

PENSION FUND COMMITTEE

MINUTES

7 MARCH 2018

Chair:	* Councillor Nitin Parekh		
Councillors:	* Kairul Kareema Marikar	* 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	
In attendance:	* Colin Cartwright	Aon Hewitt	
	* Joe Peach	Aon Hewitt	
	* Richard Harbord	Chair of the Pension Board	(Part I business only)

* Denotes Member present

257. Attendance by Reserve Members

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

258. Declarations of Interest

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.

Howard Bluston, Co-opted Member, declared a non-pecuniary interest in that he was Chair of Edward Harvist Charity, which was managed by BlackRock Investment Management. He declared that he had connections with Pension and Investment Research Consultants Limited (PIRC) and with various Fund Managers. During consideration of agenda item 10 – Transfer of Harrow College to LB Hillingdon Pension Fund – Howard Bluston declared that he was the Director of Chamber of Commerce. He would remain in the room whilst all items were discussed and make contributions.

Colin Robertson, Independent Adviser, declared that he and his mother had personal investments in GARS. Colin Cartwright, Aon Hewitt, declared that his wife had personal investments in GARS. They would remain in the room whilst all matters were considered and make contributions.

259. Minutes

RESOLVED: That the minutes of the meeting held on 21 November 2017 be taken as read and signed as a correct record, subject to the following amendments:

Minute 246 – Pension Fund Committee – Update on Regular Items

Second paragraph be amended to read as follows with the corrections highlighted in bold text replacing original wording:

An officer introduced the report and updated the Committee as follows:

- further investments in Longview had been closed as it had reached the limits set;
- **The London CIV [deleted – Moreover, Longview]** had made changes in its personnel. The Committee considered if meetings with the new personnel, albeit in their interim positions, was necessary;
- the future **direction** of the CIV (Collective Investment Vehicle) was uncertain. It was suggested that a report from the CIV ought to be requested for presentation to the Committee by **[deleted – its senior personnel or]** a member of their Board;

- the issues raised by the Pension Board related to the 'Annual Report and Financial Statements for the year ended 31 March 2017' and would be discussed later.

The Chair stated that the London CIV, of which he was a member, was scheduled to meet in December 2017 and he would report back on the discussions held. The officer referred to the officer working group on the CIV of which he was a member and agreed that it would be **helpful** for CIV to report back.

Minute 247 – Performance Measurement Services

The penultimate paragraph to be amended to read as follows with the corrections highlighted in bold text replacing original wording:

Colin Robertson, Independent Adviser, was of the view that the report of the PIRC was disappointing [**deleted - and that it was unstructured**]. He requested that the benchmarks referred to in PIRC's report be checked, that no information had been provided on Local Authority Universe, including the requirements identified at the last meeting of the Committee. Colin Robertson added that the report ought to have provided detail of the contribution to asset allocation performance by asset class and explored global equities performance

Minute 248 – Quarterly Trigger Monitoring Q3 2017

The penultimate paragraph to be amended to read as follows with the corrections highlighted in bold text replacing original wording:

Richard Romain, Independent Adviser, referred to the sensitivity of Liability Driven Investments (LDIs), which may change and asked to be notified of the extent of the trigger that would require a decision on de-risking. Colin Cartwright, Aon Hewitt, undertook to discuss this aspect with the Council's Fund Manager, BlackRock Investment Management and report back. He suggested that a briefing session on LDIs, identifying such matters as risks and advantages, would be helpful. Colin Robertson, Independent Adviser, related his experience [**deleted - that heavy trading would be required before a trigger would become necessary**] **that considerable training was required before LDI was implemented.**

Minute 252 – Currency Hedging Regulatory Implications of European Market Infrastructure Regulations (EMIR)

Second paragraph and resolution (2) to be amended to read as follows with the corrections highlighted in bold text replacing original wording:

Colin Cartwright, Aon Hewitt, advised on the benefits of moving away from seven counterparties to two and that it would offer diversification benefits **compared to [delete - that would help offset]** moving to just one counterparty. This course of action would increase the costs by £20,000 per annum **compared to the current situation.** He also favoured the re-introduction of equitisation, which would enhance returns [**delete - through the exposure to equity markets**]. **However, as this would increase**

exposure to equities, consideration would need to be given to reducing the exposure to passive equities.

Richard Romain, Independent Adviser, suggested having more than two counterparties which would increase the operating costs but these could be offset. The Committee noted that whilst operating costs would increase, the mechanism was designed to reduce risks.

Having moved and seconded, it was

RESOLVED: That, having considered the reports from Record and Aon Hewitt,

- (1) a move from seven to three counterparties to limit the cost of complying with the new EMIR regulations be agreed;
- (2) the equitisation programme be re-introduced to enhance returns [~~delete~~ - through the exposure to equity market] **with consideration needing to be given to reducing the exposure to passive equities as otherwise the exposure to equities would increase.**

Minute 253 – Information Report – Investment Manager Performance Monitoring for period ending 30 September 2017

Second paragraph, penultimate line, replace 'period of six months' with '**period of eight to twelve months**'.

Third paragraph, insert '**rated**' at the end of the sentence.

260. Public Question, Petitions and Deputations

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

RESOLVED ITEMS

261. 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 updated the Committee as follows:

- the report contained performance of Fund Managers for the period ending 31 December 2017 to 31 January 2018, and the transition of funds in relation to the fund rebalancing exercise previously requested by the Committee had been completed in December 2017. The value of the Fund had increased and the market value as at 31 January 2018 was £881m;

- the Pension Board had requested a follow-up on the monthly transfer of funds from the Council's bank account to the Pensions account and that a full breakdown of this would be provided.

The officer responded to questions and undertook to include information on the investment in the London CIV (Collective Investment Vehicle) in future reports by including a separate table. He reported that currently it was worth 9% of the Fund. In response to a question from the Chair on the cash holdings worth 3% of the Fund, the officer stated that the cash in excess of that was required as collateral for the currency hedging program would be used to fund the Harrow College bulk transfer to the London Borough of Hillingdon Pension Fund (see also Minute 264) and would be the subject of a report to a future meeting of the Committee.

Members were informed that training would be provided by the Director of Finance and Aon Hewitt to Members following the local elections in May 2018. Both Richard Romain, Independent Adviser and Howard Bluston, Co-opted Member, offered their assistance in training new Members to the Pension Fund Committee. The officer undertook to provide a training log in respect of the training provided prior to the Pension Fund Committee meetings and that provided by his service to Members of the Committee.

RESOLVED: That the Work Programme for the period up to March 2018, as set out in the report, be agreed and that officers ensure that future reports include information on the investments in the London Collective Investment Vehicle.

(See also Minute 262 and 264)

262. Information Report - Quarterly Trigger Monitoring Q4 2017

The Committee considered a report from Aon Hewitt, Council's Investment Adviser, on Quarterly Trigger Monitoring. Members were advised that the Fund's funding level was 82% and that no de-risking actions were recommended.

Questions relating to the bond and fixed interest markets were responded to. A Member noted that the reports from Aon Hewitt were provided on a quarterly basis and questioned how a sudden significant issue would be addressed given the timescale of the report. It was noted that Members would be contacted and that the issue of liabilities would need to be addressed by Hymans Robertson, Council's Actuary.

Members discussed the need for additional training on LDI (Liability Driven Investment), particularly for new Members to the Committee. It was important that all Members understood the concept of LDI and that this training was delivered following the local elections in May 2018. Howard Bluston, Co-opted Member, undertook to circulate a guide on LDI that he had recently obtained.

RESOLVED: That the report be noted and that the training on Liability Driven Investment be provided to all Members of the Committee in June 2018.

263. Information Report - Performance Measurement Services

The Committee received a report of the Director of Finance, which set out the performance measurement analysis for Q4 2017 being provided by Pension and Investment Research Consultants Limited (PIRC).

Colin Robertson, Independent Adviser, stated that he was disappointed with the report from PIRC due to the lack of comparisons with the universe of LGPS. He noted that the contribution of each asset class to the asset allocation performance was now provided but he remained puzzled by the numbers relating to asset allocation attribution. He could not understand why there had been an underperformance on asset allocation. He offered his assistance to discuss the matters further with PIRC. In response, an officer stated that PIRC relied on quarterly information provided and that he would take up the offer made by Colin Robertson.

Colin Cartwright, Aon Hewitt, reported on the shortage of the availability of alternative companies which measured performance. There was general concern that the quality of the information provided by PIRC was not the same as that provided by a previous provider and it was

RESOLVED: That the report from Pension and Investment Research Consultants Limited, as set out in the appendix to the report, be noted including the Committee's reservations outlined in the preamble above.

264. Information Report - Transfer of Harrow College to LB Hillingdon Pension Fund

The Committee received a report of the Director of Finance relating to the merger of Uxbridge College and Harrow College on 1 August 2017 with Uxbridge College being the continuing employer. Members noted that the Colleges wished to combine the active, deferred and pensioner member liabilities and assets of Harrow College and Uxbridge College and that this course of action had required a Direction from the Secretary of State to substitute the London Borough of Hillingdon, which administers Hillingdon Pension Fund, for London Borough of Harrow, which administers Harrow Pension Fund.

An officer introduced the report and informed the Committee that the Fund Actuary had calculated a bulk transfer value based on Harrow College membership and cash flows updated for investment returns from 1 August 2017 to the planned transfer date of 9 February 2018. The assets of Harrow College as at the calculated transfer date were valued at £30.4m. The transfer would be part-funded from £15m cash and the balance from a drawdown from fund managers in March 2018. All of Harrow College's liabilities had been passed to the London Borough of Hillingdon Pension Fund.

The officer responded to questions from Howard Bluston, Co-opted Member, regarding the decision to transfer to Hillingdon Pension Fund as it was considered that Harrow's Fund performed better. It was noted that the decision had rested with the colleges. Richard Romain, Independent Adviser, queried whether the transfer – cessation value – was 'financially neutral' or 'in

surplus'. He considered it to be the latter and requested that officers seek confirmation from the actuary.

RESOLVED: That the report be noted and that the Director of Finance report back on the position of the cessation value.

265. Information Report - External Audit Plan 2017-18

The Committee received a report of the Director of Finance, which set out the external audit plan for 2017-18 as presented by KPMG, Council's external auditor, to the Council's Governance, Audit, Risk Management and Standards Committee on 30 January 2018.

An officer introduced the report and informed the Committee that the audit process would be completed after 31 May 2018 and that he had had regular meetings with KPMG which would continue.

In response to a question from Richard Romain, Independent Adviser, an officer stated that the cost of the audit would be notified and that it was paid from the Pension Fund Account.

RESOLVED: That the report be noted and that all members of the Pension Fund Committee be notified of the cost of the audit.

266. Communications Policy Statement

The Committee considered the draft revised Communications Policy Statement and made the following comments:

- page 73 of the agenda – the areas of work of the employers needed to be identified for Members' information;
- page 80 of the agenda – annual benefits statement – to stress that the annual benefits statement was a key document and ought to be more user friendly/decipherable;
- the importance of completing 'nomination rights for death grants' ought to be highlighted and publicised;
- page 85 of the agenda – in 'methods of Communication Table' that Union representatives be offered 1-1 education sessions.

RESOLVED: That the revised Communications Policy Statement be approved subject to the comments sets out in the preamble above.

267. Funding Strategy Statement

The Committee considered a draft Funding Strategy Statement and made the following comments:

- page 115 of the agenda, note (c) (maximum Time Horizon) – consider amending to include 'no new or low number entries'

- page 120 of the agenda, paragraph 3.9 a) – replace ‘will be required’ with ‘may be required’
- to note that the last valuation was carried out as at 31 March 2016.

RESOLVED: That the draft Funding Strategy Statement be approved, subject to the comments set out in the preamble above.

268. Investment Strategy Statement

The Committee considered the updated Investment Strategy Statement and made the following comments:

- diversified growth funds range be amended to 15-24%;
- private equity range be amended to 0-6%
- page 155 – to confirm if the figures had previously been provided and to which month/year the data referred and to include reference to ‘passive’ under assumptions;
- page 159 of the agenda – paragraph 11.2, to note that the risk register was monitored on an ongoing basis and the paragraph needed correcting by amending the date of the annual review to 28 June 2017;
- page 164 of the agenda – paragraph 13.6, delete reference to ‘Pension Fund Committee 21 March 2016’;

RESOLVED: That the draft Investment Strategy Statement be approved subject to the above comments.

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

The Committee received a report, which summarised the contents of the latest internal controls reports for eight of the Fund’s ten investment managers. The reports had been reviewed and showed that controls were operating effectively and, where exceptions had been identified, there had been a satisfactory management response.

An officer introduced the report and informed Members that there were no ‘exception’ reports except that Aviva had reported weaknesses in its internal controls but that these were not seen as a significant risk. He had met with Aviva that day and was satisfied that the controls were now working effectively. Colin Cartwright, Aon Hewitt, was also satisfied that the issue had been addressed.

RESOLVED: That the report be noted.

270. Governance Compliance Statement

The Committee considered the draft Governance Compliance Statement and it was

RESOLVED: That the draft Governance Compliance Statement be approved.

271. Meetings of the Pension Fund Committee - Municipal Year 2018/19

RESOLVED: That the dates for future meetings of the Pension Fund Committee be noted:

Wednesday 27 June 2018 at 6.30 pm
Wednesday 12 September 2018 at 6.30 pm
Tuesday 27 November 2018 at 6.30 pm
Tuesday 12 March 2019 at 6.30 pm.

272. Any Other Urgent Business

Attendance by members of the Pension Board at the Pension Fund Committee

The Chair reported that HB Public Law had advised that the role of the Pension Board was to monitor the work of the Pension Fund Committee and that a clear separation was required between the two bodies. Members of the Board should not be seen to be party to the decision-making process of the Committee and it was

RESOLVED: That it be noted that for the purposes of the Pension Fund Committee, members of the Pension Board were to be treated as members of the public when the Committee was sitting in a private session.

273. 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>
20/21	Investment Strategy Update: Pooling and London CIV Review Consultation / Investment Manager Performance Monitoring for period ending 31 December 2017	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

274. Investment Strategy Update: Pooling and London CIV Review Consultation

The Committee received a report setting out the investment strategy produced by Aon Hewitt and to consider the proposed next steps to investing in the London CIV including options for reducing fund manager fees. The Committee was also being asked to review and comment on the London CIV proposed strategy consultation and draft response to the consultation.

The Committee also received two tabled documents as follows:

- Appendix 4 to the report 'Draft Response to London Collective Investment Vehicle (CIV) Consultation'
- London Collective Investment Vehicle Consultation.

These documents were tabled as responses were being prepared after the agenda publication date.

Colin Cartwright, Aon Hewitt, advised the Committee that the option to reduce fees could result in a cost neutral position in the first year and that the savings envisaged would be realised thereafter. Any decision to switch was purely for cost reasons and not for investment reasons as StateStreet had performed well.

Richard Romain, Independent Adviser, stated that further data analysis was required and the Committee needed to understand 'replication' and 'deviation' before a decision was taken in regard to passive investments. An officer stated that he had met with StateStreet and that he would like the opportunity to hold further discussions with the company.

The Committee noted that CIV's approach to fixed income was different from the Council's and it was important that further options were explored. A discussion on the range of CIV's products ensued and it was noted that a decision to change could be subject to Aon Hewitt reviewing their modelling work and conceivable even to satisfactory assurances by Hymans Robertson, Council's Actuary.

Members were concerned about the consultation timetable set by the London CIV which they considered to be short and the lack of explanations provided. The officer agreed to circulate a revised version of appendix 4 to Committee members for their comment prior to the next meeting of the London CIV. They also expressed concern about some of the governance arrangements.

Overall, the view was that the Committee needed take a cautious approach prior to moving funds.

RESOLVED: That, having considered the report from Aon Hewitt, the following be agreed:

- (1) to consider options to reduce fees, either by negotiating fee reductions with the current passive manager or by moving funds to one of the London CIV preferred providers, subject to further initial discussions

with StateStreet and thereafter Aon Hewitt be required to set out comparative data analysis as a part of due diligence;

- (2) to defer a review of the Pension Fund Fixed Income Portfolio giving consideration to the new fixed income funds to be launched through the London CIV until the outcome of the consultation was considered;
- (3) to consider the proposed strategy from the London CIV and the draft consultation response set out in Appendix 4 which be circulated to Committee members for their comment prior to its submission.

275. Information Report - Investment Manager Performance Monitoring for period ending 31 December 2017

The Committee received a confidential report, which set out Aon Hewitt's 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 which had received a range of ratings – had been given either “Buy” or “Qualified” ratings.

The Committee were advised that

- the BlackRock Corporate Bond Fund which the Fund invested in was now rated 'Buy' by Aon's Manager Research Team, having previously not been rated;
- the BlackRock Index Linked Gilts Fund which the Fund was invested in was currently assigned a 'not rated' as the manager had not provided the required data for assessment this quarter. Discussions with BlackRock were continuing.

RESOLVED: That the report be noted.

276. Vote of Thanks

The Chair stated that this was the last meeting of the Pension Fund Committee under the current administration and he thanked all members of the Committee for their contributions to the work of the Committee.

(Note: The meeting, having commenced at 6.34 pm, closed at 8.10 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair