PENSION FUND COMMITTEE (SPECIAL)

MINUTES

10 MAY 2017

Chair:	* Councillor Nitin Parekh		
Councillors:	* Jo Dooley * Norman Stevenson	* Bharat Thakker	
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	

* Denotes Member present
† Denotes apologies received

197. Attendance by Reserve Members

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

198. Declarations of Interest

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.

199. Deputations

RESOLVED: To note that no deputations were received at this meeting.

RESOLVED ITEMS

200. Local Government Pension Scheme Pooling Arrangements - Proposed Transition of Longview Partners' Mandate

The Committee received a report of the Director of Finance concerning an agreement reached between the London CIV and Longview Partners to make available within the CIV, a sub-fund managed by Longview Partners on the lines of the current mandate awarded to them by the Harrow Fund. The Treasury and Pensions Manager explained the implications of the proposed fees as set out in paragraphs 8 and 9 of the supplemental report; it was estimated that the saving to the Fund would amount to about £200,000 pa. He also outlined the proposed transitional arrangements whereby Russell Investments would provide transition management services at nil cost.

John Royle reiterated concerns expressed by union members about the performance of the Harrow Fund against benchmarks and against the average performance of local government pensions funds; he suggested that recent performance was so poor that there was even a case to invest the funds as cash deposits. Richard Romain, Independent Adviser, explained that there was a duty on those managing the Fund to seek to cover the pension liabilities into the future and this could only be achieved by active investment strategies. He underlined that performance over any short-term period did not undermine the strong case over the long-term for market investment.

Colin Cartwright, Adviser (AON Investments) added that the risk was, in any event, borne by the employers. If the greater returns from active investment were not achieved, then there would be increased pressure on public service budgets through the need to increase employer contributions. In 2015-16, there had been a fall in the markets, but this type of investment was more productive over the long-term period particularly relevant to pension funds. Fund members were paying fixed percentage contributions for defined and guaranteed benefits.

Colin Cartwright explained that the transition project relating to the Harrow Fund's investment in the SICAV carried certain risks and it therefore needed to be managed appropriately. Russells were offering to waive the usual fee for this specialist service because they were keen to win business among LGPS employers and funds.

The Committee debated the tax element of the costs of this transition which would apply. Colin Cartwright advised that this would be due to the change of ownership involved and the reregistration of the relevant stocks. Mr

Romain questioned whether there would, in fact, be a change of legal ownership; he considered that the appropriate test would be whether the “primary beneficial ownership” would alter and he doubted that this would be the case since the local authority employers would remain the *beneficial* owners. Colin Cartwright suggested that the staff at CIV and Longview would have investigated, and taken advice on, this issue in any event. It was agreed that officers should seek clarification of this from Russells and inform Committee members of the outcome.

Colin Cartwright reported that if it was intended to maintain the currency hedge after the transfer to the CIV, then it would be necessary to amend the mandate with Record. This would be addressed in the strategy review to be reported to the Committee on 28 June 2017; it was agreed that the question of the beneficial ownership and tax implications would also be covered.

A Member asked about the Fund’s exposure in terms of currency fluctuations during a period between the transfer of the mandate and the re-establishment of the currency hedge. The Treasury and Pensions Manager advised that any new policy could be implemented within a matter of two or three days. Colin Cartwright added that preparatory work would be undertaken to ensure changes could be expedited. He would explain by email to Committee members how the percentage movements across currencies might impact on the Fund. The Member asked that a risk assessment of this be carried out and Richard Romain suggested that the CIV be asked to produce their risk register.

Richard Romain, Independent Adviser, cautioned the Committee to make a careful judgement of the risks and benefits of the proposals before them in the report. In particular, he sought clarification of the likely costs involved in the currency hedging element of the work. The Committee briefly adjourned between 7.05 pm and 7.08 pm so that officers could check records. When the Committee reconvened at 7.08 pm, the Treasury and Pensions Manager advised that the hedging costs charged for the Record mandate in the previous year had totalled £28,000 at a rate of 0.03%. Richard Romain said that he would therefore recommend that the Committee should agree to maintain contemporaneously the same proportion of currency hedge as at present, namely 50%. Colin Cartwright concurred with this recommendation.

A Member asked about any additional risks to the Fund from political factors such as Brexit. Colin Cartwright advised that until the framework of any agreement with the EU on the terms of the UK’s departure from the union became clearer, it was likely that markets would fluctuate. In terms of currency movements, the Fund could choose to continue the hedging arrangement.

The Chair reported that Howard Bluston, Coopted Member, who had been unable to attend this meeting, had emailed him with his views on the proposals in the report. Mr Bluston had been supportive of the recommendations, agreeing with the proposed appointment of Russells to manage the transition.

The Chair asked whether the saving identified in the report would still accrue to the Fund should other boroughs, particularly Wandsworth and Westminster, decide not to proceed. Colin Cartwright considered their withdrawal was very unlikely given that they had been prime movers in setting up the new CIV arrangements.

RESOLVED: That

(1) the Fund's current mandate with Longview Partners be transferred to the sub-fund of the London CIV in accordance with the fees and other arrangements as agreed between Longview and the CIV;

(2) the Fund enter into a one-off transition management agreement with Russell Investments to carry out the transition at nil cost; and

(3) the same proportion of currency hedge as at present, namely 50%, be maintained contemporaneously.

(Note: The meeting, having commenced at 6.30 pm, closed at 7.17 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair