

PENSION FUND COMMITTEE

MINUTES

6 SEPTEMBER 2016

Chair:	* Councillor Nitin Parekh		
Councillors:	* Jo Dooley	* Bharat Thakker	
	* Norman Stevenson		
Co-optee (Non-voting):	* Howard Bluston		
Trade Union Observers:	* John Royle	† Pamela Belgrave	
Independent Advisers:	* Mr C Robertson	Independent Adviser	
	* Honorary Alderman R Romain	Independent Adviser	
Others:	* Mr C Cartwright	Council's Investment Adviser	Aon Hewitt
	* Ms G Sefton	Council's Actuary	Hymans Robertson

* Denotes Member present

† Denotes apologies received

146. Attendance by Reserve Members

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

147. 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 also attended the PLSA North London Branch meetings. He would remain in the room whilst the items were discussed and make contributions as a non-voting co-optee on the Committee.

148. Minutes

RESOLVED: That the minutes of the meeting held on 21 June 2016 be taken as read and signed as a correct record, subject to the following amendments:

Minute 135

Page 7 of the agenda – fourth bullet point, should end 'Longview be included';

Page 8 of the agenda – second paragraph starting "Members noted" in same section should have "Asset Class" added to read "There would not be any constraints on the management of the Asset Class Strategy...." and in the same sentence it should say "Manager" rather than 'Manage';

Minute 136

Page 9 of the agenda – fourth paragraph, should read "falling active membership". The last paragraph in the same section, should be "referred to asset risk and the importance of assessing it relative to the liabilities".

Minute 138

Page 10 of the agenda – second paragraph, should read "which was designed to manage assets in line with the liabilities, in particular with regard to inflation and interest rates".

149. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

150. Information Report - Actuarial Valuation 2016

The Committee received a presentation from Gemma Sefton, the Actuary, Hymans Robertson LLP, in relation to the progress on the triennial valuation to date and, in particular, on the initial results and the next steps.

Gemma Sefton referred to her presentation slides on 'The London Borough of Harrow Pension Fund - 2016 Valuation - Initial Whole Fund Results' and provided a 2016 Progress Report by recapping on the steps taken to date, valuation results and the next steps. She made the following key points:

- the Fund had taken more time to review due to various changes but nevertheless was ahead of most of Hyman's other LGPS clients;
- there had been an upturn in the job market which had helped the funding level through the split of active/deferred/pensioner members
- the funding level had risen and the deficit had fallen in cash terms. The deficit at the last valuation was £234m compared to £228m at the current valuation;
- risk factors needed to be appreciated and she drew attention to the presentation slide on page 9 'Why has the funding position changed?'.
The slide highlighted that the funding position had improved due to a combination of factors including a higher contribution rate, lower inflation, and a higher asset return.
- the 'Membership Experience', presentation slide at page 10, showed that pay growth and pension increased over the last three years were lower than had been assumed in 2013 with the key driver being lower than expected inflation. The number of ill-health retirements were fewer than expected, 31 instead of 95;
- the changes in mortality rates assumed had previously been discussed and covering the mortality assumption in a training session was recommended;
- the 'Experience since 2013' presentation slides showed that falling yields in government bonds had increased liabilities but that asset growth had been stronger than expected;
- the 'Outlook for Financial Markets' showed a heightened uncertainty and increased sterling volatility but many of such concerns pre-dated Brexit;
- further work on the employers' contribution rates was underway and would be presented at the next meeting of the Committee with suggested changes to the existing strategy and contributions;
- there were lower expectations for growth and the uncertain outlook was not only due to the prospective Brexit negotiations and any further changes to the Bank of England's policy. The forecast was that investors would need to take more risks to generate the same returns. In response to a suggestion that the assumptions might not be sufficiently conservative, Colin Robertson, Independent Adviser, was of the view that the assumptions being made could be considered too prudent and that higher returning asset classes would contribute to the Fund return and he presented a more positive outlook. A Member was of the view that funding, liability and making necessary adjustments

would be key to a positive outlook. Gemma Sefton stated that the key was to understand the funding including its drivers;

- a full asset liability test needed to be carried out for employers and whether full funding was achievable by a range of contribution rates needed to be assessed. Potential contribution strategies would be set out, including long term funding objectives. All Councils would want to make stable contributions over a period of years to allow them to budget for future years. Contributions were not considered to be the only lever, the movement in assets and liabilities would also have an impact on the Fund. Gemma Sefton added that she would forward a range of possible outcomes to allow the Committee to make a judgement on the contributions. The paper from HM Treasury circulated to Members previously provided some background;
- there was a discussion of discount rates used for determining contributions vis a vis the discount used in the valuation. Colin Robertson stressed the importance of considering the assets relative to the liabilities. These topics, together with others related to the valuation would be covered in the training session prior to the next Pension Fund Committee meeting.

During her presentation, Gemma Sefton responded to questions. She summarised the remaining presentation slides. The Director of Finance / Section 151 Officer informed Members that the Council contributed £5m a year towards the deficit reduction and any recommendations for additional contributions would require further discussions.

RESOLVED: That the presentation be received and noted.

151. Performance Measurement Services

The Committee received a report of the developments in connection with the provision of performance measurement services for the Fund in line with its function to administer all matters concerning the Council's Pension investments in accordance with law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

An officer outlined the core services that would be provided by PIRC (Pension and Investment Consultants Ltd) but pointed out that the service would not include a detailed analysis – the fund specific quarterly service – which the Committee had been used to receiving. Officers were exploring the development of the Council's own fund specific analysis. It was intended to provide sufficient information to PIRC to allow a meaningful report to be submitted to November 2016 Committee meeting.

The Committee welcomed Colin Robertson's offer to advise on the Council's analysis particularly as regards benchmarking.

RESOLVED: That subscription to the performance measurement service be provided by Pension and Investment Consultants Limited at a cost of £3,000 in 2016-17 and £4,500 in subsequent years be agreed.

152. Information Report - London Borough of Harrow Pension Fund: Management Expenses 2015/16

The Committee received a report setting out details of management expenses incurred by the Pension Fund during 2015-16. An officer explained that management expenses had increased mainly due to the replacement of two Fund Managers with more expensive ones.

Richard Romain, Independent Adviser, highlighted the need to monitor the costs associated with the CIV (Collective Investment Vehicle).

RESOLVED: That the report be noted.

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

The Committee received a report on the development of the pooling arrangements and the London CIV (Collective Investment Vehicle), including the problems which had arisen in connection with the launch of the global equity indexed mandates.

An officer introduced the report and drew attention to the reconsideration of the options around the provision of passive management through the CIV and the need to await further developments in this regard. Additionally, the letter dated 30 August 2016 from the London CIV, including the 'Global Equities Procurement – Investment Strategy Lots' document, would become key should a Fund Manager need to be replaced.

Members noted that the London CIV was continuing to develop and that the Chair attended meetings of the CIV.

RESOLVED: That the report be noted.

154. Currency Hedging

The Committee considered a report from the Fund's Investment Advisers, Aon Hewitt, on currency hedging in line with its function to administer all matters concerning the Council's Pension investments in accordance with the law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

Colin Cartwright, Aon Hewitt, referred to his report which examined the impact of sterling weaknesses on the Fund's equity holdings and whether the current hedging remained appropriate in the current economic environment. He explained that the reasons for the recommendation, details of which were set out in his report. Members also considered a report from Colin Robertson, Independent Adviser, which had come to a similar view to that of Aon Hewitt.

The Committee noted that since the report had been issued by Aon Hewitt, sterling had strengthened against the dollar and the euro.

RESOLVED: That no changes be made to the Fund's current currency hedging arrangements.

155. Quarterly Trigger Monitoring Q2 2016

The Committee considered a report from the Fund's investment advisers, Aon Hewitt, on Quarterly Trigger Monitoring in line with its function to administer all matters concerning the Council's Pension investments in accordance with law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

Colin Cartwright, Aon Hewitt, advised that investment risks could be reduced by hedging liabilities. He also advised that de-risking was not considered appropriate at the current time.

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

156. Pension Fund Committee - Update on Regular Items

The Committee received a report setting out the draft Work Programme, performance of Fund Managers for previous periods, including issues raised by the Pension Board and sought the Committee's agreement to the proposed Work Programme.

At the Committee's request, the officer agreed to arrange an additional training session on 'Valuation' prior to the Committee meeting on 22 November 2016.

An officer referred to the session on 'Meet the Managers' on 13 October 2016 and explained that draft questions would be circulated for further input from the Committee. The officer drew attention to the Fund Valuation and Performance table and explained that, in the temporary absence of more sophisticated data, a simple relationship of the valuations of the various investments compared to the relevant base lines had been used. The increases in the value of the Fund as at June 2016 had been due to the large increases in the values of the equities portfolios but the Fund's currency hedging strategy had mitigated some of the gains and the current estimate was that approximately £9m would need to be paid to the currency hedging manager in tranches of £5m and £4m over the next six months.

The Chair asked about the concerns expressed by the Pension Board over the length of time taken to change Fund Managers. The officer stated that the Board was of the view that the Council was not nimble but that it was important to note that there were costs associated with changing Fund Managers and there were long term arrangements to consider as well. He added that at the 'Meet the Managers' session, members of the Committee would have an opportunity to address performance and fees charged by individual Fund Managers. It was also important to note that the Fund Manager in question had outperformed other Fund Managers during the period March – June 2016.

In relation to the request for a joint meeting by the Chair of the Pension Board, an officer explained that the training session on 22 November 2016 would be used as a vehicle for consideration of the actuarial valuation prior to the scheduled Pension Fund Committee meeting, and that the Board was welcome to attend both.

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

157. Information Report - Annual Review of Internal Controls at Insight Investment

The Committee received a report on the contents of the latest internal controls report from Insight Investment.

RESOLVED: That the report be noted.

158. Information Report - Property Opportunities

The Committee considered a report from the Fund's investment advisers, Aon Hewitt, on property opportunities in line with its function to administer all matters concerning the Council's Pension investments in accordance with law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

Colin Cartwright, Aon Hewitt, reported that following the E U Referendum there had been heightened economic uncertainty and volatility across most asset classes. The purpose of his report was to consider the impact of Brexit on the UK property market and identify the scope for tactical opportunities for the Fund within this asset class.

Richard Romain, Independent Adviser, was of the view that this opportunity should be given due consideration, particularly if the Council was in a position to negotiate a discounted price. However, he was concerned whether the Council's existing decision-making structures allowed for decisions to be made quickly which this matter would require. He was of the view that mechanisms would need to be put in place if the Committee was minded to take opportunities in the property market. A Member also commented on the ability to take decisions at short notice.

Colin Cartwright suggested that a committed Fund Manager would be required to look for opportunities in the property market or it could be done through contacts. Richard Romain advised that the former route was not one he could support but that it would be better to work with established estate agent(s) on a set return and he was recommending a concept policy. This proposal would require the support of the Council's surveyors.

An officer responded to questions as follows:

- that no money had been set aside but that property investment with Aviva was in place;

- that a re-consideration of the Fund’s Investment Strategy would be required but that it was more likely that the Fund would seek value through discounted prices for pooled funds rather than buying discounted buildings;
- in relation to identifying risks, and other matters raised by the Committee, a report would be presented at the November Committee on Investment Principles.

The Committee agreed that Aon Hewitt’s advice was required on how properties could be held by the Fund.

RESOLVED: That the report be noted and a further report be submitted on the holding of properties and whether this opportunity was advisable.

159. 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.	Information Report – 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)).

160. Information Report - Investment Manager Monitoring

The Committee received a confidential report setting out Aon Hewitt’s quarterly report on Harrow’s investment managers. All Fund Managers were rated either “Buy” or “Qualified” with the rating for one of them having been downgraded from “Buy” to “Qualified.”

Colin Cartwright, Aon Hewitt, referred to the reasons why one of the Fund Managers had been downgraded in the last 3 months and referred to the Committee’s discussions at its previous meeting. He added that a ‘deep dive’ was being conducted and the outcome would be communicated to the Committee in due course. It would be for Members to set out their confidence in that Fund Manager.

Colin Cartwright responded to questions on the need to find an alternative Fund Manager in the context of the CIV (Collective Investment Vehicle) and advised that there were other Fund Managers who would deliver better returns over the long term with volatility in the short term. He stressed that a qualified Fund Manager was still a good manager.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 6.32 pm, closed at 9.01 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair