

PENSION FUND COMMITTEE

MINUTES

28 JUNE 2017

Chair:	* Councillor Nitin Parekh	
Councillors:	* Kairul Kareema Marikar	* Bharat Thakker
	* Norman Stevenson	
Trade Union Observers:	John Royle	Pamela Belgrave
Independent Advisers:	* Mr C Robertson	Independent Adviser
	* Honorary Alderman R Romain	Independent Adviser
Others:	* Colin Cartwright	Aon Hewitt
	* Joe Peach	Aon Hewitt
	* Howard Bluston	

* Denotes [Member] present

201. Welcome

The Chair welcomed Councillor Kairul Kareema Marikar to her first meeting of the Pension Fund Committee.

202. Attendance by Reserve Members

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

203. Howard Bluston

RESOLVED: That it be noted that in light of the report at agenda item 16 – Role of Co-optee - Howard Bluston, a former co-optee on the Committee, be invited to participate in the meeting.

204. 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.

All Agenda Items except Items 16- 23

Howard Bluston, a former non-voting co-optee on the Committee, who was invited by the Committee to participate in the meeting, 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 annual workshop. At the time of the consideration of agenda item 14 – Performance Measurement Services – he declared that he had connections with Pension and Investment Research Consultants Limited (PIRC).

He would remain in the room whilst all items, with the exception of items 16-23, were discussed and make contributions.

205. Appointment of Vice-Chair

RESOLVED: That Councillor Bharat Thakker be appointed as Vice-Chair of the Pension Fund Committee for the Municipal Year 2017/18.

206. Minutes

RESOLVED: That

- (1) subject to the following amendments, the minutes of the ordinary meeting held on 7 March 2017, be taken as read and signed as a correct record;

Minute 180 - paragraph 3 bullet point 2

Delete “due to an increase in rates” and insert “of interest rate levels”

Minute 181 - paragraph beginning “Gemma Sefton”

Delete “A prudent target.....less risky” and insert:

“Prudent assumptions were considered appropriate for the valuation whereas, for funding purposes, best estimates were seen as more

relevant. Colin Robertson was of the view that correlations were critical and he pointed out that asset classes could be added even though they did not provide high returns as they improved the risk profile of the Fund as a whole.”

Minute 182 - paragraph beginning “Dave Lyons”

Delete “7.14” and insert “7.12”

Delete “He added that expected.....better option”

Minute 187

Delete “456” and insert “56”

Delete “devoid of meaningful information” and insert “inadequate as the performance analysis was only of asset allocation and manager selection was ignored”

Minute 189

Delete paragraph “The Independent Advisers allocation” and insert “The Independent Advisers referred to the 5-6% overweighting in equities and suggested that an adjustment to the overweight position with Oldfields could be an appropriate way of re-balancing the Fund”

Minute 196

Delete “In response.....actively managed”

- (2) the minutes of the special meeting held on 10 May 2017, be taken as read and signed as a correct record.

207. Public Questions. Petitions and Deputations

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

RECOMMENDED ITEMS

208. Role of Co-optee

The Committee received a report of the Director of Finance regarding the role of the non-voting co-optee to the Committee.

The Director of Finance introduced the report and drew attention to paragraphs 10 and 11 of the report which set out the need for the role of the non-voting co-optee to operate within the rules of the Council’s Constitution. She emphasised that attendance at other external meetings and function relevant to the Pension Fund Committee would be subject to officer approval.

The Chair provided some background to the report and Members asked questions on the cost of the training attended. The Director of Finance explained that the appropriateness of the training and conferences required careful consideration as it would be a cost to the Pension Fund. She explained that this statement only applied to external training and not that provided in-house. Representation by the co-optee at external training and conferences was also subject to officer approval.

Resolved to RECOMMEND: (to Council)

That the role of, and the working arrangements applying to, the non-voting co-optee(s) to the Committee, as described in paragraphs 10 and 11 of the report be agreed and that Howard Bluston be appointed as a non-voting co-optee on the Committee for the Municipal Year 2017/18.

RESOLVED ITEMS

209. Information report - Local Government Pension Scheme Pooling Arrangements

The Committee received a report of the Director of Finance on the development of the pooling arrangements and on progress in the Global Equities sub-funds procurement.

Colin Robertson, Independent Adviser, was of the view that the skill within the CIV for choosing Fund Managers was questionable and, in any case, more justification for the choice of manager needed to be provided. He added that some fund managers selected by the CIV were unsure as to how to attract individual authorities on board. He was also concerned that the timescale for the CIV to offer an infrastructure fund might be beyond what the government would find acceptable, as well as potentially missing out on opportunities.

Colin Cartwright, Aon Hewitt, stated that he was uncertain as to the CIV's approach to the appointment of fixed-income managers and was seeking to engage with them.

The Committee noted that the incoming Treasury and Pensions Funds Manager had expressed a desire to join the Investment Advisory Committee of the CIV which would assist the Committee.

Richard Romain, Independent Adviser, re-iterated that he was not supportive of the CIV and the manner in which it operated. He suggested that the Committee should take a stance requiring each Fund Manager to visit it on an annual basis in order to ensure accountability which rested with the Committee rather than the CIV. In response, the Chair stated that he would raise this important point at his meetings with the CIV and also informed that partisan briefing meetings were held before the CIV Joint Committee meetings. Colin Robertson, Independent Adviser, pointed out that the Fund's contract was with the CIV, not with individual managers, and that for some asset classes there might be only one manager on offer. Another Member was of the view that it was important for the Treasury and Pension Fund Manager to attend meetings of the CIV. It was important that the Committee was in a position to influence and be able to terminate contracts with fund managers whose performance was not satisfactory.

RESOLVED: That the report be noted.

210. Investment Strategy Review

The Committee received a report of Aon Hewitt, Council's Investment Adviser, which set out a future investment strategy for the Fund. The Pension Fund Committee was under a duty to administer all matters concerning the Council's Pension investments and to establish a strategy for the pension investment portfolio.

An officer introduced the report and read out a comment sent by Gemma Sefton, Hyman's Robertson, Council's Actuary, as follows:

"In terms of the impact on the probabilities of achieving the funding plan this is slightly more complex as while the median outcome will fall given the lower expected returns the variation around this will reduce, but simply the funnel won't go up as steeply but the width of the funnel should be narrower. In aggregate our view would be that the extent of the change should not have a materially negative impact on the success probabilities and therefore the funding plans already in place. However, as you are aware, the analysis at the point of the valuation was on the margins of providing a successful outcome in 2 out of 3 occasions and without running the analysis I can't quantify the impact of the change with certainty. However, should you wish us to re-run the analysis we would be happy to do so."

Colin Cartwright, Aon Hewitt, referred to their recommendations set out in the report which had addressed the allocation of equities, investment in infrastructure and property.

Colin Robertson, Independent Adviser, was of the view that the target allocations shown should be the strategic targets with the infrastructure target being a positive figure and the property figure increased while the DGF target should be lower. He acknowledged that in the shorter term the allocations should be as currently indicated. In response, Colin Cartwright, Aon Hewitt, agreed that the longer term strategic targets should be shown, stating that due to the need for an annual review of the ISS, both a short term and a longer term view was required.

Richard Romain, Independent Adviser, was of the view that whilst the goals were to be commended, the reality was that the Committee processes were not conducive to making quick/short term decisions. Colin Cartwright, Aon Hewitt, commented that he would come back to the Committee with some thoughts as to how they could best make the necessary short term decisions.

Richard Romain, Independent Adviser, suggested that reference to 'some' be amended to 'all' in the fifth line up of the final paragraph, page 48 referred, and that the reduction in private equity ought to be spread over a number of years. It was explained that the reduction in private equity would be through the sale of underlying investments and the consequent return of the proceeds of the Fund which would take a number of years.

A Member referred to the need to include the training requirements on page 51 of the agenda.

RESOLVED: That the revised Investment Strategy be agreed subject to the changes set out above.

211. Property Investment Strategy

Colin Cartwright, Aon Hewitt, Council's Investment Adviser, introduced the report on Property Allocation Options in line with the function to administer all matters concerning the Council's Pension investments.

An officer referred to the training session on 'Property Investment' scheduled for 18 September 2017 but suggested that a separate session during the day may also be possible and he would look into this. He also referred to the 'Interview Session' in August and 'Meet the Managers' session in October 2017. The Committee agreed that the dates and times be finalised by the officer due to the availability issues of members of the Committee.

Colin Robertson, Independent Adviser, raised the previously discussed issue of the other large holders of the Aviva fund and the problems should they decide to sell. Colin Cartwright, Aon Hewitt, stated that he had met with Aviva and had discussed the issue of monitoring with their representatives.

RESOLVED: That the distribution of the property allocation included in the Fund's Investment Strategy as set out in paragraphs 3 and 4 of the report be agreed.

212. Information Report - London Borough of Harrow Pension Fund: Draft Annual Report and Financial Statements for the Year Ended 31 March 2017

The Committee received a report of the Director of Finance, which set out the draft Pension Fund Annual Report and Financial Statements for the year ended 31 March 2017 for comment.

An officer introduced the report and highlighted the concern over the level of performance monitoring currently available to the Fund. However, he was of the view that the Performance of the Harrow Fund, in comparison with the Peer Group, had improved considerably and was good for all time periods. He added that an improved performance report would be submitted to the September 2017 meeting of the Committee.

The officer outlined that, in terms of the maturity of the Fund, contributions into and payments out of the Fund were very similar and the Fund was showing an increase in the number of pensioners whilst the number of active members had remained stable.

At the suggestion of the Chair, the Director of Finance agreed to include a suitable paragraph to explain that over the next three years the Council would be putting an additional £6m into the Fund to assist in reducing the deficit.

Richard Romain, Independent Adviser, suggested the following amendments:

- paragraph 9 of the report ought to be amended in the future to reflect the reality;

- page 87, final paragraph, first line, to delete “benchmarks” and insert “objectives”;
- page 91, first bullet point, to delete “multi assets” and insert ‘diversified growth funds’;
- page 91, last line – at the end of the sentence, to add “who had raised issues of concern”.

He enquired how the assumption that 50% of future retirees would elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 had been arrived at, as indicated on page 121 of the agenda. An officer indicated that he would discuss this with the Actuary and provide clarification.

RESOLVED: That the report be noted, subject to the amendments set out in the preamble above.

213. Actuarial and Benefits Services Consultancy Contract

The Committee received a report of the Director of Finance, which set out the current position on the procurement of Actuarial and Benefits Services Consultancy Services from 1 October 2017 and recommended a suitable strategy.

An officer introduced the report and highlighted the following key points:

- that an effective and efficient way to let a new contract was via ‘framework’ arrangements currently administered by Norfolk County Council;
- the services could be procured from four companies;
- contributions on the specification ‘Invitation to Further Competition’ from members of the Committee would be welcomed, pages 140-143 of the agenda referred, to allow officers to make any amendments;
- the range of overall weightings for each criteria were set out in the specification and comments were invited.

The officer suggested a date for interviewing the four companies but would contact members with a view to finalising the date. He agreed to check the legal and procurement implications associated with the process.

Richard Romain, Independent Adviser, questioned the requirement of this exercise and asked if the relevant contracts could be extended as the quality of the service provided was, in his opinion, good. In response, both officers and Members were of the view that the Committee could not be complacent and the process was necessary to ensure value for money and to allow the new Members of the Committee to examine/critique the firms.

RESOLVED: That the procurement process for Actuarial and Benefits Services Consultancy Services from 1 October 2017 as described in paragraph 7 of the report be agreed and that comments on the attached “Invitation to Further Competition” be sent to officers to finalise the specification.

214. Information Report - Investment Consultancy Services Contracts

The Committee received a report of the Director of Finance, which set out the current position on the procurement of Investment Consultancy Services from 1 January 2018.

An officer introduced the report and stated that a “framework” system of letting new contracts was more efficient and that it would be available from the autumn. An extension of the current contract with Aon Hewitt would run until the end of December 2017.

RESOLVED: That the report be noted.

215. Performance Measurement Services

The Committee received a report of the Director of Finance, which set out the latest position on the performance measurement services being provided by Pension and Investment Research Consultants Limited. The report also sought approval to purchase additional services.

An officer introduced the report and explained that the recommendation, if agreed, would provide Pension and Investment Research Consultants Limited with an opportunity to provide the Council with a bespoke service and for the Committee to take a view on the relevance of this information in the next 12 months.

Colin Robertson, Independent Adviser, expressed disappointment with the information received from Pension and Investment Research Consultants Limited to date and wanted to be clear as to what information would be provided under the bespoke service going forward. He offered to assist in the preparation of the specification for additional services which the Committee welcomed.

RESOLVED: That, subject to clarification, Pension and Investment Research Consultants Limited be contracted to provide bespoke performance measurement services as those described in paragraph 3 of the report at an annual fee, subject to inflation uplifts, of £8,500 and a one-off charge of £4,000.

216. Pension Fund Committee - Update on Regular Items

The Committee received a report of the Director of Finance, which set out the draft Work Programme, performance of Fund Managers for previous periods and any issues raised by the Pension Board.

An officer introduced the report and drew attention to the proposed Work Programme and referred to an incorrect insertion of word “street” in the penultimate line of page 169 of the agenda.

The Chair suggested inclusion of a training session and it was

RESOLVED: That the Work Programme for the period up to March 2018 be agreed, subject to the inclusion of an additional training session on ‘Types of Investments in the Pension Fund’ to be carried out by Aon Hewitt.

217. Quarterly Trigger Monitoring Q1 2017

The Committee received a report from Aon Hewitt, Council’s Investment Adviser, on Quarterly Trigger Monitoring.

An officer assured the Committee that their previous comments on assets and liabilities had been taken on board resulting in this report which provided guidance on the catalysts that would trigger a move to an LDI Strategy.

Colin Cartwright, Aon Hewitt, explained that the purpose of the report was to provide an update on the status of three de-risking triggers which the Committee had agreed to monitor, including the funding levels when compared with the level at the last actuarial valuation as at March 2016. He referred to the interest rate exposure and that Aon Hewitt was of the view that rates would rise faster than the market was indicating and that the market was overstating breakeven inflation expectations.

RESOLVED: That no de-risking actions be taken at this stage whilst the Fund’s Investment Strategy was under review.

218. Local Pension Board Survey

The Committee received a report of the Director of Finance inviting comments on the suggested responses in regard to a survey being conducted by the Local Government Association (LGA).

An officer introduced the report and referred to the completed questionnaire. He invited comments from the Committee before the end of July 2017 to allow a comprehensive response to be sent to the LGA.

The Committee agreed that, in the future, officers would send out surveys to all members for a response but that these would be collated anonymously. Responses would not be attributed to any individual on the Committee. It was noted that whilst the last Pension Board meeting was inquorate, the start time of 2.00 pm was one that was agreed by the Board.

RESOLVED: That

- (1) the report be noted and the Committee provide comments to officers on the LGA survey;
- (2) in the future, surveys be sent to all members of the Committee and responses be collated anonymously.

219. Information Report - Pension Fund Risk Register

The Committee received a report setting out the revised risk register for the Pension Fund. An officer introduced the report and referred to the Pension Fund Risk Register table on page 201 of the agenda. He particularly referred to three risks - 24, 25 and 26 – and explained why these had been placed in the high likelihood ‘red’ zone section. He acknowledged that these risk areas implied that they required immediate attention and responded to a Member’s question on mitigation.

The Committee noted that the cost of mitigation was high and acknowledged that the details set out on page 203 of the agenda to control the risks were reasonable. The Committee agreed that the risks be moved from the “high” likelihood of occurrence to the “significant” likelihood.

Colin Cartwright, Aon Hewitt, referred to the review – trigger monitoring - carried out and at the suggestion of an adviser, it was

RESOLVED: That

- (1) the report be noted and that high risks 24, 25 and 26 be moved to the significant likelihood section;
- (2) Aon Hewitt submit a report on options available to the Fund in the event of a significant fall in markets and the experience of other Funds in approaching this issue.

220. Information Report - Annual Review of Internal Controls at Longview Partners

The Committee received a report of the Director of Finance, which set out the contents of the latest internal controls report from Longview Partners LLP.

RESOLVED: That the report be noted.

221. Ian Talbot, Treasury and Pension Fund Manager

The Committee noted that Ian Talbot would be leaving the service of Harrow Council. On behalf of the Committee, the Chair wished Ian well for the future.

The Committee noted that Iain Millar would be replacing Ian Talbot as Treasury and Pension Fund Manager.

222. Exclusion of the Press 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 reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
23.	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)).

223. Information Report - Investment Manager Monitoring

The Committee received a confidential report, which set out Aon Hewitt's, Council's Investment Adviser, quarterly report on Harrow's investment managers. All managers who had received a rating other than Pantheon – whose private equity funds had been rated by different criteria and had received a range of ratings - had been given either "Buy" or "Qualified" ratings.

Colin Cartwright, Aon Hewitt, introduced the report and informed the Committee that the performance of Insight had improved significantly and that he had met with the manager in August 2016 following concerns. Since then, their performance had been good. He added that the performance of Standard Life had been steady.

In response to a question from Colin Robertson, Independent Adviser, about the absence of a rating for Blackrock, Colin Cartwright, Aon Hewitt, stated that a quantity only rating was carried out instead of a fundamental rating and assured the Committee of Blackrock's competence. He agreed to consider how Aon Hewitt could report in the future to better meet the Council's needs. In relation to another question, he undertook to confirm that reference to an annual turnover of 200-300% on page 241 of the agenda titled 'Firm and Strategy Summary' was correct.

RESOLVED: That

- (1) the report be noted;
- (2) assessment for Blackrock be provided in future reports;
- (3) clarification on the reference to an annual turnover of 200-300% be provided to the Committee.

(Note: The meeting, having commenced at 6.33 pm, closed at 8.16 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair