

PENSION FUND COMMITTEE

MINUTES

21 NOVEMBER 2017

Chair:	* Councillor Nitin Parekh		
Councillors:	† Kairul Kareema Marikar	* 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:	* Colin Cartwright	Aon Hewitt	(duration of the meeting except Minute 254)
	* Joe Peach	Aon Hewitt	(duration of the meeting except Minute 254)
	* Richard Harbord	Chair of the Pension Board	(Part I business only)

* Denotes Member present

† Denotes apologies received

241. Attendance by Reserve Members

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

242. Declarations of Interest

All Agenda Items

Councillor Norman Stevenson, a Member of the Committee, declared a non-pecuniary interest in that he was a Director of Cathedral Independent Financial Planning Ltd., and that he had clients who were past and present members of the Harrow Pension Scheme. His wife was a member of Harrow Council's Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

Howard Bluston, a non-voting co-optee on the Committee, declared a non-pecuniary interest in that he was Chair of Edward Harvist Charity, which was managed by BlackRock Investment Management. He declared that he had connections with Pension and Investment Research Consultants Limited (PIRC) and with various Fund Managers. He would remain in the room whilst all items were discussed and make contributions.

Agenda Item 15 – Investment Strategy Review

Colin Robertson, Independent Adviser, declared that he had personal investments in GARS. Colin Cartwright, Aon Hewitt, declared that his wife had personal investments in GARS. They would remain in the room whilst the matter was considered and make contributions.

243. Change in Membership of the Pension Fund Committee

RESOLVED: That

- (1) it be noted that Councillor Moshenson had replaced Councillor Barry Macleod-Cullinane on the Pension Fund Committee as the 2nd Reserve Member for the Conservative Group for the Municipal Year 2017/18;
- (2) it be noted that Council on 28 November 2017 had appointed Mr Howard Bluston to serve as a non-voting co-optee on the Pension Fund Committee for the Municipal Year 2017/18.

244. Minutes

RESOLVED: That the minutes of the meeting held on 18 September 2017 be taken as read and signed as a correct record, subject to the following amendment:

Minute 226 – Declarations of Interest: Investment Strategy Review – to amend the declaration of interest made by Colin Cartwright, Aon Hewitt, to read that his wife had personal investments in GARS.

245. Public Questions/Petitions/Deputations

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

RESOLVED ITEMS

246. Pension Fund Committee - Update on Regular Items

The Committee received a report of the Director of Finance, which set out the draft Work Programme, performance of Fund Managers for previous periods and any issues raised by the Pension Board. The Committee noted that the reference in the report to PIRC should read 'Pension and Investment Research Consultant Limited'.

An officer introduced the report and updated the Committee as follows:

- further investments in Longview had been closed as it had reached the limits set. Moreover, Longview had made changes in its personnel. The Committee considered if meetings with the new personnel, albeit in their interim positions, was necessary;
- the future of the CIV (Collective Investment Vehicle) was uncertain. It was suggested that a report from the CIV ought to be requested for presentation to the Committee by its senior personnel or a member of their Board;
- the issues raised by the Pension Board related to the 'Annual Report and Financial Statements for the year ended 31 March 2017' and would be discussed later.

The Chair stated that the London CIV, of which he was a member, was scheduled to meet in December 2017 and he would report back on the discussions held. The officer referred to the officer working group on the CIV of which he was a member and agreed that it would be prudent for CIV to report back.

RESOLVED: That, subject to the comments set out in the preamble above, the Work Programme for the period up to March 2018 be agreed.

247. Performance Measurement Services

The Committee received a report of the Director of Finance, which set out the performance measurement services being provided by Pension and Investment Consultants Limited (PIRC). Members noted that the reference in the report to PIRC should read 'Pension and Investment Research Consultant Limited'.

An officer introduced the report and reminded the Committee of the discussions they had had with David Cullinan, Pension and Investment Research Consultants Limited (PIRC), at the last meeting of the Committee, including on the requirements of the format and presentation of their reports.

Colin Robertson, Independent Adviser, was of the view that the report of the PIRC was disappointing and that it was unstructured. He requested that the benchmark referred to in PIRC's report be checked, that no information had

been provided on Local Authority Universe, including the requirements identified at the last meeting of the Committee. Colin Robertson added that the report ought to have provided detail of the contribution to asset allocation performance by asset class and explored global equities performance.

He also made the following points:

- GARS benchmark was LIBOR + 5% but DGF benchmark was given as LIBOR + 4% and it did not follow that Insight was LIBOR + 3%. Were DGF and other benchmarks correct?
- the Committee had asked for asset allocation performance to be expressed in terms of asset class, for example, equity exposure contribution to performance, but asset allocation performance had been expressed in terms of individual managers;
- PIRC had made no reference to performance compared to universe of LGPS funds - a key feature of the service;
- PIRC talked of producing volatility numbers when they made a presentation to the Committee but this appeared to have been omitted from their report.

The Committee also expressed their disappointment with the report from the PIRC and requested that their concerns be conveyed to the company.

RESOLVED: That the report from Pension and Investment Research Consultants Limited to 30 September 2017, as set out in the appendix to the report, be noted and the Committee's disappointment with the report be conveyed to the PIRC.

248. Quarterly Trigger Monitoring Q3 2017

The Committee considered a report from, Aon Hewitt, Council's Investment Adviser, on Quarterly Trigger Monitoring. Members were advised that the Fund's funding level was 81% (subject to volatility), an improvement and that the direction of travel was good.

Colin Cartwright, Aon Hewitt, responded to questions from the Independent Advisers and outlined the three key drivers which could trigger de-risking. He added that the three de-risking triggers related to:

- Fund's funding level;
- Yield triggers based on the 20-year spot yield;
- Aon Hewitt's view of Bonds.

Richard Romain, Independent Adviser, referred to the sensitivity of Liability Driven Investments (LDIs), which may change and asked to be notified of the extent of the trigger that would require a decision on de-risking. Colin

Cartwright, Aon Hewitt, undertook to discuss this aspect with the Council's Fund Manager, BlackRock Investment Management and report back. He suggested that a briefing session on LDIs, identifying such matters as risks and advantages, would be helpful. Colin Robertson, Independent Adviser, related his experience that heavy trading would be required before a trigger would become necessary.

The Committee agreed that further training on LDI would be beneficial. The Committee noted that their role in relation to LDI was a strategic one rather than tactical.

RESOLVED: That

- (1) no de-risking actions be taken at this stage;
- (2) the Director of Finance arrange a training session on LDI with Blackrock Investment Management.

249. London Borough of Harrow Pension Fund: Annual Report and Financial Statements for the year ended 31 March 2017

The Committee received a report of the Director of Finance, which sought their agreement to the Pension Fund Annual Report and Financial Statements for the year ended 31 March 2017 and the Annual Audit Letter 2015/16 from the external auditors, KPMG.

An officer advised that the external auditors had made only one recommendation which related to the authorisation of Pension Fund journals and that this recommendation had been actioned.

The officer referred to the concerns raised by the Pension Board in relation to the separation of bank accounts, a historic issue, and had requested a further report on this matter. He added that the Pension Fund Committee would also receive this report. Richard Harbord, Chair of Pension Board, explained that the role of the Board was to ensure proper governance and the Board had therefore asked for a report from the Section 151 Officer in this regard.

Another officer assured the Committee that Pension Fund Bank Accounts were reconciled each month and that the reference at page 76 of the agenda did not apply to the Pension Fund Accounts.

RESOLVED: That the Annual Report and Financial Statements for the year ended 31 March 2017 be agreed.

250. Any Other Urgent Business

Attendance by members of the Pension Board at the Pension Fund Committee

The attendance by members of the Board at the Committee was raised as an urgent item in order to ascertain their position when the Committee was

considering confidential information and to seek further advice prior to the next meeting of the Committee..

The Committee were informed that HB Public Law had advised that, for the purposes of the Pension Fund Committee, members of the Pension Board were to be treated as members of the public and could not remain in the meeting room when Exempt (Part II) business was being considered.

The Committee were informed that Pension Fund Committees at other local authorities were more transparent and had an open relationship with the Board and asked that further legal advice be sought in light of this.

RESOLVED: That further legal advice be sought to clarify the relationship between the Committee and the Board.

251. Exclusion of the Press 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>Agenda Item No</u>	<u>Title</u>	<u>Reason</u>
14 – 18	Currency Hedging Regulatory Implications of European Market Infrastructure Regulation (EMIR)/ Information Report - Investment Manager Performance Monitoring for period ending 30 September 2017/ Investment Consultancy Services Procurement/ Investment Strategy Review Diversified Growth Fund Managers/ Pension Death Grant Payment – Review	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

252. Currency Hedging Regulatory Implications of European Market Infrastructure Regulation (EMIR)

The Committee received a confidential report outlining the requirement to comply with changes in the European Market Infrastructure Regulation ('EMIR') and that, with effect from 3 January 2018, the way in which the Pension Fund's currency hedging mandate with Record was required to change. Record had provided information on how they proposed to alter the mandate to comply with the regulatory changes. Aon Hewitt had provided a view on Record's proposals.

Colin Cartwright, Aon Hewitt, advised on the benefits of moving away from seven counterparties to two and that it would offer diversification benefits that

would help offset moving to just one counterparty. This course of action would increase the costs by £20,000 per annum. He also favoured the re-introduction of equitisation, which would enhance returns through the exposure to equity markets.

Richard Romain, Independent Adviser, suggested having more than two counterparties which would increase the operating costs but these could be offset. The Committee noted that whilst operating costs would increase, the mechanism was designed to reduce risks.

Having moved and seconded, it was

RESOLVED: That, having considered the reports from Record and Aon Hewitt,

- (1) a move from seven to three counterparties to limit the cost of complying with the new EMIR regulations be agreed;
- (2) the equitisation programme be re-introduced to enhance returns through the exposure to equity market.

[Note: Councillor Norman Stevenson abstained from voting on this item.]

253. Information Report - Investment Manager Performance Monitoring for period ending 30 September 2017

The Committee received a confidential report, which set out Aon Hewitt's quarterly report on Harrow's investment managers. All managers who had received a rating other than Pantheon – whose private equity funds had been rated by different criteria and had received a range of ratings - had been given either "Buy" or "Qualified" ratings.

Colin Cartwright, Aon Hewitt, drew attention to the "Qualified" rating given to BlackRock Index-linked Gilt Fund. He added that the rating on the Corporate Bond would be shared later. Colin Cartwright responded to a number of questions and undertook to set out in their next performance report how they had arrived at their ratings for the two Blackrock products. In relation to the Fund Manager, GMO, the annual turnover of 200-300% was as a result of an average holding period of six months. He acknowledged that other Fund Managers had low turnover but that GMO was particularly high.

Members were informed that the CIV (Collective Investment Vehicle) was not rated but that the Fund Managers within the CIV were.

RESOLVED: That the report be noted.

254. Investment Consultancy Services Procurement

Members received a confidential report of the Director of Finance, which advised the Committee of the current position on the provision and re-procurement of Investment Consultancy Services from 1 January 2018 and set out re-procurement proposals using the National LGPS Framework, which

was due to be launched in November 2017 but was awaited. The Committee was informed that the Framework would cost £5,500 (rather than £5,000) to join and not £5,000 as set out in the report.

Members were advised that, in the interim, it would be appropriate to extend the current contract. An officer was of the view that the appointment of an actuary and an adviser from the same company was inconsequential as all were expected to work together. Members noted the advice but were in agreement that the personnel were also key and ought to be included on specifications for any future contracts.

RESOLVED: That

- (1) the procurement process for Investment Consultancy Services from 1 April 2018, as set out in the report, be agreed;
- (2) the current contract with Aon Hewitt be extended to 31 March 2018, and, thereafter, the new Norfolk administered framework be used to re-procure the investment consultant contract.

255. Investment Strategy Review: Equity and Diversified Growth Re-allocation

The Committee received a confidential report from Aon Hewitt, which set out recommendations for investing the re-allocation of equities to diversified growth funds as part of the Pension Fund's revised Investment Strategy, together with a note from Colin Robertson, Independent Adviser.

Colin Cartwright, Aon Hewitt, introduced the report and set out the background to the report following the September 2017 Committee meeting and the subsequent 'Meet the Managers' day. He added that the CIV offered four "growth" Diversified Growth managers and that, at the 'Meet the Managers' day, members had received presentations from the two existing Diversified Growth Fund Managers – Insight and GARS – and two Diversified Growth Managers – Newton and Ruffer – from the London CIV (Collective Investment Vehicle). He added that the rating for Newton had been revised to 'Being Reviewed' but that he was 'comfortable' with their performance.

Colin Robertson, Independent Adviser, summed up his note by saying that Newton appeared markedly worse than the others on Aon Hewitt's historical analysis while Insight showed up quite well. GARS was the best diversifier from equities. He also reported on a meeting of Independent Advisers from across the pools held that morning to the effect that funds would not be transitioned to quite a number of the pools until after April 2018. Therefore, Harrow was far from being at the rear of transitioning.

Richard Romain, Independent Adviser, stated that it would be for the Committee to make a decision.

Members recognised the need to take a measured approach and, in light of the business cases available to them, they

RESOLVED: That

- (1) the asset re-allocation from the Equity reduction and cash balance be invested with the current Diversified Growth Fund managers;
- (2) the Diversified Growth Fund be increased to 22% of the total Fund value from the sale of equity to be held ½ each in equal proportions in Standard Life, GARS and Insight (11% each) as they were good diversifiers away from equities;
- (3) the element of passive equity reduction be delegated to the Director of Finance, to manage the transition of the agreed re-allocation of funds, following consultation with the Chair.

256. Pension Death Grant Payment - Review of Decision

The Committee agreed to consider the late report in order to allow a decision to be taken at the earliest opportunity following a recent request for a review.

RESOLVED: That recommendation 2, as set out in the report, be agreed.

(Note: The meeting, having commenced at 6.34 pm, closed at 8.36 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair