

PENSION FUND INVESTMENTS PANEL MINUTES

27 NOVEMBER 2012

Chairman: * Councillor Keith Ferry

Councillors: * Tony Ferrari * Bill Stephenson (1)
* Richard Romain

Co-optee (Non-voting): * Howard Bluston * Steve Compton
Sanjay Karia

Other Attendance

Mr John Harrison and Mr Sion Cole of Aon Hewitt attended as representatives of the Council's Adviser.

* Denotes Member present
(1) Denotes category of Reserve Members

180. Introduction

The Clerk to the Panel opened the meeting and informed Panel Members of changes to the membership which had been confirmed at a meeting of the Licensing and General Purposes Committee on the previous evening; namely that:

- Councillor Idaikkadar had stood down from the Panel;
- Councillor Ferry had become a full Panel member and had been appointed Chairman for the remainder of the 2012-13 municipal year;
- Councillor Dharmarajah remained a full member of the Panel;
- Councillor Stephenson had joined the Panel as a Reserve Member.

Councillor Ferry took the Chair and the meeting continued.

181. Appointment of Vice-Chairman

Councillor Mano Dharmarajah was nominated, seconded and duly appointed as vice-Chairman of the Pension Fund Investment Panel for the remainder of the 2012-13 municipal year.

A Member asked that it be placed on record that Councillor Dharmarajah, in his previous capacity as Chairman of the Panel, had fulfilled the role diligently, diplomatically, and with courtesy and integrity. He had allowed Panel Members to express their views freely and openly and had encouraged constructive debate, to the benefit of the Panel and the decisions made.

RESOLVED: To appoint Councillor Mano Dharmarajah as Vice-Chairman of the Pension Fund Investment Panel for the remainder of the 2012-2013 Municipal Year.

182. Attendance by Reserve Members

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

Ordinary Member

Reserve Member

Councillor Mano Dharmarajah

Councillor Bill Stephenson

183. Declarations of Interest

RESOLVED: To note that no Declarations of Interest were registered.

RESOLVED ITEMS

184. Minutes

RESOLVED: That the minutes of the meeting held on 20 September 2012 be taken as read and signed as a correct record.

185. Public Questions, Petitions and Deputations

RESOLVED: To note that no petitions were received, questions put, or deputations received under the provisions of the Committee Procedure Rules 17, 15 and 16.

186. Governance of the Pension Fund Investment Panel

In accordance with the Local Government (Access to Information) Act 1985, this item was submitted late to the agenda for the reasons given on the supplemental agenda.

The Panel received a report of the Corporate Director of Resources setting out proposed changes to the governance and terms of reference of the Pension Fund Investment Panel.

The Chairman explained that the administration, in attempting to reduce the number of committees and meetings, was looking to simplify the committee structure, and considered that the Pension Fund Investment Panel would work more efficiently as a 'stand alone' committee (similar to Planning Committee), rather than under the umbrella of the Licensing and General Purposes Committee (L&GP). He suggested that the Panel's proposals be considered by the Constitution Review Working Group.

In drafting the proposals, it was intended that the complex and technical decisions required in managing the Council's Pension Fund should be taken by an appropriately appointed and trained body, and remain the sole responsibility of that body, rather than progress to another decision making body for ratification, whose members may not possess the knowledge, expertise or background to fully consider the issues and the impact of decisions. In addition, further changes in Regulations were expected from government, and a stand alone body was believed to be best placed to respond to these and implement measures as necessary.

Members concurred, and observed that it was unusual among authorities for a Pension Fund Panel to report to a parent committee, although one Member stated that in respect of an earlier decision on Academy contributions, he believed a better decision had been made as a result of the two-tier process, but he also acknowledged that this was an unusual occurrence. An officer confirmed that many authorities preferred a stand alone committee to consider Pension Fund matters, and informed the Panel that very few matters had gone forward to L&GP for consideration in the last two years.

Members broadly agreed with the overall purpose of the proposals, although no conclusion was reached on the optimum composition and desired expertise of Panel members at this early stage. They were of the opinion that the Panel would benefit from the participation and advice of independent, co-opted members, ideally two, but did not conclude whether remuneration should be provided.

In response to the suggestion that the Early Retirement Sub-Panel be merged with the Pension Fund Investment Panel, Members agreed that the Sub-Panel should remain separate and continue to review individual cases, within the policy set by the Pension Fund Investment Panel.

John Harrison of Aon Hewitt commented on possible changes to regulation and management of funds, including the merger of London-wide funds. A Member responded that a merger of all London authority funds would be unworkable and highly unlikely to happen, although a smaller merger, for example among the West London Alliance authorities, might have merit.

An officer reminded Members that the Council's Actuary would be attending the January meeting, and that it was planned to hold a training session prior to the meeting.

RESOLVED: That

- (1) the outline proposals for the terms of reference of the Pension Fund Investment Panel to be expanded, as set out in the report, be submitted to the Constitution Review Working Group for consideration;
- (2) consideration be given to the expansion of the membership of the Pension Fund Investment Panel to include two independent, co-opted members to act in an advisory capacity;
- (3) the attendance of the Council's Actuary and the training session at the January meeting of the Panel be noted.

187. Review of the Pension Fund's Investment Strategy

In accordance with the Local Government (Access to Information) Act 1985, a revised appendix to the report was submitted following agenda publication to enable the Panel to take into account the most up-to-date information.

The Panel received a report of the Corporate Director of Resources, which outlined the options for a revised investment strategy.

John Harrison of Aon Hewitt introduced his colleague, Sion Cole, to the Panel and explained that Mr Cole would take over his role as principal adviser to the Panel, supported by another colleague, Tony Bailey, as he was moving into a new role. Members expressed their deep concern and disappointment at the news. Two Members who had been involved in the appointment of Aon Hewitt as advisers to the Panel reminded Mr Harrison that his involvement had been crucial in the selection of Aon Hewitt, and stated that, notwithstanding his absolute right to manage his own career as he wished, his departure was a matter of grave concern and they were surprised and disappointed that Panel Members had not been briefed in advance of the change.

The Corporate Director of Resources explained that officers had been made aware of the change some weeks ago and that the failure to inform Panel Members had arisen through miscommunication. She apologised for the oversight.

Mr Harrison and Mr Cole withdrew from the meeting at this point so that Members could discuss the situation in private.

In response to two Members' expressed opinion that the appointment of Aon Hewitt had been conditional on the continued involvement of John Harrison, the Corporate Director of Resources advised the Panel that the contract was with Aon Hewitt and those persons key to the delivery of services could only be changed in agreement with the Council. Another Member stated that it was entirely correct to contract with a company, and that the company should be trusted to provide suitably senior and qualified personnel to manage and maintain the working relationship.

An officer advised that the Panel could vary the contract if they were unhappy with performance. Two Members reiterated their unhappiness that they had been presented with a 'fait accompli', with no opportunity to challenge or comment on the situation.

The Panel then considered the nature of the Investment Strategy Review and its authorship, and were advised that the report had been produced following discussions between officers and advisers. The Panel were invited to approve, amend or reject the proposals as they wished.

Members discussed whether proposals within the strategy constrained the Panel's capacity to commit resources and maximise returns, and whether agreement on strategy should precede decisions on governance mechanisms. An officer stated that the Panel could agree to the strategy, with specific mandate details to be added at a later stage.

The Aon Hewitt representatives returned to the meeting and John Harrison outlined the principal elements of the strategy in balancing returns against contributions, and how this impacted on performance and the actuarial valuation. He described asset categories, risk and volatility, and the advantages and disadvantages of passive and active management of funds. He concluded that whilst the current strategy remained fit for purpose, the disparity between expected and actual equity returns suggested that alternative funds would be beneficial and worthy of consideration.

Members agreed to consider alternatives, and in particular diversified growth funds, providing they could be briefed by a fund manager about the products available. Officers and advisers agreed to set up a briefing session for Panel Members in December.

RESOLVED: That

- (1) a briefing session on alternative investments be arranged for Panel members;
- (2) a decision on the revised strategy be deferred to the Panel meeting on 8 January 2013.

188. Information Report - Update Report and Action Points from Previous Meetings

The Panel received a report of the Corporate Director of Resources which provided an update on actions taken since the last meeting.

A Member requested that a report on 'ethical investments' be submitted to a future meeting. Members considered whether 'responsible investments' was a more appropriate terminology for the issue, and noted that regardless of ethical considerations, the prime factor in investment for the fund was to generate sufficient return to meet liabilities.

Another Member re-iterated his comments that the Update Report was of great benefit in allowing Members to track officer actions and was a useful aid to background knowledge and continuity of purpose.

RESOLVED: That the report be noted.

189. 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</u>	<u>Title</u>	<u>Reason</u>
13.	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)).
14.	Information Report – Performance of Fund Managers for the Quarter Ended 30 September 2012	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

190. Information Report - Investment Manager Monitoring

In accordance with the Local Government (Access to Information) Act 1985, a revised appendix to this report was submitted following agenda publication to enable the Panel to take into account the most up-to-date information.

The Panel received Aon Hewitt's quarterly report on Harrow's Fund managers, detailing strengths and weaknesses and overall ratings, and noted that the ratings remained unchanged from the September report.

RESOLVED: That the report be noted.

191. Information Report - Performance of Fund Managers for Quarter Ended 30th September 2012

The Panel received a report which set out the performance of the investment managers and of the overall Fund for the quarter, year and three years ending 30 September 2012.

The Fund had increased in value from 31 October 2012 to June 2012, and had marginally outperformed the benchmark over three years, although the one year and quarterly figures were slightly under the benchmark.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 6.35 pm, closed at 9.25 pm).

(Signed) COUNCILLOR KEITH FERRY
Chairman