

## **REPORT FOR: Pension Board**

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**Date of Meeting:** 28 June 2016

**Subject:** Information Report - Pension Fund Committee Meeting 9 March 2016

**Responsible Officer:** Dawn Calvert, Director of Finance

**Exempt:** No

**Wards Affected:** All

**Enclosures:** None

### **Section 1 – Summary and Recommendation**

#### **Summary**

The report sets out the matters considered by the Pension Fund Committee at its meeting on 9 March 2016 and invites the Board to agree any comments it might wish to make to the Committee.

### **Section 2 – Report**

1. Matters considered by the Pension Fund Committee at its meeting on 9 March 2016 were as follows.

## 2. 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 to be conducted during 2016, which included a presentation from the Actuary, Hymans Robertson LLP. The Committee noted the presentation and received the valuation timetable.

On 22 March 2016 the Board received an almost identical report and, as requested by the Pension Board Chair, the same presentation from Hymans Robertson LLP. The Board Chair requested that the reporting lines to the Board be included in the timetable and a report to each meeting of the Board is now included.

Members noted that consultation on the valuation with employers such as schools and academies would commence in October 2016. Arrangements are now being made for this to start in September 2016.

It was agreed that, in consultation with the Actuary and as part of the valuation process, the Investment Adviser would provide a regular update on the Fund's current investment strategy including the expected return and risk profile.

## 3. 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.

## 4. 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's 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.

## 5. Pooling Criteria and Guidance and London Pensions Collective Investment Vehicle (CIV)

The Committee received a report of the Director of Finance, which set out the current position with regard to the development of the 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 Colin Robertson, Independent Adviser, and Colin Cartwright, 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 Benchmarking, had taken a high profile role in this regard and they were prepared to produce a customised report for each administering authority free of charge. It was also noted that the Council was working with the 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 CIV had gone “live” and that, over time, it would increase the funds available. Members of the Committee made the following comments:

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

## 6. 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. The Committee have the power to dismiss fund managers if their internal controls are considered to be poor.

The Investment Adviser 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 could be taken quickly but that immediate reaction could be counterproductive and a measured approach was always taken.

## 7. 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 Environmental, Social and Governance Issues. The officer was of the view that the responses provided a basis for further engagement to discuss issues arising.

The Committee noted that both the GMO and Pantheon Ventures had not signed up to the principles contained within the UK Stewardship Code. Members asked if this was 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.

It was resolved that:

- the Director of Finance write to GMO in relation to the Investment Principles;
- the Environmental, Social and Governance Issues in Pension Fund investment be included on the agenda for the next Pension Board meeting.

#### 8. 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 and, subject to some amendments, agreed it.

#### 9. Performance of Fund Managers for Quarter Ended 31 December 2015 and Valuation at 31 January 2016

The Committee received a report 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 £638m largely due to the performance of the equities mandates.

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

#### 10. Dates of Pension Fund Committee Meetings 2016/17

The dates of the Pension Fund Committee Meetings for the Municipal Year 2016/17 were noted as follows:

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

#### 11. 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 the Actuary, Hymans Robertson LLP, which illustrated the estimated development of the funding position from 31 March 2013 to 31 December 2015.

#### 12. 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 to allow it to 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

### **Financial Implications**

13. 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**

14. Relevant risks are included in the Pension Fund Risk Register.

### **Equalities implications**

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

## Council Priorities

16. 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  Director of Finance

Date: 14 June 2016

**Ward Councillors notified:** Not applicable

## Section 4 - Contact Details

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

**Background Papers - None**