

PENSION FUND COMMITTEE

MINUTES

9 MARCH 2016

Chair:	* Councillor Adam Swersky	
Councillors:	* Keith Ferry	* Bharat Thakker
	* Norman Stevenson	
Co-optee (Non-voting):	Howard Bluston	John Royle Pamela Belgrave
Independent Advisers:	* Colin Robertson	* Richard Romain

[Note: Other Attendance: (1) John Royle attended in an observer role, as the representative of Harrow UNISON;

(2) Honorary Alderman Richard Romain and Colin Robertson attended as Independent Advisers to the Committee.

(3) Colin Cartwright and Gayathri Varatharajan of Aon Hewitt attended in an advisory role, as the Council's Investment Adviser.

(4) Richard Harbord, Chair of the Pension Board, attended the meeting as an observer. He participated in the meeting on specific items on the agenda and left the room for the confidential item 18.]

* Denotes Member present

114. Attendance by Reserve Members

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

115. Declarations of Interest

RESOLVED: To note that the following interests were declared:

All Agenda Items

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

Howard Bluston, a non-voting co-optee, declared a non-pecuniary interest in that he was Chair of Edward Harvist Charity, which was managed by BlackRock Investment Management. He added that he had regular dealings with Aon Hewitt, the Council's Investment Adviser, and that he had represented the Committee at the Local Authority Pension Fund Forum. He would remain in the room whilst the items were discussed and make contributions as a non-voting co-optee on the Committee.

116. Minutes

RESOLVED: That the minutes of the meeting held on 25 November 2015, be taken as read and signed as a correct record, subject to the deletion of the following sentence:

Minute 103, 'Options for Liability Driven Investment Strategy', the following last sentence of the penultimate paragraph in the preamble, be deleted: ' Mr Cartwright suggested that he would recommend a move of the 13% currently in Bonds into LDI with either BlackRock or another investment company. He had not yet considered the triggers for its unwinding.'

117. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

118. Information Report - Actuarial Valuation 2016

The Committee received a report of the Director of Finance advising Members of the statutory requirement for the triennial valuation of the Pension Fund during 2016, which included a presentation from Gemma Sefton, representing the Actuary, Hymans Robertson LLP, prior to and during the meeting.

The Committee noted the presentation and received the 2016 Valuation Timetable, circulated at the meeting, setting out the proposed timescales for reporting, valuation process, funding strategy and meetings.

Richard Harbord, Chair of the Pension Board, requested that reporting lines to the Board ought to be included in the Valuation Timetable and that its next meeting was scheduled to be held on 22 March 2016 where a presentation from Hyman Robertson would be welcomed.

Members noted that consultation on the Actuarial Valuation with employers, such as schools and academies, would commence in October 2016.

Colin Cartwright, Aon Hewitt, was of the view that the Valuation Timetable appeared to assume 'no change' and a further report ought to be presented to the June 2016 Committee. He recommended that the Valuation Timetable and Investment Strategy be considered in tandem.

Gemma Sefton, representing the Actuary, Hymans Robertson LLP, stated that reports on Actuarial Valuation would reference any liabilities and longer term objectives, much of which would be driven by scenarios.

Individual Committee members commented on the growth strategy, Liability Driven Investments (LDIs) and the volatility of returns. Colin Cartwright, Aon Hewitt, stated that the intention was to reduce uncertainty rather than reduce the return on the Investment Strategy and he undertook to discuss the matter further with Gemma Sefton, representing the Actuary, Hymans Robertson LLP.

RESOLVED: That the report and the presentation be noted.

119. Information Report - External Audit Plan 2015-16

The Committee received a report on the external Audit Plan for 2015-16, which had been presented by KPMG, the Council's external auditors, to the Governance, Audit, Risk Management and Standards Committee on 28 January 2016.

An officer referred the Committee to paragraph 3 of the report, which set out specific points made by the auditor, particularly in relation to 'Materiality of £7m' and 'Uncorrected Omissions of £300k'. He added that 'Uncorrected Omissions', if any, would be corrected. Additionally, the same approach would be taken in relation to the valuation by Pantheon Ventures with KPMG as had been the case with the previous external auditors, Deloitte LLP. In relation to the overall liability of the Pension Fund, IAS19 would be looked at in relation to the General Fund and as part of the Council's Accounts/Annual Statement of Accounts.

The officer responded to questions and acknowledged that there would be £21k recharge to the Pension Fund as part of the annual audit and agreed to amend the financial implications in the report accordingly. He confirmed that the Governance, Audit and Risk had debated the Plan but not in relation to the Pension Fund Account.

RESOLVED: That the report be noted.

120. Information Report - Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

The Committee received a report of the Director of Finance, setting out the Department for Communities and Local Government (DCLG) consultation document entitled “Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009’ and the Council’s response.

An officer referred to the critical response in relation to the infrastructure, to which a response was awaited.

RESOLVED: That the report be noted.

121. Information Report - Pooling Criteria and Guidance and London Pensions Collective Investment Vehicle

The Committee received a report of the Director of Finance, which set out the current position with regard to the development of Local Government Pension Scheme pooling arrangements and the setting up of a small group to assist officers in the development of proposals over the next three months. It was noted that the group currently comprised of Colin Robertson, Independent Adviser, and Colin Robertson, Aon Hewitt. The Chair stated that he would attend the last couple of meetings of the group. Other members of the Committee were welcome to attend and they should contact the Treasury and Pension Fund Manager in the first instance.

It was noted that the group would discuss how investment costs were handled and this would involve varying degrees of calculations. Members were informed that an organisation, CEM, had taken a high profile role in this regard and their report was available free of charge. It was also noted that the Council was working with the Collective Investment Vehicle (CIV) on this matter and that there were a number of conferences taking place on investments including ‘Infrastructure’ which the Council ought to keep abreast of.

The Committee was informed that the London CIV had gone ‘live’ and that, overtime, it would increase the funds available. Standard Life had made an offer to the London CIV in relation to their GARS product. Colin Cartwright, Aon Hewitt, provided details of the equity funds. Individual members of the Committee made the following comments:

- the London CIV needed to be included on the agenda at every meeting;
- funds for investing in the London CIV needed to be identified;
- the Committee needed to understand why it was investing in the London CIV.

The Committee noted that apart from the London Borough of Bromley, all London local authorities were members of the London CIV. The London Borough of Hillingdon had joined recently.

RESOLVED: That the report be noted.

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

The Committee received a report of the Director of Finance, which set out in summary the contents of the latest internal controls reports of each of the Fund Managers.

An officer introduced the report and informed the Committee that an analysis based on compliance with internal controls set by the Fund Managers had been carried out and the overall position had been summarised in the report, including the appendix. The Committee had the powers to dismiss Fund Managers if their internal controls were considered to be poor.

Colin Cartwright, Aon Hewitt, reported that all Fund Managers were monitored on a regular basis and that 'flash' reports would be issued if required. An officer reminded the Committee that any action required would be taken quickly, such as that when a Fund Manager had previously been replaced with a period of three months. Immediate reaction was considered to be counterproductive and a measured approach was always taken.

RESOLVED: That the report be noted.

123. Information Report - Environmental, Social and Governance Issues in Pension Fund Investment

An officer introduced the report, which set out the responses received from Fund Managers in relation to the Committee's consideration at their last meeting of the Environmental, Social and Governance Issues. The officer was of the view that the responses provided a basis for further engagement and discuss issues arising.

The Committee noted that both the GMO and Pantheon Venture had not signed up to the principles contained within the UK Stewardship Code. Members asked if their reasons were based on philosophical reasons and discussed the type of response that ought to be sent to the Fund Managers. They asked if there were any associated risks for the Pension Fund as governance and good management were of fundamental importance to the Committee as the custodian of the Pension Fund.

Members noted that the response from Standard Life was exemplary but expressed concern with the responses provided by Aviva and GMO. Moreover, GMO's response was considered to be weak and the Committee was of the view that immediate further engagement was required in relation to the Investment Principles.

It was also agreed that the Pension Board needed to discuss the Environmental, Social and Governance Issues in Pension Fund Investment.

RESOLVED: That

- (1) the report be noted;
- (2) the Director of Finance write to GMO in relation to the Investment Principles;
- (3) the Environmental, Social and Governance Issues in Pension Fund Investment be included on the agenda for the next Pension Board meeting.

124. Work Programme for 2016-17

The Committee received a report of the Director of Finance, which set out the draft Work Programme for 2016-17 seeking any additions from the Committee and its approval. Members discussed the proposed Work Programme and made some amendments.

RESOLVED: That the Work Programme for the period up to March 2017 be agreed, subject to the following amendments:

- 21 June 2016 – include the following: ‘Update on Valuation’, ‘ESG Issues and response from GMO’, and ‘Funding Strategy Statement’, the latter of which be included as part of the report on Valuation;
- a brief report on LDI be provided at each meeting of the Committee;
- 6 September 2016 – a training session on ‘Infrastructure’ be included at this meeting;
- ‘Meet the Managers’ – a date be arranged taking into account the availability of all Members and advisers to the Committee;
- 22 November 2016 – include the following: ‘Auditors Report’;
- regular updates on ESG be provided at each meeting, including how other Councils were addressing the issue;
- local investing – to include under Infrastructure session;
- to note that Oldfields may need to be invited to a future meeting.

125. Information Report - Performance of Fund Managers for Quarter Ended 31 December 2015 and Valuation at 31 January 2016

Members received a report of the Director of Finance setting out the performance of the investment managers and of the overall Fund for the

quarter, year and three years ending 31 December 2015 and the valuation at 31 January 2016.

The Committee noted that the 4.3% return on the Fund in the quarter to 31 December 2015 was below benchmark due mainly to underperformance within the equities mandates. The value of the Fund in January 2016 had dropped to £638 largely due to the performance of the equities mandates. An officer added that Members would only be alerted immediately to dramatic changes in the Fund. There was confidence that the stronger performance of markets in March 2016 would help the Fund's performance. It was noted that the returns/growth had helped improve the performance of the Fund in the previous year.

Colin Cartwright, Aon Hewitt, agreed to send an update in relation to the disappointing performance of the Oldfields equities mandate.

In relation to Oldfields, Individual members of the Committee made the following observations:

- if the Committee was minded to prejudge the losses, a commercial decision would be required thereafter;
- there was a need to take account of inputs and outputs;
- it might not be prudent to await the outcome of the report as prices might drop due to undercutting;
- the length of time taken to produce the report was of concern;
- a medium term view was required;
- the possibility of a move into the London CIV could be explored. A member maintained that he did not support the CIV which he considered would lead to a misdirection of the Fund.

RESOLVED: That the report be noted and that no action be taken until the report from Aon Hewitt was received.

126. Dates of Pension Fund Committee Meetings 2016/17

RESOLVED: To note the dates of the Pension Fund Committee Meetings for the Municipal Year 2016/17, as follows:

21 June 2016
6 September 2016
22 November 2016; and
7 March 2017.

127. Any Other Urgent Business

Options for Liability Driven Investments

An officer informed the Committee that a short report on funding levels requested at the last meeting had erroneously been omitted from the agenda and he apologised for this oversight. Members agreed to receive and consider an urgent oral report in order to ensure that the matter was considered at the earliest opportunity and they received a presentation and a tabled document titled 'Funding Update as at 31 December 2015 – London Borough of Harrow Fund' from Gemma Sefton, representing the Actuary, Hymans Robertson LLP, which illustrated the estimated development of the funding position from 31 March 2013 to 31 December 2015.

Gemma Sefton, representing the Actuary, Hymans Robertson LLP, highlighted the key aspects of the tabled document, as follows:

- the funding levels during the period March 2013 and December 2015 had remained broadly the same and the document showed how the deficit had changed;
- the market indicators for yields, page 2 of the document, showed that the discount rate had fallen. The liabilities had been grouped together. Colin Cartwright of Aon Hewitt undertook to provide a further brief report setting out the triggers and where these had been breached. Colin Robertson, Independent Adviser, was of the view that an electronic tracker would be helpful, particularly during dramatic events in the financial markets;
- changes in funding levels were set out on page 3 of the document and that these had been driven by the volatility in the financial markets. Colin Cartwright of Aon Hewitt reported that Liability Driven Investments (LDIs) could help the Pension Fund Committee manage its funds;
- pages 5 and 6 of the document showed what had caused the change in assets and funding levels.

The Committee discussed the impact of the UK leaving Europe in the forthcoming EU Referendum and the impact on sterling, equities, bonds and GDP (Gross Domestic Product). Colin Cartwright, Aon Hewitt, informed the Committee that a report setting out the possible impact was underway.

RESOLVED: That the presentation and report be noted.

128. Exclusion of 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 item for the reason set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
18.	Investment Manager Monitoring – Information Report	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

129. Information Report - Investment Manager Monitoring

Members considered a confidential paper which included Aon Hewitt's quarterly report on Harrow's investment managers with all managers being rated either "Buy" or "Qualified".

The Chair reported that confidential reports (Part II) before the Pension Fund Committee would be shared with the Pension Board on the basis that the Board could carry out its role effectively. However, reports which contained personal information of officers would be treated on a case by case basis where it may be possible to present a summary report or a redacted document.

RESOLVED: That the report be noted and that the fuller versions of the report be presented to the Committee in the future.

(Note: The meeting, having commenced at 6.54 pm, closed at 8.47 pm).

(Signed) COUNCILLOR ADAM SWERSKY
Chair