

# PENSION FUND COMMITTEE

## MINUTES

### 7 MARCH 2017

<b>Chair:</b>	* Councillor Nitin Parekh		
<b>Councillors:</b>	* Jo Dooley	* Bharat Thakker	
	* Norman Stevenson		
<b>Co-optee (Non-voting):</b>	* Howard Bluston		
<b>Trade Union Observers:</b>	John Royle		Pamela Belgrave
<b>Independent Advisers:</b>	* Mr C Robertson	Independent Adviser	
	* Honorary Alderman R Romain	Independent Adviser	
<b>Others:</b>	* Dave Lyons	Council's Investment Adviser	Aon Hewitt
	* Joe Peach	Council's Investment Adviser	Aon Hewitt
	* Gemma Sefton	Council's Actuary	Hymans Robertson
	Laura Molloy	Council's Actuary	Hymans Robertson
	* Richard Harbord	Chair of Pension Board	

\* Denotes Member present

**176. Attendance by Reserve Members**

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

**177. Declarations of Interest**

**RESOLVED:** To note that the following interests were declared:

Agenda Item 20 - Independent Advisers and Co-optee

Councillors Nitin Parekh and Josephine Dooley declared non-pecuniary interests in that they were members of the Labour Party, the same as Howard Bluston, a co-optee of the Pension Fund Committee. They would remain in the room whilst the matter was considered and voted upon.

Prior to the consideration of this item, Howard Bluston, a non-voting co-optee, and Honorary Alderman Richard Romain and Colin Robertson, Independent Advisers, declared pecuniary interests in that their roles were referenced to in the report. They left the room during discussion and decision-making on this item.

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.

All Agenda Items except Item 20

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 added that he knew representatives of Standard Life who had given a presentation prior to the meeting through his association with an Independent Advisory Group. He would remain in the room whilst the items, except item 20, were discussed and make contributions as a non-voting co-optee on the Committee.

**178. Minutes**

**RESOLVED:** That the minutes of the meeting held on 22 November 2016, be taken as read and signed as a correct record.

**179. Public Questions. Petitions and Deputations**

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

## RESOLVED ITEMS

### 180. Information Report - Actuarial Valuation

The Director of Finance reported that this was the last of the triennial valuation reports which incorporated the professional opinion of the Council's Actuary, Hymans Robertson. The Director added that the intention was to achieve a 20-year funding strategy and the Council would be contributing an additional £1m each year over the next three years into the Pension Fund.

The Committee received a presentation from Gemma Sefton, the Actuary, Hymans Robertson LLP, on the Actuarial Valuation Report and the Council's employer's Valuation Results and Contribution Strategy. She referred to her presentation slides and drew attention to the Executive Summary in the Valuation report which set out the funding and contribution levels. She explained that some items remained outstanding, including corrections, and would be incorporated as part of the signing-off process of the London Borough of Harrow Pension Fund 2016 Actuarial Valuation Report.

Gemma Sefton responded to questions from the Committee, as follows:

- a majority of Councils were facing pressures within their Pension Schemes due to increases in costs which could not necessarily be offset by increasing the employer's contribution;
- various scenarios had been conducted in assessing the impact on the Fund due to an increase in rates in the past three years;
- the Council would make an extra contribution of £1m each year and she agreed that the wording in the report needed amending to help clarify the levels of contribution, including when these payments would be made. She explained that the first payment would be made in the financial year 2017/18 and that the cumulative effect of the increased contributions over the three year period would be £6m;
- in relation to the life expectancy, a statistical analysis on Harrow Council's membership was carried out and assumptions made. She agreed that the report needed to make this aspect clearer.

**RESOLVED:** That the presentation be received and noted and that it be also noted that corrections to the 2016 Actuarial Valuation Report would be made as set out in the preamble above.

### 181. Funding Strategy Statement

The Committee received a report of the Director of Finance seeking approval of the draft Funding Strategy Statement. It was noted that the Funding Strategy Statement was required under Regulation 58 of the Local Government Pension Scheme Regulations 2013 and that it set out how the Administering Authority (the Council) carried out its responsibilities in respect of:

- affordability of employer contributions;
- transparency of processes;
- stability of employer's contributions;
- prudence in the funding basis.

An officer reported that in drafting the Funding Strategy Statement, advice had been received from the Council's Actuary, Hymans Robertson. He added and that the reference to 'dependents' rather than 'heirs', as suggested by the Chair, was used due to the requirements of the Regulations.

Gemma Sefton, Hymans Robertson, responded to a question from Colin Robertson, Independent Adviser, on the set of assumptions used, which also involved the use of sophisticated modelling. A prudent target was intended at all times. Colin Robertson was of the view that correlation was critical and that asset classes could be added even though they did not provide high returns as they were considered to be less risky. Richard Romain, Independent Adviser, suggested that paragraph 4.5 be amended and it was

**RESOLVED:** That the draft Funding Strategy Statement be approved, subject to paragraph 4.5 being amend to read:

**Does the Fund monitor its overall funding position?**

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the Pension Fund Committee meeting by exception.

**182. Investment Strategy Statement**

The Committee received a report of the Director of Finance seeking approval of the draft Investment Strategy Statement required under the Local Government Scheme (Management of Funds) Regulations 2016.

Members were invited to make comments in relation to the Investment Strategy Statement and it was noted that Colin Robertson, Independent Adviser, had made suggestions in that paragraphs 7.13 and 7.14 be deleted. An officer added that the Pension Board had made the following comments which would be passed to Aon Hewitt, Council's Investment Adviser, in their upcoming strategy work:

- the investment strategy is expected to secure the recent gains for the Fund;
- ensure that expected gains and rewards were commensurate with the risks taken;
- re-balancing strategy;
- the Fund's approach to investment in infrastructure.

The Committee agreed that the table at paragraph 7.11 be amended by officers should any technical issues be identified. An officer informed the Committee that he was reviewing the performance targets of Pantheon's investments and would inform the Committee of his assessment in due course.

Dave Lyons, Aon Hewitt, referred to paragraph 7.14 of the report which set out the volatility/variability in the value of assets and liabilities and suggested their consideration in terms of both absolute capital loss and also the volatility of assets versus the Fund's liabilities. He explained that during crises in the financial markets, and under the actuarial valuation approach utilised, it was possible that assets could decrease in value whilst liabilities could increase in value. This flight to quality and the resulting fall in government bond yields would potentially increase the funding shortfall in the Fund. Paragraph 7.13 was less intuitive and changes in the value of the Fund's overseas investments would also be affected if sterling weakened or strengthened relative to the other major global currencies. In order to protect against this it is possible to passively currency hedge overseas investment exposure which would largely remove the currency element in the overseas investment and reduce this risk. He added that expected returns would also reduce due to the intricacies of the currency hedging market and that rolling the currency hedging program would be a better option. Colin Robertson noted that the Fund has a partial currency hedging program in place and Dave Lyons observed that this will have somewhat held back the investment performance of the overseas investments given the recent fall in sterling relative to the other major global currencies, but that this situation could be expected to reverse if and when sterling strengthened.

In response to questions, Dave Lyons stated that the level of currency hedging employed currently was appropriate and that it would be difficult to pre-empt how currency markets would react to international events moving forward. A reference to asset/liability modelling would be included in the Investment Strategy Statement following the investment strategy review to be submitted to the June 2017 meeting of the Committee.

Richard Romain, Independent Adviser, suggested that an Executive Summary would be helpful and it was

**RESOLVED:** That the draft Investment Strategy Statement be approved, subject to:

- (1) the inclusion of an Executive Summary;
- (2) the table at paragraph 7.11 being amended by officers should any technical issues be identified;
- (3) paragraphs 7.13 and 7.14 being deleted.

### 183. Local Government Pension Scheme Pooling Arrangements

The Committee received a report of the Director of Finance on the development of the pooling arrangements and the London CIV (Collective Investment vehicle) seeking approval of a payment to the CIV in 2017-18 of £100,000 to cover the service charge of £25,000 and the development funding charge of £75,000.

An officer introduced the report and referred to the view of the Minister for Local Government that progress envisaged by the CIV “will be unacceptably slow”. He outlined Harrow’s strategy as set out in paragraphs 8 and 9 of the report and referred to a communication from the London CIV (Collective Investment Vehicle) regarding the launch of the Longview mandate in June 2017 which would be the subject of a report to the Committee in June 2017 prior to any response being sent to the CIV. The officer added that further advice from Aon Hewitt, the Council’s Investment Adviser, would be sought in relation to the further transitions of the equities mandates. He advised that approval of the payment to the London CIV of £100k rather than the £25k expected was due to the inability of the CIV to earn the expected fees from the letting of the passive mandates.

Richard Romain, Independent Adviser, stated that he was not a supporter of the CIV which was expected to deliver savings but costings had gone up instead. An officer informed the Committee that the London CIV had negotiated a reduction in fees with Legal & General and he expected the savings to be realised by its members.

Dave Lyons, Aon Hewitt, referred to the long standing debate as to how to get life funds onto the CIV platform. He explained that the structure of life funds was such that the drawbacks to transferring them to alternative structures were so considerable that the government had agreed that they be exempt from full transition to the CIV.

Colin Robertson, Independent Adviser, also expressed concern about the London CIV due to its slow progress and suggested that it would be appropriate for the Chair of the Committee to communicate the Committee’s disappointment to the London CIV. Howard Bluston, co-optee, referred to the structural issues within the London CIV.

**RESOLVED:** That

- (1) the developments outlined in the report be noted and that the payment of £100,000 to the London CIV in 2017-18 as the Fund’s contribution to the running costs of the CIV be agreed;
- (2) the Chair write to the London CIV expressing the Pension Fund Committee’s disappointment with the progress made.

#### **184. Communications Policy Statement**

The Committee received a report of the Director of Finance seeking approval of the draft revised Communications Policy Statement, as required under provision 61 of the Local Government Pension Scheme Regulations 2013.

An officer referred to the Policy Statements that had been redrafted and that the list of the employers who are members of the Fund had been updated. He added that the Pension Board, at their meeting that afternoon, had discussed this report in detail and had suggested the need to improve the Pension Fund website and for contact details of member of the Board to be included.

**RESOLVED:** That the Communications Policy Statement be approved.

#### **185. Governance Compliance Statement**

The Committee received a report of the Director of Finance seeking approval of the draft revised Governance Compliance Statement, as required under provision 55 of the Local Government Pension Scheme Regulations 2013.

An officer outlined the content of the report and that the Pension Board, at their meeting that afternoon, had made reference to the good working relationship between the Committee and the Board.

**RESOLVED:** That the revised Governance Compliance Statement be approved.

#### **186. Policy for Reporting Breaches of the Law**

The Committee received a report of the Director of Finance seeking approval of the draft Policy for Reporting Breaches of the Law.

An officer introduced the report and responded to questions. He informed the Committee that officers dealt with the issue of compliance with the law with appropriate diligence. He referred to the "Pension Regulator's Code of Practice No. 14" and the Council's self-assessment of its compliance with it.

**RESOLVED:** That the Policy for Reporting Breaches of the Law be approved and that the Council's self-assessment of its compliance with the "Pension Regulator's Code of Practice No. 14" be circulated to the Committee.

#### **187. Information Report - Performance Measurement Services**

The Committee received a report of the Director of Finance setting out the latest position in respect of the performance measurement services provided by Pension and Investment Consultants Limited.

An officer introduced the report and informed the Committee that 456 LGPS funds had signed up to the service. Currently, all that had been received from the company had been three general quarterly reports. He acknowledged that the reports provided were basic and this was reflected in the charge

levied. He added that efforts had been made to persuade the company to provide customised reports.

Members were informed that Pension and Investment Consultants Limited had queried the data provided by the Council and that officers were in the process of responding to the queries.

The Independent Advisers were of the view that the reports provided by Pension and Investment Consultants Limited were devoid of meaningful information but that the service provided should be continued with in the interim. The officer referred to the contract with the company which stipulated the service to be provided, as follows:

- participation in the Local Authority Universe – fund and portfolio data reviewed, standardised and incorporated in the aggregate;
- provision of quarterly and annual Universe results and analysis;
- provision of annual league tables and analysis;
- provision of Universe research.

**RESOLVED:** That the report be noted.

#### **188. Pension Fund Committee - Update on Regular Items**

The Committee received a report of the Director of Finance updating members on:

- the draft work programme on which the Committee's comments and agreement were requested;
- performance of fund managers for previous periods;
- issues raised by the Pension Board.

An officer introduced the report and informed the Committee that a 'Review of the Actuarial and Investment Adviser Contracts' would be added to the work programme for both June and September 2017. He added that a suitable date needed to be identified for a 'Meet the Managers' half day and he would contact members of the Committee in this regard.

Members were informed of the improved performance of the Pension Fund and that the figures were based on the difference in value between respective dates. The officer undertook to include benchmark information in the next report.



**RESOLVED:** That the Work Programme for the period up to March 2018 be agreed, subject to the following additions:

- a 'Review of Contracts' in June and September 2017
- a session on 'Meet the Manager' on a date to be identified.

#### **189. Quarterly Trigger Monitoring Q4 2016**

The Committee considered 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 in accordance with law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

Dave Lyons, 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 and which related to:

- Fund's funding level
- Yield triggers based on the 20 year spot yield
- Aon Hewitt's view of bond yields.

Aon Hewitt did not recommend de-risking actions at the current time. In response to a question on the implications of de-risking, Dave Lyons, Aon Hewitt, explained that this would entail a switch from more risky assets to bonds but that this was not necessarily a straight forward process. The criteria were subjective and further discussions would be required. A comprehensive report exploring the implications of de-risking would be submitted as part of the Investment Strategy review to the next meeting. Howard Bluston, co-optee, commented that such a report may be too late in the context of the post-Trump euphoria.

Some members of the Committee remarked that the Council's existing decision-making structures did not allow for decisions to be made quickly which matters such as diversifying would require. The Chair stated that meetings of the Pension Fund Committee could be called at short notice, particularly if there was a requirement to make urgent decisions.

The Independent Advisers referred to the equity allocation and the increase in value of the mandates beyond their strategic allocation. It was therefore essential that mechanisms were in place to allow decisions, for example on re-balancing, to be taken at short notice so that proposals/instructions were actioned.

The Chair invited their suggestions and referred to a previous such suggestion in relation to property investments which would be reported to the next meeting.

The Independent Advisers referred in particular to the Oldfields allocation which, at the end of February 2017, appeared to be 3% above its strategic allocation.

Members of the Committee discussed the suggestions for re-balancing put forward and commented on the need to take a structured view. They explored the benefits of the suggestions and were advised by Aon Hewitt that any re-setting of risk in certain elements of the overall fund was entirely proper and it would be reasonable to retain cash which would make it easier for the Committee to move the money into another fund such as property, should it take such a view at its June 2017 meeting. The Committee considered if adhoc decision-making was appropriate in this instance and upon further advice that, in light of their previous concerns over Oldfields, it would be prudent to hold cash, it was

**RESOLVED:** (unanimously) That

- (1) Oldfields' global equity allocation be reduced by approximately 2% to their strategic asset allocation and that the sum realised be held in cash;
- (2) Aon Hewitt be requested to submit a report setting out proposals on how the cash could be re-invested both in the short term and strategically.

**190. Information Report - External Audit Plan 2016-17**

The Committee considered a report of the Director of Finance, which set out the external audit plan for 2016-17 as presented by KPMG to the Council's Governance, Audit, Risk Management and Standards Committee on 31 January 2017.

**RESOLVED:** That the report be noted.

**191. Information Report - Annual Review of Internal Controls at Investment Managers**

The Committee received a report of the Director of Finance, which summarised the contents of the latest internal controls reports for eight of the Fund's ten investment managers.

An officer introduced the report and made the following minor amendment:

Section 2, page 303 of the agenda, paragraphs relating to Insight Investment and Longview Partners LLP - to amend the year from 2016 to 2017;

The officer added that he considered that the data included in the table titled 'Number of controls tested by each manager and the number of exceptions reported' on page 328 of the agenda was not a major cause for concern that required reporting to the Committee. He responded to questions and confirmed that he was satisfied with the exception report for Standard Life which indicated that there were 11 exceptions noted out of 326 control objectives tested.

**RESOLVED:** That the report be noted.

## **192. Information Report - Actuarial and Benefits Services Consultancy and Pension Fund Investment Consultancy - contracts**

The Committee received a report of the Director of Finance advising the Committee of the current position of the Council's current contracts in respect of actuarial and investment consultancy services.

An officer introduced the report and informed the Committee that the duration of the Framework Contract was six years and that it would terminate in April 2017. As a result, officers would be extending the contract for a period of five months and report back to the June 2017 meeting of the Committee with a view to a decision on the contract being requested at its September 2017 meeting.

**RESOLVED:** That the report be noted.

## **193. Independent Advisers and Co-optee**

The Committee received a report of the Director of Finance, which proposed the extension of contracts of the Committee's two independent advisers and that the appointment of a co-optee to the Committee not be continued.

In introducing the report, the Director of Finance stated that the Committee had two established independent advisers and she was recommending that their contracts be renewed. The Committee also received 'professional' advice from the investment adviser, Aon Hewitt, and, as the Committee was well-served for advice, the need for further advice from a co-optee was no longer as great.

The Director of Finance advised that, in order to ensure consistency of advice over the next couple of years, it seemed an appropriate time to review the position of a co-optee to the Committee on the basis that there was a limit to the number of 'advisory' viewpoints which the Committee could be expected to consider.

In response to questions from Members, the Director advised that:

- the allowance for a co-optee, as agreed by full Council, was set at £445 per annum for all co-optees to Committees;
- the current co-optee had requested additional remuneration and had stated that he represented the Council at conferences and other similar events, a role which ought to be performed only by Councillors and officers;
- co-optees on other Council Committees did not receive any additional remuneration and any additional payment to the co-optee on the Committee would be a cost to the Pension Fund, which she considered to be inappropriate.

Members discussed the merits or otherwise of having a co-optee, including the strengths the role brought. Several of them commented that they appreciated the advice and viewpoints provided by the co-optee. They referred to the request made by the co-optee for additional remuneration and asked if this could be negotiated. Members were reminded that the Council's Members' Allowance Scheme, which had been approved by full Council, precluded this. Members discussed issues of the management and role of co-optees and requested further information prior to reaching a decision and it was

**RESOLVED:** That

- (1) in accordance with their current contracts, Honorary Alderman Richard Romain and Mr Colin Robertson be offered an extension of their contracts as independent advisers to the Committee by two years up to 28 July 2019;
- (2) the consideration of the cessation of a co-optee to the Committee be deferred to the next meeting following the receipt of a report outlining the exact role.

#### **194. 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 items for the reason set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
23/24.	Pension Death Grant Payment/ 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)).

#### **195. Pension Death Grant Payment**

The Committee received a confidential report of the Director of Finance, which set out a request from the deceased's parents on the arrangements for the payment of a death grant.

The Chair reported that this case had been deferred from the last meeting to allow further discussion to take place. He added that it would be useful if Members were kept abreast of the progress on this case.

**RESOLVED:** That recommendations 1-3 set out in the report be approved and Members be informed of the progress made.

## **196. 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, other than Pantheon, had been rated as either "Buy" or "Qualified". The Pantheon private equity funds had been rated by different criteria and had received a range of ratings.

Dave Lyons, Aon Hewitt, introduced the report and informed the Committee that, essentially, there had been no change in the overall ratings and that the only change was in relation to the component ratings for the managers. In response to a question, he commented that the Fund's fees of 28bps for bonds mandate was not considered high as it was being actively managed.

**RESOLVED:** That the report be noted.

(Note: The meeting, having commenced at 6.00 pm, closed at 9.15 pm).

(Signed) COUNCILLOR NITIN PAREKH  
Chair