

PENSION FUND COMMITTEE

MINUTES

25 NOVEMBER 2015

Chair:	* Councillor Adam Swersky	
Councillors:	* Keith Ferry	* Bharat Thakker
	* Kanti Rabadia (1)	
Co-optee (Non-voting):	* Howard Bluston	* John Royle Pamela Belgrave
Independent Advisers:	* Colin Robertson	* Richard Romain

[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) Hugh Grover, Chief Executive - London Collective Investment Vehicle, and Richard Harbord, Chair of the Pension Board, attended the meeting as observers. They participated in the meeting on specific items on the agenda.]

* Denotes Member present

(1) Denotes category of Reserve Member

97. Welcome

The Chair welcomed Hugh Grover, London Collective Investment Vehicle, and Richard Harbord, Independent Chair of the Council's Pension Board, to their first meeting of the Pension Fund Committee.

98. Attendance by Reserve Members

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

Ordinary Member

Reserve Member

Councillor Norman Stevenson

Councillor Kanti Rabadia

99. Declarations of Interest

RESOLVED: To note that the following interests were declared:

All Agenda Items

Councillor Kanti Rabadia, a Reserve Member on the Committee, declared a non-pecuniary interest in that his wife was a member of the Local Government Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

Howard Bluston, a non-voting co-optee, 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, and that he had represented the Committee at the Local Authority Pension Fund Forum. He would remain in the room whilst the items were discussed and make contributions as a non-voting co-optee on the Committee.

100. Minutes

RESOLVED: That the minutes of the ordinary meeting held on 8 September 2015 and the special meeting held on 5 November 2015 be taken as read and signed as a correct record.

101. Public Questions, Petition and Deputations

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

RESOLVED ITEMS

102. London Pensions Collective Investment Vehicle - Update

The Committee received an information report of the Director of Finance, which summarised the progress made in setting the London Local Government Pension Scheme Collective Investment Vehicle (CIV) and the Harrow Fund's involvement therein.

The Director of Finance referred to the presentation made by Hugh Grover of London's Collective Investment Vehicle (CIV) prior to the meeting and invited

him to participate in the discussion on this item. She referred to the DCLG consultation document on the possible replacement of the “Management and Invest of Funds” regulations issued on the day of the Committee and of the need to respond before the next meeting. She undertook to circulate a draft reply to members of the Committee prior to the Christmas break. A formal response to the DCLG would follow in the New Year.

An Independent Adviser suggested a discussion at the London Leaders’ Committee to ensure a ‘political’ reply.

Mr Grover answered questions from the Committee as follows:

- it was entirely for the boroughs to decide how the CIV ought to evolve. The government’s strategy would also need to be examined in detail. Aon Hewitt confirmed that the boroughs would have the responsibility to monitor the CIV and oversee its functions;
- the CIV would develop overtime and quarterly reports would be submitted to the boroughs. Additionally, the engagement of the Fund Managers would need to be worked up. The latter would help ensure a collective focus on their performance and a system would need to be developed to ensure that this happened;
- the DCLG consultation document suggested that LGPS funds would increasingly be required to invest in collective vehicles and whilst no deadline had yet been set, the government had indicated a deadline of 2020/21;
- it was his personal view that whilst boroughs could continue working outside of the CIV, the changing world made it essential to participate in the CIV. It was important for discussion to take place within the CIV in light of the consultation document. A collective view of the various other bodies was also essential, including how to respond to the consultation.

RESOLVED: That the report be noted and the Director of Finance circulate a draft reply on the DCLG Consultation entitled “Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 by Christmas 2015 for members’ comments.

103. Options for Liability Driven Investment Strategy

The Committee received a report of the Director of Finance, asking members to consider a report from Aon Hewitt, Council’s Investment Adviser, which set out options for taking forward the consideration of a Liability Driven Investment Strategy (LDI).

Colin Cartwright of Aon Hewitt made reference to the decision made at the 8 September 2015 meeting of the Committee 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. He outlined the four triggers set out in the report and added a fifth, as follows:

- simple triggers which related to long term bond yields (ie the cost of purchasing bonds);
- affordability which related to the Pension Fund's funding level;
- price/value which related to medium term asset allocation (MTAA) views on long term yields;
- Harrow specific events;
- when Liability Driven Investment (LDI) became available in the Collective Investment Vehicle (CIV).

A discussion ensued as follows:

- whether interest/inflation rates could be considered as triggers. Mr Cartwright replied that his report concentrated on nominal triggers particularly in relation to simple and price/value triggers but both inflation and interest rates could be considered and he offered to provide a report back;
- whether both hard (where action is taken automatically) and soft triggers (where action needs to be considered) could be considered. Mr Cartwright explained the important features of the triggers he offered to provide a report back on soft triggers.

The Chair highlighted the need for a definitive view on when the move to an LDI Strategy ought to take place and was of the view that the timing of the hedge was not a strategic decision but accepted that various events would trigger a discussion. A view that this matter needed to be monitored rather than placed as a rolling item on the agenda was expressed. Mr Cartwright suggested that he would recommend a move of the 13% currently in Bonds into LDI with either BlackRock or another investment company. He had not yet considered the triggers for its unwinding.

An officer stated that a concise joint report with Aon Hewitt on funding levels would be submitted to the Committee once he had had examined the quarterly returns from Hyman Robertson, Council's Actuary/Adviser, and that such reports would be presented on a quarterly basis.

RESOLVED: That, having considered the report from Aon Hewitt on "Triggers to re-consider a LDI Solution", the following be agreed to take forward the consideration of LDI:

- a short report on funding levels be submitted to the next meeting of the Committee and thereafter on a quarterly basis.

104. Environmental, Social and Governance Issues in Pension Fund Investment

The Committee received a report of the Director of Finance, setting out the recent developments in the context of environmental, social and governance issues in Pension Fund investments and recommended the enhancement of the Fund's activities in this area.

An officer provided the background to the report and referred to the presentation made at the September 2015 meeting in this regard from a ShareAction, a charity that promoted responsible investment. The officer drew attention to the external legal opinions set out in the report and highlighted the various levels at which the Fund could promote environmental, social and governance (ESG) issues, details of which were set out at paragraph 15 of the report. He highlighted the difficulties faced in satisfying the principles for responsible investment and referenced the need to have Member/Officer representation at the Local Authority Pension Fund Forum at which the Co-opted member had represented the Committee.

Mr Cartwright of Aon Hewitt highlighted the benefits of the Local Authority Pension Fund Forum which actively engaged with various industries, such as the tobacco industry, by making them examine litigation and reputational risks which assisted Fund Managers in their investments. He added that resolutions (1) and (2) should also apply to Aon Hewitt.

A Member referred to the role of the Committee which was to protect investments in order to obtain the best returns. As a result, an options exercise/scenario would have been helpful.

An Independent Member suggested further amendments within the Statement of Investment Principles, which were agreed. He also suggested the need for admitted bodies to be involved. A Member was of the view that the Pension Board might wish to look into the latter suggestion. The Chair was of the view that beneficiaries and representatives of beneficiaries ought to be considered by the Pension Board.

The Committee noted that requests about ESG had been received under the Freedom of Investment Act. The Chair drew attention to the report of the Law Commission at appendix 2 to the report and the need to reflect on it in relation to the long term risks, views and values to the beneficiaries. It was noted that the government did not endorse the Law Commission's view.

RESOLVED: That

- (1) investment managers and Aon Hewitt, Council's Investment Adviser, be asked to advise whether they had signed up to UN Principles for Responsible Investment (PRI);
- (2) investment managers and Aon Hewitt, Council's Investment Adviser, be asked to confirm that they had signed up to "The UK Stewardship Code" and to provide reports on their engagement and voting actions;

- (3) in the light of the responses received to resolutions (1) and (2) above, the Fund consider further whether to sign up to “The UK Stewardship Code” in its own right following the receipt of a further report setting out any conditions in relation to appendix 3 of the report and concerns about creating an infrastructure dependent on resolutions (1) and (2) above;
- (4) the Fund take a more active involvement in the Local Authority Pension Fund Forum by attending meetings at a Member or officer level and by more specifically associating itself with various initiatives;
- (5) within the Statement of Investment Principles the current paragraph on “social, environmental or ethical considerations” be amended in accordance with paragraph 27 of the report and those made at the meeting, as follows:

“The Council recognises that it has a paramount duty to seek to obtain the best possible return on the Fund’s investments taking into account a properly considered level of risk. As a general principle it considers that the long-term financial performance of a country/asset in which it invests is likely to be enhanced if good practice is followed in environmental, social and governance activities.

All the Fund’s investments are managed by external fund managers mostly within pooled funds. Currently, one is passively managed and one is specifically invested in emerging markets. The Council recognises the constraints inherent in this policy. Nevertheless it expects its external fund managers, acting in the best financial interests of the Fund, to consider, amongst other factors, the effects of environmental, social and other issues on the performance of countries and assets in which they invest.

The Council expects its external fund managers to have signed up to “The UK Stewardship Code” and to report regularly on their compliance with the Code and other relevant environmental, social and governance principles.”

- (6) the Pension Board be requested to consider the need for admitted bodies to be involved in consideration of the importance of ESG issues and to what extent the views of the beneficiaries and representatives of beneficiaries should be taken into account.

105. Statement of Investment Principles

The Committee received a report of the Director of Finance, which requested consideration and approval of a draft revised Statement of Investment Principles. An officer highlighted the changes made.

An Independent Member highlighted the need to make changes as discussed at agenda item 9 (Minute 104 refers) and that paragraphs 4.3 and 4.8 of appendix 1 ‘Statement of Investment Principles’ to the report also required amending, as follows:

paragraph 4.3 to state ‘ ... **external** fund managers ...’
paragraph 4.8 to state ‘Stock lending is **allowed** ...’

RESOLVED: That the revised Statement of Investment Principles be approved, subject to the amendments set out in the preamble above and those set out under resolution 5 of Minute 104.

106. Benchmarking and Key Performance Indicators

The Committee received an information report of the Director of Finance on a request from the Local Government Pension Scheme - Scheme Advisory Board - that each administering authority completes a pro-forma providing information on key performance indicators. The report also advised the Committee of the return sent to the Scheme Advisory Board.

An officer reported that there was currently no intention to produce league tables and he was confident about the scorings given.

RESOLVED: That the report be noted.

107. Meeting of Pension Board on 2 November 2015

The Committee received an information report of the Director of Finance regarding the matters considered by the Pension Board at their meeting on 2 November 2015 and of the most significant issues raised by them.

The Chair of the Pension Board addressed the Committee and outlined the interests of the Board which were: performance of the Fund, including key performance indicators (KPIs) and management costs. He added that the Board would continue to make representations on the need to have access to ‘confidential’ reports considered by the Committee as the practice on access varied from one authority to another. The Board was of the view that, in order for it to do its ‘business’ effectively, it needed to meet more frequently and that representations in this regard would continue as the two meetings allocated were insufficient.

The Chair of the Pension Board added that training was provided and that a high level of knowledge was required from the Board’s members.

An Independent Adviser to the Committee recognised that the Board would need to meet frequently and asked Members to make representations about accessibility to ‘confidential’ reports considered by the Committee.

The Chair of the Pension Fund Committee cited the example of the agenda for this meeting and stated that a concerted effort had been made by officers to ensure that, where possible, the reports considered by the Committee were available for public access and that ‘confidential’ reports were limited in number. In light of the practice in other local authorities and the statutory nature of the Pension Board, the Chair asked officers for further legal advice on the ability of the Board to access ‘confidential’ reports.

RESOLVED: That the report be noted.

108. Work Programme for 2015-16 and 2016-17

The Committee received its a draft work programme for the remainder of financial years 2015-16 and 2016-17 for approval.

The need to include additional reports discussed at this meeting was noted and a discussion on whether a report on the Collective Investment Vehicle (CIV) ought to be more frequent ensued.

Dates of future meetings of the Committee were noted, including that they were subject to Cabinet's approval in January 2016.

RESOLVED: That

- (1) the Work Programme for the period up to March 2017 be agreed, subject to the inclusion of the following additional reports:
 - Environmental, Social and Governance (ESG) issues in Pension Fund Investment (Minute 104 refers);
 - Liability Driven Investments (LDIs) (Minute 103 refers);
 - Collective Investment Vehicle (CIV) (Minute 102 refers) to be reported at each meeting;
- (2) a training session be arranged during the summer of 2016 in relation to the transfer of Funds.

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

The Committee received a report of the Director of Finance on the audited Pension Fund Annual Report and Financial Statements for the year ending 31 March 2015.

An officer highlighted aspects of the report and reported that the auditors had required no figures to be changed.

RESOLVED: That having considered the report of the of the External Auditor on matters arising from the audit of the Pension Fund Annual Report and Financial Statements for the year ended 31 March 2015, the audited Pension Fund Annual Report and Financial Statements for the year ended 31 March 2015 be approved.

110. Performance of Fund Managers for Quarter Ended 30 September 2015 and Valuation at 31 October 2015

The Committee received an information report of the Director of Finance setting out the performance of the investment managers and of the overall Fund for the quarter, year and three years ending 30 September 2015 and the valuation at 31 October 2015.

The Committee also received an updated Appendix 2 'Investment Performance – 30 September 2015', which was tabled at the meeting. An officer added that the returns had recently improved.

Members noted that Aon Hewitt would be reviewing the performance of Oldfield Partners LLP and inform members of the outcome. It was noted that relative performance of most of the investment managers was strong.

RESOLVED: That the report be noted.

111. Other Business

Pooling of Pension Funds

A Member raised concerns over perceptions that the government may be seeking to reduce the role of administering authorities in the management of their Funds by leading them towards very large pooled fund and infrastructure investments.

A short discussion also ensued on the government's role as a funder of last resort.

112. 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 item for the reason set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
18.	Investment Manager Monitoring	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

113. Investment Manager Monitoring

The Committee received a confidential information report which set out Aon Hewitt's quarterly report on Harrow's investment managers and noted that all managers were rated either "Buy" or "Qualified".

Colin Cartwright of Aon Hewitt referred to an earlier discussion on the need to review the performance of Oldfield Partners LLP. It was noted that the cash held by Longview was not considered to be an issue. A short discussion on benchmarking ensued and it was

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 6.44 pm, closed at 8.33 pm).

(Signed) COUNCILLOR ADAM SWERSKY
Chair