

PENSION FUND COMMITTEE

MINUTES

22 NOVEMBER 2016

Chair:	* Councillor Nitin Parekh	
Councillors:	* Jo Dooley	* Bharat Thakker
	* Norman Stevenson	
Co-optee (Non-voting):	* Howard Bluston	
Trade Union Observers:	* John Royle	Pamela Belgrave
Independent Advisers:	* Mr C Robertson	Independent Adviser
	* Honorary Alderman R Romain	Independent Adviser
Others:	Mr C Cartwright/Mr J Peach	Council's Investment Advisers, Aon Hewitt
	Ms G Sefton	Council's Actuary, Hymans Robertson
	Mr B Menzies Wilson	Observer from KPMG, Council's External Auditor

* Denotes Member present

161. Attendance by Reserve Members

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

162. 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 he had clients who were past and present members of the Harrow Pension Scheme. His wife was a member of Harrow Council's Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

Howard Bluston, a non-voting co-optee on the Committee, declared a non-pecuniary interest in that he was Chair of Edward Harvist Charity, which was managed by BlackRock Investment Management. He also attended the PLSA North London Branch meetings held at the offices of Aon Hewitt, the Committee's Investment Adviser. He would remain in the room whilst the items were discussed and make contributions as a non-voting co-optee on the Committee.

163. Minutes

RESOLVED: That the minutes of the meeting held on 6 September 2016, be taken as read and signed as a correct record.

164. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

165. Information Report - Actuarial Valuation 2016

The Committee received a presentation from Gemma Sefton, the Actuary, Hymans Robertson LLP, setting out the progress on the triennial valuation to date and, in particular, on the funding strategy review.

Gemma Sefton referred to her presentation slides and made the following key points:

- Harrow Council was ahead of other Councils in the reporting of its triennial valuation. The results of the triennial valuation had a major impact on the management of the Pension Fund and the contributions from the General Fund. She alluded to the outcomes of the submission of the results to the Scheme Advisory Board and referred to the

Contribution Strategy Modelling which had been explained during the training session prior to the meeting. All scenarios would be considered;

- the employer consultation meetings had been well attended. Members of the Pension Board had also received presentations. Policy changes would be embedded in the draft Funding Strategy Statement which would be consulted upon. Thereafter, the proposed Funding Strategy together with the Valuation would be considered by the Committee at its March 2017 meeting;
- the statutory consultation process would continue and all representations received would be considered.

The Director of Finance responded to questions and advised that employer's contributions could not be used to finance non pension fund pressures such as redundancies on the basis that the government was the 'lender of the last resort'. There was a statutory duty upon the Council to ensure that the Pension Fund was properly funded. If the Council were to do so, the Pensions Regulator would be obliged to intervene.

An adviser asked if it was possible for the Council to issue a mini bond which could be purchased by the Pension Fund. He suggested that various mechanisms needed to be explored by the Pension Fund Committee by way of a report. The Director of Finance advised that this would increase the Council's borrowing which in turn would impact on the Revenue Account. She stressed that borrowing had to be prudent.

Gemma Sefton then made further points as follows:

- a risk based approach was being used to set the contributions. Colin Robertson, Independent Adviser, requested that the group be shown the assumptions underlying the modelling and this was agreed;
- approximately, there were 11,000 employers across the LGPS. All of those included in the Harrow Fund were being considered separately. Overall, flexibility was retained and all employers were tracked;
- in relation to the colleges, it was proposed that a risk-based approach was used in place of the current "stabilised" contribution rate approach;
- in relation to schools, consideration needed to be given to how academies, which were employers in their own right and not under local authority control, ought to be treated. Concern was expressed that academies were very risky. Gemma said that academies were immature with strong cashflows which mitigated the risks. It was proposed that academies were offered the contribution stability mechanism used for the Council;
- a communication would be issued to such schools on payment of individual rates, including a stabilised contribution. The DfE had not

issued any direction in this regard but held a 'watch list' on how Councils were treating academies and the Council had been included on the 'watch list'.

The Director of Finance confirmed that the DfE's intention was to ensure that the academies were being treated fairly compared to local authority schools.

Gemma Sefton explained that should the Council face a legal challenge, it would be costly. She further explained that whatever contribution was agreed with each academy, the overall deficit would need to be paid off eventually. In concluding her presentation, Gemma Sefton referred to the slide on 'Policy Reminder – employers planning for exit' and the need for open discussion with employers to reach suitable outcomes.

The Chair thanked Gemma Sefton for her presentation.

RESOLVED: That the presentation be received and noted.

166. Information Report - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

The Committee received a report of the Director of Finance on the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which came into effect on 1 November 2016.

An officer introduced the report and updated the Committee on the results of the consultation. He added that not much had altered from the consultation draft and drew attention to the need for an Investment Strategy Statement, the powers of the Secretary of State powers and the powers to invest in collective investment schemes.

The Committee was assured that appropriate risk parameters could be set. The Investment Strategy Statement needed to be in place in April and would be considered at the March 2017 meeting of the Committee.

RESOLVED: That the report be noted.

167. London Borough of Harrow Pension Fund: Annual Report and Financial Statements for the year ended 31 March 2016

Members received a report of the Director of Finance seeking their agreement to the Pension Fund Annual Report and Financial Statements for the year ending 31 March 2016.

An officer introduced the report and referred to the audit of the Pension Fund Accounts by KPMG, the Council's External Auditor, who had made relatively few comments to the Fund except in connection with the operation of the separate bank account. The officer said that, due to the issues with the commercial software package (SAP) used by the Council, it had not been possible to implement the recommendation from KPMG in its entirety. He pointed out that the Pension Board had recommended that every possible

effort be made to correct this anomaly. However, the Council was of the view that to make the changes necessary for the Pension Fund bank account to directly process all transactions would entail costs and uncertain risks which could not be justified currently.

Members queried the consequences of non-compliance and enquired about the cost associated with the change in software. The Director of Finance stated that the previous auditor had not raised this concern but assured Members that checks and balances were in place to ensure integrity of the system. Financial accounting records were also reconciled to help identify errors, irregularities and needed adjustments. They were not being dismissive of this issue and that KPMG had accepted the Council's response.

In response to additional questions, an officer stated that:

- employee/employer contributions would be paid into the Pension Fund bank account as early in the month as possible;
- the commentary in the "Fund Performance" section of the Annual report would be expanded to 2016-17;
- in the table listing employers, Jubilee Academy should be described as a "scheduled body" rather than a "transferee admission body";
- the Communications Policy Statement was currently being updated for submission to the next meeting of the Committee and would include an updated schedule of all employers.

RESOLVED: That the Annual Report and Financial Statements for the year ending 31 March 2016 be agreed.

168. Information Report - Local Government Pension Scheme Pooling Arrangements Update

The Committee received a report from the Director of Finance on the development of the pooling arrangements and the London Collective Investment Vehicle (CIV), the progress in global equity procurement and concerns over the revenue stream of the CIV. The Committee also received an additional paper, 'Global Equities Survey', which was not available at the time the agenda was printed and circulated as it was received on 20 November 2016. The additional paper required consideration on the basis that an immediate response was required.

An officer introduced the Global Equities Survey issued by the CIV, which was to be used to assess which global equity strategies they should seek to make available first. He outlined his draft submission and also the contributions already received, as follows:

- survey, paragraph 5 – to take the 6-9 months option as the desire was to switch into CIV fund sooner rather than later;
- survey, paragraph 6 – Investor Briefing by Manager be given a higher priority;
- survey, paragraph 2 – some interest should be expressed in "Core".

The officer referred to the CIV Business Plan and the expected shortfall in the revenue stream. It was likely that a substantial increase in the borough service fees could be requested from the Councils next year.

Colin Robertson, Independent Adviser, reported that at a meeting of Independent Advisers the same day, the following points had become evident:

- the London CIV was different to other pools. It was more of a “platform” offering a choice of managers to each LGPS whereas the other pools determined the managers in each asset class for all LGPS in the pool;
- since the departure of the former Chancellor of Exchequer, George Osborne MP, the government’s timetable appeared more relaxed.

RESOLVED: That the report be noted and the survey be amended to include the views expressed in the preamble to this minute.

169. Information Report - Statement of Investment Principles / Investment Strategy Statement

The Committee received a report of the Director of Finance, which advised members of the ‘Local Government Pension Scheme – Guidance on Preparing and Maintaining an Investment Strategy Statement’, including its implications.

An officer introduced the report and informed members that, under the Local Government Pension Scheme (Management of Funds) Regulations 2016, the Committee was required to produce an Investment Strategy Statement for the management of the Fund’s investments and to consult widely. He added that there was a great deal of interest in environmental, social and governance aspects and the CIV had indicated that it would be willing to assist with the principles that ought to be included in the Statement.

The Committee noted that:

- a draft Statement would be circulated to Members in December 2016 and consulted on widely thereafter prior to the final Statement being submitted to the Committee in March 2017;
- the advisers and Aon Hewitt would provide with Aon Hewitt providing strategic investment modelling;
- clarification relating to paragraph 7 (4) of the report would be provided to the Chair;
- the approach to pooling and the proportion of assets that would be invested through the pool, including the structure and governance arrangements and the mechanisms by which the authority could hold the pool to account, would be included, as suggested by Colin Robertson.

RESOLVED: That the report be noted.

170. Quarterly Trigger Monitoring Q3 2016

The Committee received a report from the Fund's investment advisers, Aon Hewitt, on Quarterly Trigger Monitoring in line with its function to administer all matters concerning the Council's Pension investments.

Colin Cartwright, Aon Hewitt, outlined the purpose of the report which was to provide an update on the status of three de-risking triggers which the Committee had agreed to monitor on a quarterly basis. The three triggers related to:

- Fund's funding level – while there was a material improvement over the quarter, the funding level was still lower than at 31 March 2016;
- Yield triggers based on the 20-year spot yield – this had risen sharply since the end of the quarter but remained lower than for much of 2016;
- Aon Hewitt's view of bond yields – it was expected that these would rise faster than indicated by the financial markets.

He did not recommend de-risking.

RESOLVED: That no de-risking actions be taken at this stage.

171. Pension Fund Committee - Update on Regular Items

The Committee received a report of the Director of Finance setting out the draft Work Programme, performance of Fund Managers over previous periods and the issues raised by the Pension Board. The Committee also received an updated appendix, 'Fund Valuation and Performance – 30 September and 31 October 2016', which was not available at the time the agenda was printed and circulated and which required consideration on the basis that the exposures to the different asset classes had moved considerably.

An officer introduced the report and made the following pertinent points prior to inviting comments from members:

- a matrix of training opportunities would be circulated separately;
- the decision relating to the employer's contribution would rest with the Section 151 Officer having considered the advice of the Committee and the Council's Actuary, Hymans Robertson. However, the position in relation to who takes the final decision was being sought from HB Public Law;
- for reasons of continuity, the Pension Board would be seeking additional members to serve on the Board. This would be subject to the agreement of full Council;
- that the Fund Valuation and Performance, 30 September and 31 October 2016, circulated with the supplemental agenda, was key.

Colin Robertson, adviser, stated that the performance of the Fund Managers against the benchmark set ought to have been included.

The Committee discussed how the proportion of the Fund held in equities should be brought back within the approved range. This included both the extent to which equities should be sold and what should be done with the sale proceeds. Some of the options which were considered were:

- hold enough cash to cover current hedging liabilities;
- hold cash greater than required to cover current hedging liabilities which would be available for further investment, potentially in property opportunities;
- invest in Diversified Growth Funds as the current holding was 2% below benchmark;
- transfer some sale proceeds to the currently underweight property mandate..

The Committee expressed differing views and, following further advice from Colin Cartwright, it was

RESOLVED: That

(1) the Work Programme for the period up to March 2017 be agreed;

(2) the holding of equities be reduced by £20m from the State Street holding and split £10m to cover hedging liabilities and £10m to be invested with the current property manager.

172. 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(s) for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
16/17/18.	Staff Transfer Arrangements/Investment Manager Monitoring/Pension Death Grant Payment	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

173. Staff Transfer Arrangements

The Committee received a confidential report, which set out the current position in respect of negotiations with two local authorities over the transfer of Pension Fund liabilities and assets arising from the transfer of staff, including possible settlements. The report also advised the Committee of the transfer to the Council of procurement staff from another local authority.

The Director of Finance referred to shortfalls and how these would be resolved subject to the advice of the Council's actuary, Hyman's Robertson. It was moved and seconded that any decision should include reference to paragraph 9 of the report.

RESOLVED: That the recommendation in the report be agreed, subject to the inclusion of paragraph 9 of the report in any agreement on the sums on the dates of cash transfers in respect of staff transfers.

174. Information Report - Investment Manager Monitoring

The Committee received a confidential report setting out Aon Hewitt's quarterly report on Harrow's investment managers. All Fund Managers were rated either "Buy" or "Qualified" or "Not Rated",, except Pantheon who, as a private equity manager was now rated by different criteria and had received a range of ratings.

Colin Cartwright, Aon Hewitt, introduced the report and alluded the volatility of the financial markets and the performance of the Fund Managers.

He explained that clarity on the policies of the USA President-elect was a key consideration to how the financial markets would react. Advisers to the Committee asked if it would be prudent to invest profits in property, particularly if the financial markets reacted adversely and created opportunities in the property market. It was suggested that a further report from Aon Hewitt in this regard was required prior to decisions being taken.

He outlined the performance of Fund Managers and it was suggested that the Committee ought to be given an opportunity to meet Standard Life either at the March 2017 meeting of the Committee or at 'Meet the Manager' session in September 2017.

RESOLVED: That the report be noted.

175. Pension Death Grant Payment

The Committee received a confidential report, which set out details of a request for a death grant payment.

The Chair alluded to the additional advice received from officers since the report was written and, following detailed discussion, upon the understanding that further discussions would take place between officers and the Chair/Opposition Member, it was

RESOLVED: That a decision on this matter be deferred to the next meeting of the Committee.

(Note: The meeting, having commenced at 6.31 pm, closed at 9.24 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair