

PENSION FUND COMMITTEE

MINUTES

25 JUNE 2013

Chairman: * Councillor Richard Romain

Councillors: * Tony Ferrari * Sachin Shah
* Keith Ferry

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

(1) Tony Baily of Aon Hewitt and Gemma Sefton of Hymans Robertson attended in an advisory role, as the Council's Actuary and Investment Adviser. Lynn Coventry of WM attended to provide a presentation for Item 6.

* Denotes Member present

1. Attendance by Reserve Members

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

2. Declarations of Interest

RESOLVED: That the following Declarations of Interest be noted:

- (1) Councillor Richard Romain declared a non-pecuniary interest in all the agenda items in that he held discretionary shares in named Fund Managers who had involvement in the management of the Council's Pension Fund.
- (2) Howard Bluston declared a non-pecuniary interest in all the agenda items in that he had attended meetings at the Aon Hewitt offices in St Albans, and had attended functions hosted by Fidelity and Wellington in his capacity as an Independent Adviser. He would remain in the room while matters were considered and voted upon. He declared a specific interest in Agenda Item 12 in that he serves on a local committee relating to infrastructure.

RESOLVED ITEMS

3. Appointment of Vice-Chairman

RESOLVED: That Councillor Keith Ferry be appointed as Vice-Chairman of the Pension Fund Committee for the 2013-2014 Municipal Year.

4. Minutes

RESOLVED: That the minutes of the Pension Fund Investment Panel meeting held on 6 March 2013 be taken as read and signed as a correct record.

5. Public Questions, Petitions and Deputations

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

6. Information report - Presentation by WM

The Committee received the report of the Director of Finance and Assurance and a presentation by WM relating to the performance of the investment portfolio in the period to 31 March 2013.

Lynn Coventry of WM described Harrow's performance and position in relation to targets, benchmarks and other Local Authorities. In the light of the data presented, Members discussed the agreed investment strategy and considered how it might best be implemented.

RESOLVED: That the report and presentation be noted.

7. Pension Implication of Service Outsourcing

The Committee received a report of the Director of Finance and Assurance which outlined the pension implications of the proposed libraries outsourcing.

An officer explained that the decision to outsource the service had already been made by Cabinet, and the Committee was now invited to consider whether the proposed pension arrangements would have an adverse impact on the Fund.

Members observed that the savings would benefit the Council but not the Fund, and considered the nature and accommodation of risk. It was accepted that the Contractor could only be liable for those risks under its control, and noted that the Council had the scope to increase contributions to meet liabilities.

Members compared the proposals with those that had been implemented for Academies, and discussed future risk and strategies to reduce the deficit. The Director of Finance and Assurance observed that the report should have

come to the Committee for comment before going to Cabinet for decision, and he would ensure that any such reports in the future would do so.

RESOLVED: That the report be noted.

8. Review of the Statement of Investment Principles

The Committee received the report of the Director of Finance and Assurance setting out a revised Statement of Investment Principles ("SIP") for approval, following changes to the Investment Strategy agreed in March 2013.

The Chair noted that the Section 151 officer, the Director of Finance and Assurance, had delegated authority to rebalance the equity and bond portfolios if they breached the stated ranges; an officer confirmed that any such changes were reported to the next Pension Fund Committee meeting.

Members discussed Harrow's compliance with the Myners Principles and the extent to which it was necessary or desirable to be explicit about levels of compliance. They concluded they were happy with the term used in the report, but agreed that a training session on the principles would be beneficial. It was also noted that The Fund's asset allocation was captured in the SIP, and that each time this was amended or revised, an updated SIP was required. An officer suggested that information on asset allocation did not need to be included, but the Chair was of the opinion that inclusion was preferable and provided a clear statement of intent. The officer confirmed that the SIP would be updated to reflect every material change, and with the intention to review every three years.

RESOLVED: That the updated Statement of Investment Principles be approved.

9. Equity Training and Beliefs

The Committee received a report of the Director of Finance and Assurance which focused on the equity component and options for structuring an equity portfolio in order to agree a basis for further training and the development of more precise proposals that reflect the Committee's views.

The Chair clarified that the purpose of the debate was not necessarily to achieve consensus, but to express views and preferences in respect of asset allocation and management.

The Committee considered the potential for adding value, particularly in the context of the following:

- active versus passive management of funds;
- mature versus developing markets;
- global versus local markets;
- flexibility versus stability.

Members discussed whether a cautious approach was appropriate, but the majority view was that as the Fund was underwritten by the Council, they could afford to take a higher risk approach with a view to securing greater returns.

The representative of Aon Hewitt gave his view on the points raised, and reminded the Committee that changes to the direction and content of the portfolio could have consequences for the actuarial valuation. An officer further commented that management of the Fund was not sufficiently flexible to respond quickly to changes in markets, nor was there the in-house expertise to provide more hands-on management.

The Chair summarised the views expressed and stated that the Committee was minded to support continued investment in equities, and asked the advisers to consider the following:

- both active and passive management
- if active – boutique funds with several managers
- developing markets

He concluded that the Committee would decide on fund manager appointments with the advisers providing a shortlist of potential fund managers.

RESOLVED: That

- (1) the Committee's views be noted, and a report considering changes to the equity portfolio be prepared by Aon Hewitt;
- (2) training be arranged to develop Members' understanding of the issues involved and inform robust decision making in respect of the Council's Pension Fund.

10. Infrastructure and Local Investing

The Committee received a report of the Director Finance and Assurance which looked at infrastructure and local / impact investing and explored the potential for greater diversification of the investment portfolio and some positive local benefit from investing.

The Chair informed the Committee that the Chief Executive had asked that this item be deferred to a future meeting as he had an interest in attending for the item. As the matter was not urgent the Chair was happy to agree to this, and considered that the time could be used to improve the report to include options to develop and manage an infrastructure project for Harrow. Members briefly discussed the possible scope and returns of such a project. The Director of Finance and Assurance informed the Committee that a report had been taken to Cabinet the previous week which looked at the Council's capacity to become a developer, in the context of the Housing Revenue Account Fund. The Chair responded that any report to the Committee would

be considered in the light of the requirements of the Pension Fund, including returns, guarantees, governance and transparency.

RESOLVED: That the report be deferred to a future meeting of the Pension Fund Committee.

11. External Audit Plan 2012-13

The Committee received a report of the Director of Finance and Assurance which set out the audit plan for the audit to be undertaken by Deloitte; there were no significant changes from the previous year. The plan has been presented to GARM Committee.

RESOLVED: That the report and audit plan be noted.

12. 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.

RESOLVED: That the report be noted.

13. London Pension Fund Collaboration

The Committee received a report of the Director of Finance and Assurance which considered the Government's plan to consult on views relating to the collaboration and merger of London Local Authority pension funds. Proposals to set up a voluntary collective investment vehicle (CIV) were being developed by the London Leaders.

An officer introduced the report and reminded the Committee that Members had not been enthusiastic about the proposal when first presented. However, some authorities were now in favour of exploring the scope for collaboration, and Wandsworth had offered to lead on one such scheme.

Members discussed the advantages and disadvantages of collaboration and the pooling of funds, and considered the political dimension, nationally and locally. They discussed the possibility that such a scheme would counter the government's stated preference for a single London pension fund, and queried whether early involvement on the part of Harrow Council would constitute an 'expression of interest', which might mitigate against the imposition of other, unwelcome initiatives.

It was agreed that there would be economies of scale in pooled funds and shared management, but Members voiced concerns about retaining autonomy and flexibility, and doubted the need to be in the vanguard of authorities signing up to the scheme. Members were also unwilling to commit a nominal fee of up to £50k to the scheme at this stage, and while generally supportive of the proposals, agreed to retain a 'watching brief' and await further information.

RESOLVED: That

- (1) the investigation of voluntary collaboration models for London pension funds, including a collective investment vehicle, be supported;
- (2) the Committee be kept informed of future developments.

14. Any Other Urgent Business

The Chair informed the Committee that there were three items he wished to raise under this item.

1. E-mail

The Chair informed the Committee and officers that he wanted his personal email address used for email correspondence; that he could not easily access the Harrow website and would not respond to emails sent to his Harrow address.

2. External Advisors for the Pension Fund Committee

The Chair invited comments on his proposal that additional external advisors be appointed, and having received unanimous approval, he asked officers to prepare a paper on the appointment of external advisors and their remuneration.

3. Lead Members

The Chair described the role of 'Lead members' on GARM Committee, and asked members if they thought there would be value in introducing a similar system for the Pension Fund Committee. He confirmed that a particular role could remain vacant if there were no volunteers, and that no areas of expertise had as yet been specified. Members were unanimous in agreement and the Chair asked that officers prepare a list of options for the Committee to consider.

RESOLVED: That

- (1) it be noted that Councillor Romain will only respond to email correspondence sent to his personal address, and that he will not respond to emails sent to his Harrow address or forwarded via a Harrow address;
- (2) that a report be brought to a future meeting of the Committee on the appointment and remuneration of external advisors;
- (3) that a report be brought to a future meeting of the Committee on the role and possible areas of expertise of Lead Members.

15. 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>
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)).
19.	Information Report - Performance of Fund Managers for Quarter Ended 31 March 2013	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

16. Information Report - Investment Manager Monitoring

The Committee received the report of the Director of Finance and Assurance which presented 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 January report.

RESOLVED: That the report be noted.

17. Information Report - Performance of Fund Managers for Quarter Ended 31 March 2013

The Committee received a report of the Director of Finance and Assurance which set out the performance of the investment managers and of the overall fund for the quarter, year and three years ending 31 March 2013.

The Chair observed that the recent meeting arranged for Members to meet Fund Managers in an informal setting had not been successful as so few Members had been able to attend; however, he believed it was a useful initiative which should be attempted again, and asked that officers consider setting up another meeting in October.

RESOLVED: That

- (1) the report be noted;
- (2) members be canvassed for their availability and an informal meeting with Fund Managers be arranged for October.

George Bruce, Pensions and Treasury Manager, announced that he would be leaving Harrow Council for another post at the end of August. The Chair described him as an individual officer who was never loath to voice his opinion or challenge Members, and on behalf of the Committee, thanked him for his contribution to the Committee and the Pension Fund, his co-ordination and liaison skills and professionalism. A co-opted Member added his thanks and compliments to the Chair's.

RESOLVED: That the Pensions and Treasury Manager be thanked for his hard work, professionalism and contribution to the Fund and the Committee.

(Note: The meeting, having commenced at 6.30 pm, closed at 9.35 pm).

(Signed) COUNCILLOR RICHARD DAVID ROMAIN
Chairman