

PENSION FUND COMMITTEE

MINUTES

27 NOVEMBER 2018

Chair:	* Councillor Nitin Parekh	
Councillors:	* Kanti Rabadia (2)	Antonio Weiss
	* 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

* Denotes Member present
(2) Denotes category of Reserve Member

Quorum

At 6.30 pm, the meeting was inquorate. The Democratic Services Officer informed Members that Committee Procedure Rule 13.3 stated that after 15 minutes from the advertised time of the start of the meeting, or such other longer period as the Chair decided, a quorum was not present, the meeting would not take place.

In accordance with Committee Procedure Rule 13.3, the Chair decided that if a quorum was not present by 6.55 pm, the meeting would not take place. The quorum was present before 6.55 pm and the meeting started at 6.52 pm.

Agenda Items - Part II Section

Prior to the consideration of Part II Section of the agenda, the Chair notified the Committee that the agenda order for this Section would be varied to allow interested external parties to make their presentations to the Committee prior to the consideration and decision-making by the Committee of the relevant items in private session. The agenda order of the substantive items was as follows:

- Item 14 - Local Government Scheme Pension Scheme Amendment Regulation
- Item 13 - Pension Fund Risk Register (Appendix 3)
- Item 16 - Investment Manager Performance Monitoring for period ending 30 September 2018
- Item 15 - Investment Strategy Manager Review and Pooling Update
- Item 17 - Investment Consultancy Services Procurement.

For clarity, business in the minutes is recorded in the order set out on the agenda.

31. Attendance by Reserve Members

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

Ordinary Member

Councillor Bharat Thakker

Reserve Member

Councillor Kanti Rabadia

32. Declarations of Interest

All Agenda Items

Councillor Norman Stevenson, 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, non-voting co-optee, declared non-pecuniary interests in that he had previously worked with AON Hewitt and that he knew a number of Fund Managers, including BlackRock. He would remain in the room whilst all matters were considered and make contributions.

Colin Cartwright, Aon Hewitt, declared that his wife had a small investment in GARS (Global Absolute Return Strategies Fund). He would remain in the room whilst all matters were considered and advise the Committee.

Colin Robertson, Independent Adviser, declared that he and his mother had personal investments in GARS (Global Absolute Return Strategies Fund). He

would remain in the room whilst the matters were considered and make contributions.

33. Minutes

RESOLVED: That the minutes of the meeting held on 12 September 2018, be taken as read and signed as a correct record.

34. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

35. Pension Fund Committee - Update on Regular Items

The Committee received a report of the Director of Finance which provided an update on the Work Programme, the performance of Fund Managers and issues raised by the Pension Board.

An officer outlined the content of the report and highlighted the following:

- as at 31 October 2018, the market value of the Fund was £824m. This was a drop from £850m in September 2018. The drop was due to a general downturn in the financial markets;
- the transfer of the passive equity funds held with State Street Global Advisors Ltd to BlackRock, had been completed successfully and on budget except for the timelines. The cost of the transition was 0.7%. The final transition report would be circulated to all members of the Pension Fund Committee on request.

The Chair requested that the proportion of the Fund invested in the LCIV be reported to the Pension Fund Committee as a standing item.

A Member asked questions about the weighting being given to global equities and why there was an allocation of 50%. He asked about the confidence in the UK market. The same Member asked why assets had been moved to Blackrock.

In response, a representative from Aon Hewitt, stated that:

- there was a significant (10%) allocation within global equities to the UK market. The UK market was dominated by a couple of sectors such as the pharmaceutical industry which had resulted in concentrated investments. It was important that there was diversification. For example, the technology sector was underrepresented in the UK market and diversification was achieved by investing globally. Moreover, the global equity market had outperformed the UK market;

- the main reason for moving passive funds to Blackrock was due to their inclusion in the LCIV (London Collective Investment Vehicle). There was a requirement from the government to invest in the LCIV and the Fund benefited from fee reductions negotiated by the LCIV.

Members were informed that the Pension Board had received a presentation from the Pension Regulator and this had been well received. It was noted that the Board had reviewed the Fund's Breaches Policy and that no breaches had been reported.

The Chair suggested that training on LDI and Infrastructure was required and it was noted that this was referenced in the report(s) on the agenda.

Richard Romain, Independent Adviser, raised the issue of the attendance of the Chair of the Pension Board at Pension Fund Committee during consideration of exempt (Part II) business. He explained that, whilst local authorities were inconsistent in their approach, the Committee could agree to allow the Chair of Pension Board to remain in the meeting room during consideration of exempt business. He advocated such transparency. The Chair stated that the Members needed to adhere to the advice received from the Council's lawyers, HB Public Law, and referred to the minutes of 7 March 2018 Pension Fund Committee, Minute 272. Colin Robertson, Independent Adviser, pointed out that some authorities applied the same rules as Harrow.

RESOLVED: That the Work Programme for the period up to March 2019 be agreed.

[See also Minutes 41, 42 and 44.]

36. Information Report - Quarterly Trigger Monitoring- Quarter 3 2018

The Committee considered a report from Aon Hewitt, the Council's Investment Adviser, on Quarterly Trigger Monitoring and noted that no de-risking actions were recommended at the current time.

RESOLVED: That the report be noted.

37. Information Report - PIRC Performance Measurement Report for period ending 30 September 2018

The Committee received a report of the Director of Finance, which set out the performance management statistics being provided by Pension and Investment Consultants Limited (PIRC). The report benchmarked performance to 30 September 2018 and the Committee was invited to comment on the report.

Colin Robertson, Independent Adviser, stated that he remained dissatisfied with PIRC's work on performance measurement and he was of the view that the shortcomings needed to be addressed. He was concerned with the quality of the work, including the figures produced. He would provide detailed comments for the Committee. It was noted that officers would bring the Committee's concerns, including any additional issues, to the attention of

PIRC. A Member was concerned that the Fund was incurring unnecessary costs as the reports were not useful.

Colin Robertson informed the Committee that PIRC had recently published their annual report. An officer confirmed that the PIRC representative would be invited to attend the next Pension Fund Committee to present the annual report and to address the issues of concern that had been raised.

RESOLVED: That the report be noted.

38. Information Report - Pension Fund Risk Register

Members received a report of the Director of Finance, including a confidential appendix, inviting comments on the Risk Register.

The Chair referred to risk numbers 24 – 26 indicated in “red” which were of concern as they were classified as “fairly likely to occur” and deemed to be of “critical” importance. It was suggested that the Committee could review its scoring.

Richard Romain, Independent Adviser, suggested that Members of the Committee might want to hold a separate informal meeting to allow them to consider and understand the implications of each of the risks.

The Committee also discussed in detail the confidential appendix in private session. The discussion related to the risks associated with Brexit and the implications for the financial market(s). The appendix set out how the risks could be mitigated and concentrated on negative scenarios. The following issues were discussed and commented on, including how these would impact on the Fund:

- impact on sterling of a ‘No Deal’ Brexit;
- impact on UK property prices and the resultant impact on the Fund;
- whether or not to hedge against currency risk;
- impact on yields and dividends;
- use of the options strategies to protect against market volatility;
- impact of a fall in government bond yields, including the impact on longer term yields;
- an increase in inflation and higher interest rates and their impact on yields;
- the impact on financial markets, liquidity and the Fund of a ‘disorderly’ Brexit;
- the impact on assets and liabilities after Brexit.

A representative from Aon Hewitt advised the Committee on potential different scenarios and the various issues they would need to consider.

RESOLVED: That

- (1) officers arrange a meeting with all Councillors serving on the Pension Fund Committee to discuss the risks in detail;

- (2) all Councillors serving on the Pension Fund Committee be invited to all training sessions;
- (3) the report be noted.

39. 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>Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
13	Information Report - Pension Fund Risk Register - Appendix 3	Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information)
14	Information Report - Local Government Scheme Pension Scheme Amendment Regulations	Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information)
15	Investment Strategy Manager Review and Pooling Update	Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information)
16	Information Report - Investment Manager Performance Monitoring for period ending 30 September 2018	Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information)
17	Investment Consultancy Services Procurement	Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information)

40. Information Report - Pension Fund Risk Register

[See Minute 38 above.]

41. Information Report - Local Government Scheme Pension Scheme Amendment Regulations

The Committee received a confidential report of the Director of Finance, which set out the potential impact of the payment of surplus exit credits on the Fund as a result of changes to the LGPS (Local Government Pension Scheme) Amendment Regulations 2018. Suggested options to manage the potential impact were set out in the appendices from the Fund Actuary, Hymans Robertson.

The report included reference to training and that the Funding Strategy Statement would be amended, if required, and presented for decision at the next Pension Fund Committee.

A representative from Hymans Robertson, briefed the Committee on the appendices in the private session of the meeting. She reported that the LGPS Amendment Regulations came into effect on 14 May 2018. The Regulations gave employers the ability to access surplus on exit of its Members. She outlined the potential implications on the Fund arising from recent changes in the Regulations and that the Committee would be required to consider funding arrangements for admission bodies.

The representative from Hymans Robertson explained how the system had worked under previous Regulations and how these had changed. She outlined options for mitigating any adverse impact on the Fund and the use of pass-through approach. Members' attention was drawn to the appendix 1, which outlined the risks that would remain.

A Member asked how the deficit in the Pension Fund would be funded. The representative from Hymans Robertson explained the role of the Actuary and that they would track the employers funding situation. Richard Romain, Independent Adviser, stated that it was important that the Council's lawyers were involved in drawing up the legal agreements/contracts setting out the allocation of assets and liabilities for employers or opting to mandate pass through arrangements for new employers. The lawyers would need to advise on the risks which were set out on page 75 of the agenda papers. It was important that the lawyers had had the necessary knowledge in drawing up any contracts which would need to withstand the test of time.

RESOLVED: That

- (1) training on risk management be arranged for all Members of the Pension Fund Committee prior to a report being submitted to the next ordinary meeting of the Pension Fund Committee on 12 March 2019 for a decision;
- (2) HB Public Law be invited to the meeting.

42. Investment Strategy Manager Review and Pooling Update

The Committee received a confidential report of the Director of Finance, which set out a summary of the 'Meet the Manager' day held on 5 November 2018 and to consider next steps required to manage the Fund Investment Strategy and to meet the requirement to invest through the London Collective Investment Vehicle (CIV).

An officer advised that, in light of earlier discussions at the meeting, it would be appropriate to defer a decision on Recommendation 1 to a special meeting agreed by the Committee. In relation to Recommendation 2, he advised that the decision be deferred to the March 2019 meeting of the Committee but a training session be held at a date to be agreed at the special meeting on 16 January 2019.

The Chair requested the training session on the Risk Register be held at 5.30 pm prior to the special meeting of the Committee on 16 January 2019.

RESOLVED: That

- (1) a decision on Recommendation 1 set out in the officer report be deferred to the special meeting of the Committee scheduled to be held on 16 January 2019 at 6.30 pm;
- (2) further information and training requirements be held on a date to be agreed prior to making any decision on committing to investing in the London CIV Infrastructure Fund at the ordinary meeting of the Committee scheduled to be held on 12 March 2019 at 6.30 pm.

43. Information Report - Investment Manager Performance Monitoring for period ending 30 September 2018

Prior to the consideration of the confidential report, the Committee received a short presentation from one investment manager followed by robust questioning from the Committee and Independent Advisers. Thereafter, the investment manager representatives left the meeting.

Members received advice from representatives of Aon Hewitt. Members asked questions on performance, processes, ownership of decisions and key criteria. They noted the options set out in the tabled document, which had not been available at the time the agenda was despatched due to the need to provide the most up to date information to allow the Committee to make an informed decision. Members expressed their own views.

Thereafter, the Committee considered the confidential report of the Director of Finance, which included Aon Hewitt's quarterly report on Harrow's investment managers.

The Committee was advised that the decision on the investment manager presenting was of paramount importance and that it should have a full complement of Members prior to reaching a decision and it was

RESOLVED: That a special meeting of the Pension Fund Committee be held at 6.30 pm on 16 January 2019 to allow the Committee to make a decision in relation to the review of Investment Fund Managers.

44. Investment Consultancy Services Procurement

The Committee received a confidential report of the Director of Finance which set out the current position on the provision and re-procurement of Investment Consultancy Services using the National LGPS framework as previously agreed by Committee. The report sought agreement to the process for appointing the Investment Consultant to the Pension Fund.

Members made reference to the investment consultancy services shortlisted panel interviews scheduled for 11 December 2018 and noted that relevant documents for this informal meeting would be circulated by officers. Councillor Norman Stevenson indicated that he would not be able to attend this meeting.

RESOLVED: That, following interview and panel evaluation, the preferred supplier for the Investment Consultancy contract be confirmed by the Director of Finance, following consultation with the Chair of the Pension Fund Committee, and the appointment be reported to the next ordinary meeting of the Committee scheduled to be held on 12 March 2019.

(Note: The meeting, having commenced at 6.52 pm, closed at 9.50 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair