

REPORT FOR: Pension Board

Date of Meeting: 2 November 2015

Subject: Pension Fund Committee Meeting 1 July 2015

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards Affected: All

Enclosures: Presentation by State Street Global Services

Section 1 – Summary and Recommendation

Summary

The report sets out the matters considered by the Pension Fund Committee at their meeting on 1 July 2015 and invites the Board to agree any comments they might wish to make to the Committee.

Recommendation

The Board are invited to consider this report and agree comments to be passed on to the Pension Fund Committee.

Section 2 – Report

1. Matters considered by the Pension Fund Committee at their meeting on 1 July 2015 were as follows:
2. London Borough of Harrow Pension Fund Performance Review

Attached is a copy of the annual presentation from State Street Global Services on the investment performance of the Fund for the period ending 31 March 2015.

The Committee's discussion was minuted as follows:

The Committee received a presentation from State Street Global Services (WM Performance Services) on the performance of the Fund for period ending 31 March 2015.

Karen Thrumble, representing State Street Global Services (WM Performance Services), circulated a presentation titled 'Performance Review – Periods to End March 2015' and explained that the performance of the fund was measured on an aggregate basis and that a Local Authority Universe had been created to provide an overview of the Council's Pension Fund and how it was performing. She reported on:

- *2014/15 returns and explained how the investments in equities and bonds had performed, including the returns on short and long term bonds and the performance of sterling against the US dollar which had weakened and that hedging would have been costly in this instance;*
- *long term performance over a period of 3, 5, 10 and 20 years where the annual returns had been strong and ahead of the actuary forecasts. Equities had performed ahead of the Bonds. Cash held had provided a marginal return, whilst investments in Alternatives had performed better. Investments in Property had been good and the return on total assets had been exceptional;*
- *there had been a reduction in investment in Equities over the years whilst investment in Bonds had remained the same with Alternatives being the preferred option due to the lower risks associated with such investment;*
- *Fund Structure and Benchmark 2014/15 – had been a year of significant change with the restructure of the Equity portfolios and replacement of Barings DG with Insight. Whilst such changes would have normally shown a difficult performance, this had not happened. The excellent performance in 2015 had brought the medium term results above benchmark;*
- *Longer Term Manager Performance – performance had been in line with or above benchmark;*

• *Performance Relative to Other Funds – in the last year, both Equity and Bond selection had added value. The Fund had benefited from having a low UK Equity weighting and from having longer duration Bonds than its peers. The Fund had comfortably outperformed the peer group over the short and medium term. The Harrow Pension Fund had performed 1.8% ahead of other LA Funds. In the last five years, the Fund had been more volatile than its peers but had been rewarded with a performance that was ahead of the average. In summary: (a) in this year of change, the Fund had achieved strong results both in absolute and relative terms (b) Equity performance had been strong with Longview in particular continuing to add significant value (c) relative to other funds, performance was good. The Fund had benefitted from having a low commitment to the UK Equity market and from having relatively long duration Bond portfolio. Currency hedging had had a negative effect over the year.*

During the presentation, an Independent Adviser asked questions on the actual net value of the Fund, and highlighted the importance of understanding costs. He suggested that annual accounts, including management fees, be presented at the next meeting. Karen Thrumble reported that performance management was net of fees levied. The Chair stated that providing value for money was a valid argument but that, in relation to the LA Pension Fund, cost was also an issue.

An Independent Adviser was of the view that the hedging of 50% of Equities had, historically, dampened performance and suggested that Members may wish to examine this aspect.

RESOLVED: That the presentation be received.

3. Establishment of Pension Fund Risk Register

The Committee received an updated version of the Risk Register which they had considered at their previous meeting.

In light of the Auditor's recommendation in their Report on the 2014-15 Accounts the Committee will be considering the matter further at their next meeting on 25 November.

At their first meeting the Board were given a copy of the, then, Register and will be invited to consider it further at a later meeting.

4. Work Programme for 2015-16

The Committee agreed their work programme for the remainder of 2015-16 and, in particular:

The Chair referred to the need to work through the sequencing of trainings / presentations / review of policy / options for action around Responsible Investing

5. Information (Verbal) Report – Pension Board

The Committee's discussion was minuted as follows:

An officer circulated a synopsis of the meeting of the Pension Board held on 25 June 2015, as outlined at appendix A to these minutes [not attached].

The Chairman 'welcomed' the Board, including its functions, and reported that he would make contact with his counterpart at the Board. A discussion ensued on the remit of the Board, the sharing of confidential papers between the two bodies and attendance of Board members at meetings of the private sessions of the Pension Fund Committee.

In response to questions, an officer outlined the remit of the Board which was broadly to assist in the administration of the Pension Fund. A representative of Aon Hewitt, Council's Adviser, added that the role of the Board was to examine the decision making role of the Pension Fund Committee and that the Board provided a scrutinising role.

RESOLVED: That

(1) the Committee extends its 'welcome' to the Board and its scrutinising role of the Pension Fund Committee on how investment decisions were made;

(2) it be noted that the public sessions of the meetings of the Pension Fund Committee were open to all to attend;

(3) subject to the outcome of resolution (4) below, an invitation to attend private sessions of meetings of the Pension Fund Committee on an adhoc basis be extended to members of the Board;

(4) it be noted that a legal view would be sought in relation to the sharing of confidential papers/agendas between the two bodies.

6. Information Report – Presentation by Aviva Investors

The Committee received a presentation from representatives of Aviva Investors in respect of the property mandate they manage on the Fund's behalf.

7. Information Report – Presentation by Pantheon Ventures

The Committee received a presentation from representatives of Pantheon Ventures in respect of the private equity mandate they manage on the Fund's behalf.

Concerns were raised in respect of the performance of one of the sub-funds and the level of fees. Officers were instructed to investigate these matters further and to report back to the Committee.

8. Review of Bond Allocation

The Committee's discussion was minuted as follows:

The Committee received confidential reports of the Interim Director of Finance and Aon Hewitt, the Council's Adviser, in order to allow the Committee to reach a decision on the future of the Fund's Bond portfolio following a request by BlackRock Investment Management to adjust their mandate for bonds and index linked gilts.

The Committee discussed the alternatives available in relation to Absolute return Bond Strategies (ABS) and Liability Driven Investments (LDIs) and were mindful of the need to take a balanced and informed decision, including the need to explore tangible options for further protection. As a result, it was

RESOLVED: That

(1) tangible options to refine the Bond Portfolio to increase interest rate / inflation protection, including with the use of LDIs, be developed for discussion and decision at the next Committee meeting;

(2) detailed explanation of the implications of each option be provided by Aon Hewitt, Council's Adviser.

9. Review of Investment Adviser Contract

The Committee's discussion was minuted as follows:

The Committee received a confidential report of the Interim Director of Finance, which set out the background to the appointment of the Fund's Investment Adviser, Aon Hewitt Ltd, with a recommendation that their contract be extended for a further two years to 1 November 2017.

The Committee discussed the proposal, including the historical relationship with the company and expressed some concerns about the imminent departure of the company's key adviser to the Committee and the impact this might have on any future working relationship. In this regard, it was noted that the Chair of the Committee and the Interim Director of Finance would meet with the company to discuss and it was

RESOLVED: That

(1) in accordance with the current Agreement, the contract with Aon Hewitt Ltd, the Fund's Investment Adviser be extended for a further two years until 1 November 2017 and authority be delegated to the Section 151 officer to sign any documentation necessary to formalise the extension;

(2) responsibility be delegated to the Chair, Vice-Chair and the Interim Director of Finance to ensure that the successor to the current adviser met the requirements of the Committee

Subsequent to the meeting it was agreed with Aon Hewitt that Mr Colin Cartwright would become the Committee's lead adviser.

10. Information Report - Annual Review of Internal Controls at Fund Managers

Once a year the Committee are advised of the findings of each manager's independent audit of its internal control functions. Officers analyse these findings and advise the Committee of any adverse comments.

If considered serious enough matters are raised with the managers.

Of the three manager's reviewed at this meeting there no matters considered worthy of raising directly with them.

11. Information Report – Investment Manager Monitoring

At each meeting of the Committee they receive a report from their Investment Adviser AonHewitt on each of the fund managers, evaluating their performance and rating them according to:

- Business
- Staff
- Process
- Risk
- Operational Due Diligence
- Performance Analysis
- Terms and Conditions

For each manager they provide an overall rating as follows:

- Buy – clients invest with or maintain their existing allocation to these products
- Buy (Closed) - clients invest with or maintain their existing allocation to these products which are closed to new investors
- Qualified – a number of criteria have been met and investment managers are considered to be qualified to manage client assets
- Sell – termination of investments is recommended
- In Review – rating is under review as factors are evaluated which may cause a change to the current rating

All of the Harrow fund managers have been given either a "Buy" or "Qualified" rating.

12. Information Report – Performance of Fund Managers for Quarter Ended 31 March 2015 and Valuation at 31 May 2015

At each meeting the Committee consider the most recent performance and valuation available to them.

13. The Board are invited to consider this report and agree comments to be passed on to the Pension Fund Committee.

Financial Implications

14. Whilst this report discusses numerous matters relevant to the financial standing of the Pension Fund there are no financial implications arising directly from it.

Risk Management Implications

15. Apart from the risks raised by the Auditor in their report all risks are included within the Pension Fund Risk Register.

Equalities implications

16. There are no direct equalities implications arising from this report.

Council Priorities

17. The financial health of the Pension Fund directly affects the level of employer contribution which in turn affects the resources available for the Council's priorities

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 21 October 2015		
Name: Caroline Eccles	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 16 October 2015		

Ward Councillors notified:	Not applicable
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Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None