- (2) detailed explanation of the implications of each option be provided by Aon Hewitt, Council's Adviser.

76. Review of Investment Adviser Contract

The Committee received a confidential report of the Interim Director of Finance, which set out the background to the appointment of the Fund's Investment Adviser, Aon Hewitt Ltd, with a recommendation that their contract be extended for a further two years to 1 November 2017.

The Committee discussed the proposal, including the historical relationship with the company and expressed some concerns about the imminent departure of the company's key adviser to the Committee and the impact this might have on any future working relationship. In this regard, it was noted that the Chair of the Committee and the Interim Director of Finance would meet with the company to discuss and it was

RESOLVED: That

- (1) in accordance with the current Agreement, the contract with Aon Hewitt Ltd, the Fund's Investment Adviser be extended for a further two years until 1 November 2017 and authority be delegated to the Section 151 officer to sign any documentation necessary to formalise the extension;
- (2) responsibility be delegated to the Chair, Vice-Chair and the Interim Director of Finance to ensure that the successor to the current adviser met the requirements of the Committee.

77. Information Report - Annual Review of Internal Controls at Fund Managers

The Committee received a confidential report of the Interim Director of Finance, which set out in summary the contents of the latest internal controls reports of each of three of the Fund's investment managers.

RESOLVED: That the report be noted.

78. Information Report - Investment Manager Monitoring

The Committee received a report of the Interim Director of Finance, which set out Aon Hewitt's, Council's Adviser, quarterly report on Harrow's investment managers. All managers were rated either "Buy" or "Qualified".

The confidential report from Aon Hewitt provided a quarterly report to the Committee setting out their view of the investment managers' strengths and weaknesses and an overall rating of whether the managers were suitable for inclusion in clients' portfolios.

RESOLVED: That the report be noted.

79. Information Report - Performance of Fund Managers for Quarter Ended 31 March 2015 and Valuation at 31 May 2015

The Committee received a confidential report of the Interim 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 31 March 2015 and the valuation at 31 May 2015.

RESOLVED: That the report be noted.

80. Tony Baily, Aon Hewitt

The Committee noted that Tony would be leaving Aon Hewitt and, on behalf of the Committee, the Chair thanked Tony for the positive working relationship he had established with the Council and wished him well for the future.

(Note: The meeting, having commenced at 6.37 pm, closed at 9.36 pm).

(Signed) COUNCILLOR ADAM SWERSKY
Chair

PENSION FUND COMMITTEE - 1 JULY 2015

ITEM 11 – PENSION BOARD VERBAL REPORT

Responsibility of Board is to the Council not the Pension Fund Committee.

Five members of Board recommended to Annual Council meeting and agreed.

First meeting 25 June 2015.

Chair – Independent Member, Richard Harbord

Vice Chair – Pensioners' Representative, Gerald Balabanoff

Background to Board

Terms of Reference:

- Generally accepted; in particular happy with generic role rather than detail.
- Consideration to rotation to avoid all members retiring at same time.
- Meetings **at least** twice a year.
- Expenses to be reviewed.

Pension Fund Committee – role is not to “second guess” investment strategy; however wish to work closely with Committee and direct its work towards items being considered by Committee; would like to see all papers going to Committee as issued; Chair wishes to make contact with Councillor Swersky and others.

Councillors Code of Conduct – generally happy to work in accordance with this but want Legal view on specific applicability, legal status as co-optees etc.

Knowledge and understanding – one day training course to be arranged in July / August; lively and interactive and targeted at Board requirements.

Work Programme – October meeting

- 2014-15 Annual Report and Accounts.
- Governance Compliance Statement.
- Communications Policy Statement.
- Statement of Investment Principles.
- Funding Strategy Statement.
- Ombudsman cases.
- Use of Chief Officers' discretions.