

PENSION FUND COMMITTEE

MINUTES

21 JUNE 2016

Chair:	* Councillor Nitin Parekh	
Councillors:	* Jo Dooley	* Bharat Thakker
	* Norman Stevenson	
Co-optee (Non-voting):	* Howard Bluston	* John Royle
		Pamela Belgrave

[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 of Aon Hewitt attended in an advisory role, as the Council's Investment Adviser.

(4) Richard Harbord, Chair of the Pension Board, and Gerald Balabanoff, Vice-Chair of the Pension Board, attended the meeting as observers. They left the room prior to the consideration of confidential items 18 and 19 on the agenda.

(5) Gemma Sefton, Hymans Robertson, attended the meeting as Council's Actuary.]

* Denotes Member present

130. Attendance by Reserve Members

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

131. 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 was a member of Harrow Council's Local Government Pension Scheme. He added that some of his clients were also members of Pension Schemes. 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.

Gerald Balabanoff, Vice-Chair of the Pension Board and Scheme Members' Representative on the Board, declared that he was present as an observer. He would remain in the room to listen to the discussion except for Part II items on the agenda.

132. Appointment of Vice-Chair

RESOLVED: To appoint Councillor Bharat Thakker as Vice-Chair of the Committee for the 2016/2017 Municipal Year.

133. Minutes

RESOLVED: That the minutes of the meeting held on 9 March 2016, be taken as read and signed as a correct record, subject to the following amendments:

- (1) Howard Bluston (Non-Voting Co-optee) and John Royle (Harrow UNISON) being marked as 'present' at the meeting;
- (2) Minute 121: 1st Paragraph, Colin Robertson's name being replaced with that of Colin Cartwright and Councillor Bharat Thakker being included as part of the small group.

134. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

135. Information Report - Local Government Pension Scheme Pooling Arrangements Update

The Committee received a report of the Director of Finance, which provided an update on the development of the pooling arrangements and the London CIV (Collective Investment Vehicle), and invited comments on the Fund's draft submission to the CIV as part of its submission to DCLG (Department of Communities and Local Government) by 15 July 2016.

An officer highlighted:

- the main conclusions arising from the Harrow Review, as set out in paragraph 8 of the report, which included the returns and associated costs;
- that the DCLG tended to communicate with embryonic pools rather than individual administering authorities.

The officer circulated two pages titled 'London CIV – Individual Borough Response' setting out an updated version of the London Borough of Harrow response. The officer referred to the circulated pages and sought comments on the summaries. He added that he had liaised with Colin Cartwright (Aon Hewitt) and Colin Robertson (Independent Adviser) in this regard and reported as follows:

- the assets on page 1 as at 31 March 2015 showed an amount of Liquid Assets of £653.383m and Illiquid Assets of £21.462m, comprising those assets which ought to remain outside the CIV. In terms of the transition timeline for individual funds, 44% of the Harrow Fund would be invested in the CIV by the end of 2016 and 58% by the end of 2018. The officer explained that this was an aspiration but there was a need to be satisfied with the opportunities available;
- page 2 of the circulation showing 'Indicative Sub-Funds Available on CIV' had been produced by the CIV and there was concern as to whether sufficient opportunities would be available for all Funds. In 2016, officers were led to believe that the CIV would let the contract to Longview;
- if Longview sub-fund was set up in 2016, the transition would be straightforward. Transition costs would be low during the first year. An opportunity for transition from Oldfields could arise in 2018;
- a satisfactory emerging markets fund needed to be available before any transition from GMO could be considered;
- if funds became available in 2016, it would be possible to carry out the transition from State Street Global Services. Colin Cartwright (Aon Hewitt) reported that various Funds were being negotiated.

Colin Robertson (Independent Adviser) reported that the issues were wide and that only three funds were available currently. It was not possible to progress as Fund Managers were unknown.

Members noted that there were no alternatives except for a full or 90% of transition of asset management to the CIV by 2020. Significant transition was expected by 2018 or, possibly, earlier by 2017 but it was a moving feast. The Secretary of State could intervene if the government was not satisfied with the Council's performance. There would not be any constraints on the management of the Strategy but constraints would exist on the Manage Strategy. The Asset Class Strategy was the more important of all the strategies. Any influence on the CIV would be through the Joint Committee which currently consisted of 32 Member authorities but might increase to 33. A view was that the CIV ought to offer Funds that were acceptable to Harrow.

Richard Romain (Independent Adviser) asked if the investment structure would need to change and enquired about the soft/hard close methodology. He commented that the Pension Fund Strategy was risk averse and his message to Members of the Committee was that they needed to choose a strategy which fitted in with its complementarity.

Colin Cartwright (Aon Hewitt) advised that changes in Fund Managers could be made at any time and that such changes would incur transition costs but that it ought to be a judgement call. The majority of the assets for the next few years fitted in with complementarity set. It was intended that the Investment Strategy would be retained and that it would be for the CIV to ensure that Harrow's Fund was not being constrained. In relation to exercising a choice for a Global Equity Manager, it was expected that the CIV would identify the best managers and present them per se having carried out various checks, such as monitoring and negotiations on bulk buying. Members expressed concern about the CIV's direction of travel and expressed uncertainty.

Members returned to the papers circulated at the meeting and were generally satisfied with the draft response and

RESOLVED: That the report be noted, including the comments set out in the additional pages circulated at the meeting except that page 1 of the papers circulated be amended to read:

"Subject to suitable investment products being available the timeline we envisage is, by the end of 2016, 44% of our Fund being invested in the CIV, by the end of 2018, 58% and by the end of 2020, 96%. Subject to meeting our strategic objectives, we may/should consider putting up to 10% of our Fund in infrastructure investments, including local developments, but we are likely to prefer long term debt infrastructure rather than start up equity".

136. London Borough of Harrow Pension Fund: Draft Annual Report and Financial Statements for the year ended 31 March 2016

Members received a report of the Director of Finance setting out the draft Pension Fund Annual Report and Financial Statements for the year ended 31 March 2016.

An officer outlined the following key points:

- net assets of the Fund had decreased and its performance was low in the local authority annual league table of investment returns. Harrow was ranked 87 out of 90;
- the number of pensioners had increased, including the number of deferred pensioners whilst active members remained stable;
- management fees, including fees charged by investment managers, were £3.5m and a further report would be submitted to the next meeting;
- the major asset classes had performed poorly and the Fund's investments reflected this disappointing performance producing an investment return of -1.9%;
- the number of employer organisations within the Harrow Pension Fund, including the Council, would have a significant influence on the Fund;
- despite a reduction in net assets of fund available to fund benefits at the period end from 2014/15 to 2015/16, this was not considered to be a huge loss and would be an issue for Hymans Robertson LLP (Council's Actuary) to address as part of their valuation exercise.

A Member commented that the deferred membership figures were a worrying trend and asked if this was typical of local authorities. In response, Gemma Sefton (Hymans Robertson LLP) drew attention to the changes in membership and that, over time, active membership had fallen due to redundancies but had now stabilised.

Another Member asked how the increase in cash outflows due to the impact of falling membership, longevity and pension increases would be factored into the Investment Strategy. Colin Cartwright (Aon Hewitt) explained that the CIV would explore alternatives and possibly move to income generating investments. The intention was to achieve long term growth and, over time, the Investment Strategy may need adjusting and consideration would be given as part of the valuation exercise.

Richard Romain (Independent Adviser) queried the Committee's Terms of Reference set out on page 105 of the report and an officer undertook to check these. He also referred to the section on Risk Management on page 110 of the report and suggested a statement on risk, particularly decision-making risk and reference to meetings being open to members of the public. John Royle

(Unison) asked about the number of officers who received severance packages of £100k. Colin Robertson (Independent Adviser) referred to asset risk and its importance to liabilities. He suggested that performance over a period of 3/5 years be included under Risk Management and that the distributions from Pantheon be reviewed.

RESOLVED: That the report and the comments be noted.

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

The Committee received a report of the Director of Finance including a report from the Fund's Performance Measurement Adviser, State Street Global Services (WM Performance Services), on the performance of the Fund for period ending 31 March 2016.

An officer referred to the disappointing performance of the Fund, including its position on the league table discussed at Minute 136 above. He drew particular attention to paragraph 4 of the report about the cessation of performance measurement services previously provided by State Street Global Services and that there was a possibility that another organisation would take over the service. Members noted that the Director of Finance had requested the data going back to 1974 from State Street Global Services so that it could be released to another organisation. The data would only relate to performance.

RESOLVED: That the report be noted.

138. Quarterly Trigger Monitoring Q1 2016

The Committee received a report from the Fund's investment adviser, Aon Hewitt, on Quarterly Trigger Monitoring seeking agreement to no de-risking actions at this stage.

Colin Cartwright (Aon Hewitt) informed Members that following their request for quarterly reports on the consideration of an LDI (Liability Driven Investment which was designed to manage liabilities in line with inflation) Strategy, the report before them provided an update on the status of three de-risking triggers which were being monitored: the Fund's funding level; yield triggers based on the 20 year spot yield and view of bond yields.

He added that having put these triggers in place, including a fourth trigger which was not market related, his considered opinion was that there was no need to proceed with an LDI mandate at present. Additionally, the price of Bonds was fair and LDI's would be expensive. However, this matter ought to remain on the agenda for future consideration.

In response to questions, Colin Cartwright replied as follows:

- at present, the London CIV (Collective Investment Vehicle) did not have an LDI Mandate that would be suitable;

- an LDI Mandate would be difficult to implement in short time and it was dependant on the financial markets;
- overall, the Harrow Fund had not performed badly in comparison with other authorities over the last 3/5 years but that 2015/16 was a poor year;
- a greater appetite of risk may lead to increased returns but there were alternative ways of creating yield and these were being examined, including mitigation and volatility.

Members noted that a move towards an LDI Mandate would be a major decision for the Committee to take over time and that they ought to be familiar with its functions and workings. John Royle (Unison) asked why the Pension Fund was not used to build houses. It was noted that such action would entail a strategic decision. Richard Romain (Independent Member) added that the risks involved would be high.

An officer reported that he would capture the discussion relating to 'local investment and housing' as part of the training session on 'Infrastructure' prior to the next meeting of the Committee.

RESOLVED: That no de-risking actions be taken at this stage.

139. Information Report - Investment Strategy

The Committee received a report of the Director of Finance setting out the report from the Fund's investment adviser, Aon Hewitt, on the Fund's current investment strategy including expected return and risk.

The Committee noted that the portfolio had been modelled over a 10-year period in order to provide a headline assessment of the expected return and volatility for each strategy. The report had been provided to Hymans Robertson LLP, Council's Actuary.

RESOLVED: That the report be noted.

140. Pension Fund Committee - Update on Regular Items

The Committee received a report of the Director of Finance updating Members on the draft Work Programme, performance of fund managers for the previous quarter and issues raised by the Pension Board. The report invited comments and agreement of the draft Work programme and highlighted any significant issues raised by the Pension Board.

It was noted that the issues raised by the Pension Board had been highlighted with Hymans Robertson LLP (Council's Actuary) and that these matters - methodology and level of contribution – would be addressed by their representative, Gemma Sefton, as part of her presentation on a later item.

A typographical amendment was made to paragraph 8 of the report. A Member agreed that 13 October 2016, as proposed, was a good date to 'Meet the Managers' but that it ought to be held during the afternoon between 2.00 pm - 7.00 pm. In response to a question, an officer outlined the role of the Pension Board which was to provide an oversight and act as a critical friend to the Committee.

RESOLVED: That the Work Programme for the period up to March 2017 be agreed, subject to the comments above.

141. Information Report - Pension Fund Risk Register

The Committee received a report of the Director of Finance setting out the revised Risk Register for the Pension Fund. An officer reported that whilst the revised Risk Register was of a similar nature to the versions considered in March and July 2015 and stressed that none of the risks were in the 'red' zone. Risk Numbers 8, 9 and 16, details of which were set out below, were listed as 'critical', which meant that the situation would be critical if the risk were to occur but that the chances of such risks happening were low:

Risk 8: The Fund's assets were not sufficient to meet its long term liabilities. Fall in returns on government bonds leading to rise in value placed on liabilities and an increase in deficit.

Risk 9: The relative movement in the value of the Fund's assets did not match the relative movement in the Fund's liabilities.

Risk 16: Long term investment strategy in relation to fund liabilities was inappropriate.

RESOLVED: That the report be noted.

142. Information Report - Annual Review of Internal Controls at Longview Partners

The Committee received a report of the Director of Finance summarising the contents of the latest internal controls report from Longview Partners LLP.

RESOLVED: That the report be noted.

143. Exclusion of the Press and Public

RESOLVED: That the press and public be excluded from the meeting for the following items of business, on the grounds that they involve the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

<u>Agenda Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
18.	Information Report – Actuarial Valuation	Information under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended), relating to the financial or business affairs of any particular person (including the authority holding that information).
19.	Information Report – Investment Manager Monitoring	Information under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended), relating to the financial or business affairs of any particular person (including the authority holding that information).

144. Information Report - Actuarial Valuation 2016

The Committee received a confidential report of the Director of Finance and a presentation from Gemma Sefton, Hyman Robertson LLP, on progress on the triennial valuation to date and, in particular, on the consideration of the valuation assumptions.

Gemma Sefton circulated a presentation and undertook to explain the rationale behind other matters raised during the meeting. Her presentation included an overview of the 2016 Valuation and covered the Funding Strategy and financial, demographic and pre-retirement assumptions. During her presentation on the 'Discount Rate: Modelling of different combinations', Richard Romain (Independent Adviser) sought assurances that the figures had not been overtly influenced. The Director of Finance stated that the Council worked closely with Hymans Robertson LLP (Council's Actuary) which had taken a prudent approach and due diligence had been applied in this regard and one which she supported.

Gemma Sefton referred to the Investment and Funding Strategies and how assumptions had been arrived at and on the basis of all available information. She added that long term targets were key and whilst contribution rates could be smoothed, she had not experienced such pressures and, over time, the justification for rates would need to be evidenced. She added that her role was to comment on the asset allocation and she understood that the asset strategy retained flexibility.

Gemma Sefton responded to additional questions on stewardship, 100% funding, deficits, inflation assumptions, including whether these were forward looking or based on historical information, and suitability of investments. She referred to the contribution holiday offered some time in the past and which had been taken up by Harrow, the responsibility to future generations of taxpayers, and sustainability and deliverability of the Fund which remained the remit of the Director of Finance. She also explained why and how the RPI

(Retail Price Index)/CPI (Consumer Price Index) were used in relation to inflation assumptions and the conservative approach taken.

The Committee noted that future reports to the Committee would address inflation assumptions but that relevant information would be circulated shortly.

The Chair thanked Gemma Sefton for her presentation.

RESOLVED: That the presentation be received and noted.

145. Information Report - Investment Manager Monitoring

The Committee received a confidential report of the Director of Finance setting out Aon Hewitt's quarterly report on Harrow's investment managers. All managers were rated either "Buy" or "Qualified" although the ratings of one of the managers were being assessed as part of the annual research process. Colin Cartwright of Aon Hewitt drew Members' attention to a 'Flash Report' circulated previously and how his investment team had arrived at the revised grading due to the investment processes and risk controls, including the style of management.

Members discussed their options, including Value Managers and whether the CIV (Collective Investment Vehicle) might be of any assistance. The complementarity approach was referred to again and any losses involved, including fees. Members discussed their options and

RESOLVED: That

- (1) a further report be submitted to the September 2016 meeting of the Committee and it be noted that Members would be meeting several of the Fund Managers subsequent to the meeting;
- (2) in the interim, Members be briefed if the position deteriorated.

(Note: The meeting, having commenced at 6.31 pm, closed at 9.40 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair