

PENSION FUND COMMITTEE

MINUTES

18 SEPTEMBER 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	(duration of the meeting except Minute 239)
	* Richard Harbord	Chair of Pension Board	(Part I business only)
	* Howard Bluston		(Part I business only)

* Denotes Member present

224. Howard Bluston

RESOLVED: That Howard Bluston, a former co-optee on the Committee, be invited to participate in the Part I (Non-Exempt business) session of the meeting.

225. Attendance by Reserve Members

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

226. Declarations of Interest

RESOLVED: To note that the following interests were declared:

All Agenda Items

Councillor Norman Stevenson, a Member of 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.

Agenda Item 15 – Investment Strategy Review

During consideration of this item, Councillor Bharat Thakker, a Member of the Committee, declared an interest due to a personal investment made in Aberdeen Standard Life GARS product and stated that there was no conflict in relation to his participation in this item. He would remain in the room whilst the matter report was considered and voted upon.

Colin Robertson, Independent Adviser, and Colin Cartwright, Aon Hewitt, declared that they had personal investments in GARS. They would remain in the room whilst the matter was considered.

227. Minutes

RESOLVED: That the minutes of the meeting held on 28 June 2017 be taken as read and signed as a correct record.

228. Public Questions, Petitions and Deputations

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

RECOMMENDATION

229. Implementation of the Markets in Financial Instruments Directive (MiFID II)

The Committee received a report of the Director of Finance, which outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") and the risk to the administering authority of becoming a retail client on 3 January 2018. The report sought authority that elections for professional client status be made without delay.

The title of the report circulated with the Pension Fund Committee agenda was amended to read 'Implementation of the Markets in Financial Instruments Directive (MiFID II)'.

An officer introduced the report and reported as follows:

- that the process had been guided by the Local Government Association (LGA) and the London Collective Investment Vehicle (LCIV);
- there was a requirement to complete the process, supported by evidence, by 3 January 2018. Administrative support may be required but would be dependant on the details of any questions raised by Fund Managers and others from whom professional investor status was to be sought. The Committee was mindful that there may be costs associated with the process;
- the risks and the protections available were set out in the report.

Colin Cartwright, Aon Hewitt – Council’s Investment Adviser, outlined the implications of not opting up and pointed out that a three month period would be required to complete the applications, including any iterations. Members were of the view that the forms should reflect them as a ‘collective’ in order to avoid the need to notify changes in memberships.

Members of the Committee discussed a suggestion that the decision of the Committee ought to be ratified by Council. They noted that a separate report on ‘Treasury Management Compliance with the second Markets in Financial Instruments Directive (MiFiD II)’ would be submitted to both Cabinet and Council for decision. The Committee, whilst acknowledging that the recommendations in the report fell within the remit of the Committee, considered it prudent if these were ratified by the Council and, accordingly, it was

Resolved to RECOMMEND: (to Council)

That

- (1) the immediate commencement of applications for elected professional client status with all relevant institutions be agreed in order to ensure it could continue to implement an effective investment strategy;
- (2) the Director of Finance be delegated responsibility for completing the applications and determining the basis of the application as either full or single service.

RESOLVED: That

- (1) the potential impact on investment strategy of becoming a retail client with effect from 3 January 2018 be noted;
- (2) the Director of Finance amend paragraph 20, ‘Financial Implications’, of the report to reflect that there may be minor financial implications arising from the report;
- (3) that guidance notes on the opt-up process be circulated to all members of the Pension Fund Committee.

[Note: Resolution (2) above of the Pension Fund Committee actioned in that the Financial Implications have been amended to read: There may be on-going administrative costs depending on the scale of requests for further information from Fund Manager compliance departments. Any additional costs will be charged to the Pension Fund.]

RESOLVED ITEMS

230. Performance Measurement Services

The Committee received a report of the Director of Finance, which set out the performance measurement services being provided by Pension and Investment Consultants Limited (PIRC).

The Chair welcomed David Cullinan, Pension and Investment Consultants Limited (PIRC), to the Committee. The Committee noted that the contract was to provide:

- 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.

The Committee had also requested that PIRC be contracted to provide additional important bespoke services for the Harrow Fund and agreed that the Committee would review the format of the performance reports produced.

In his presentation to the Committee, David Cullinan, PIRC, tabled the appendix 'Harrow Performance Fund – Performance Review to June 2017' to the report of the Director of Finance which was not available at the time the agenda was circulated. The Committee considered the appendix to allow a decision to be taken on the format of the reports required. David Cullinan reported on the various slides set out in the tabled appendix and pointed out the following:

- in 2016/17, the Fund outperformed its benchmark by 1.5% and this was partially due to the overweighting of equities and partially due to the performance of Oldfields;
- reports would be provided quarterly and would detail the contributions from asset allocation and Fund Manager selection. Longer term performance, over a period of three years, would be considered, including how global equities had performed;

- PIRC would want to quantify the impact of currency hedging and how asset allocation performance was achieved together with volatility and risks taken.

David Cullinan, PIRC, responded to questions on the definition of risk and outlined the information that would be required from the Council in order to produce timely reports. An officer undertook to report back on any resulting pressures of this requirement. David Cullinan undertook to provide reports which would include the following: variance, volatility around the benchmark, executive summary. He agreed to liaise with the Director of Finance and her office in this regard.

Colin Robertson, Independent Adviser, suggested that the report ought to provide detail of the contribution to asset allocation performance by asset class and explore global equities performance. Richard Romain, Independent Adviser, suggested that the Committee ought to consider annual reports from the PIRC whilst quarterly reports could be circulated separately.

Colin Cartwright, Aon Hewitt, stressed the need to include issues such as net/gross of fees and disclaimers in any reports that would be published.

RESOLVED: That

- (1) the report from the Pension and Investment Consultants Limited (PIRC) be noted;
- (2) the format and presentation of future reports include details set out in the preamble above;
- (3) the reports from the PIRC be considered on an annual basis and that quarterly reports be circulated separately to members of the Committee and the Pension Board and discussed when appropriate.

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

The Committee received a report of the Director of Finance on the development of the pooling arrangements.

An officer introduced the report and drew attention to the letter from the Minister for Local Government setting out its expectations and a progress review in relation to the Local Government Pension Scheme (LGPS) Investment Pooling. The officer informed the Committee that he would be serving on one of the bodies of the Collective Investment Vehicle (CIV) and would feed back on the discussions. He undertook to clarify the powers available to the Minister which had been alluded to in the letter at paragraph 2.

The Chair reported on the concerns expressed by the authorities represented on the London CIV in relation to the letter from the Minister for Local Government and that they had agreed to send a collective response.

Colin Cartwright, Aon Hewitt, reported on the need to commence discussions on the actions required in relation to the Fund's Diversified Growth Funds (DGFs) and report back at future meetings of the Committee.

RESOLVED: That the report be noted.

232. Information Report - Quarterly Trigger Monitoring

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

An Independent Advisor noted that the Fund's funding level was 79.2%, an improvement on the previous year and stated that the direction of travel was good. The Chair noted that the liabilities had gone down slightly over the quarter to 30 June.

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

233. Information Report - Annual Review of Internal Controls at Insight Investments

The Committee received a report of the Director of Finance, which set out the latest internal controls reports from Insight Investments, reviewed by KPMG.

RESOLVED: That the report be noted.

234. 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 Independent Adviser stated that the Pension Risk Register ought to be included in the Work Programme and that it could be considered on a 'by exception' basis.

The Committee discussed which Fund Managers and how many they wished to meet at the 'Meet the Managers' session on 11 October 2017. Following further discussion, the Committee agreed to meet five Managers subject to the consideration of the 'Investment Strategy Review' report setting out the investments in Diversified Growth Funds (DGFs). (Agenda Item 15, Minute 237 refers.)

RESOLVED: That, subject to the comments set out in the preamble above, the Work Programme for the period up to March 2018 be agreed.

235. Urgent Business

Pensions CIV Sectorial Joint Committee – Variation of Permissions

A report from the London CIV (Collective Investment Vehicle) was tabled at the meeting for information only. The report had not been available for

circulation with the agenda due to the proximity of meetings of the CIV and Pension Fund Committee. The Chair considered it important to avail all members of the Committee to be aware of the decision of the Pension VIC Sectoral Joint Committee which had agreed the recommendation in the report.

The Committee was informed that the Chair had had authority to vote on behalf of the Committee on this matter.

236. Exclusion of the 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 reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
15 / 16 / 17 / 18	Investment Strategy Review / Information Report - Investment Manager Monitoring / Information Report – Medium Term Cashflow / Actuarial Contract Appointment	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

237. Investment Strategy Review

The Committee received a confidential report from Aon Hewitt, Council's Investment Adviser, which set out a future investment strategy for the Pension Fund.

Colin Cartwright, Aon Hewitt, introduced the report and outlined the salient points in his report. He advised that the Committee needed to take a decision on whether or not to invest in Diversified Growth Funds (DGF) with the London Collective Investment Vehicle (CIV) and explained the following types of DGF in which the investments could be made: Capital Preservation Manager, Growth Orientated Manager and Absolute Return Manager. He made a minor correction on the investment styles of the four DGFs currently available on the London CIV.

Colin Robertson, Independent Adviser, expressed disappointment that the CIV did not have any 'Absolute Return Managers' and suggested that the CIV be lobbied to ensure such availability. He commented on the suitability of the DGFs available and suggested that, as a result, the Committee may wish to delay the decision, potentially investing in due course in absolute return products not classified as DGFs. Richard Romain, Independent Adviser, did not support 'Absolute Return Strategies' but he too suggested delaying the decision until monthly bar charts of CIV's DGFs were available, including the equity drivers. He suggested that all four Managers on the London CIV be invited to the session on 'Meet the Managers' in October 2017 prior to taking a decision. There was a differing view from Colin Robertson as two of the four Managers were rated as 'qualified' by Aon Hewitt and this provided an

opportunity for 'others' to be invited to the session. The Committee would then be required to take a decision at its November 2017 meeting but that it needed to be mindful of the costs involved.

An officer referred to the letter from the Minister for Local Government (agenda item 8 and Minute No. 231 refers) and the requirements set out therein. The Director of Finance advised on the need to avoid conflict and the possible implications of any conflict. A Member was of the view that the intention to diversify was being frustrated and that the main driver was performance and the liquidity of the Pension Fund.

The Committee discussed various alternatives including retaining the proceeds of equity sales in cash, delaying the sale of equities until the CIV DGF managers had been interviewed and investing in the existing DGFs.

It was agreed to meet the following Managers: Insight, Standard Life (GARS), Ruffer, Newton and Oldfield.

Colin Robertson, Independent Adviser, stated that the driver was to reduce equities and it might be prudent to take a decision on this matter sooner rather than later. Following further discussion and having considered alternatives, the Committee

RESOLVED: That

- (1) the equity allocation be brought down to benchmark, including reducing the investment in passive equities;
- (2) the allocation to Standard Life (GARS) and Insight be increased equally from the proceeds of the equity sales;
- (3) a decision on the potential for using DGF Investment managers available through the CIV be made at the next meeting of the Committee following the 'Meet the Managers' session on 11 October 2017;
- (4) a 'road map' to the CIV was essential and that Equity Managers be subject to a further discussion at the November 2017 meeting of the Committee.

238. 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, drew attention to the absence of a rating given to BlackRock fixed income funds, which was due to the lack of data provided.

He said that if a rating had been awarded then it would probably have been “Qualified”.

RESOLVED: That the report be noted.

239. Information Report - Medium Term Cashflow

No report was submitted under this heading and it was noted that a report would be presented to a future meeting of the Committee.

240. Actuarial Contract Appointment

The Committee received a confidential report titled ‘Actuarial and Benefits Services Consultancy Contract’ which was tabled at the meeting. The report sought approval to enter into a contract with the preferred bidder to provide actuarial services to the Council’s Pension Fund.

The report was not available at the time the agenda was circulated in light of the fact that the appointment interviews were held on 11 September 2017 and an appointment needed to be made before the current contract expired on 30 September 2017. The Committee agreed to consider the report to allow an appointment to be progressed for Actuarial and Benefits Services Consultancy Services.

An officer introduced the report and referred to the rankings given by members of the Committee to the four companies who had made submissions in response to the ‘Invitation for Further Competition’ process. The Committee agreed that the preferred bidder, Bidder C - Hymans Robertson LLP, be appointed to deliver the contract for actuarial services on the basis that it provided the most economically advantageous offer based on the evaluated combined scores for quality, service fit and price.

An Independent Adviser stated that it was essential that Hymans Robertson retained flexibility in particular in relation to the “gilts +” basis they employed, otherwise the deficit could appear larger than if it were calculated on the basis used by many other authorities. The Director of Finance agreed with the sentiments expressed but thought that Hyman Robertson would be flexible and informed the Committee that the appointment would be subject to necessary approval from the Council’s Procurement Service.

RESOLVED: That the contract for Actuarial and Benefits Services Consultancy Services be awarded to the preferred bidder, Hymans Robertson LLP, from 1 October 2017 for a term of six years at an estimated cost of £600,000 over the life of the contract.

(Note: The meeting, having commenced at 6.35 pm, closed at 8.41 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair