

PENSION FUND COMMITTEE MINUTES

27 JUNE 2018

Chair: * Councillor Nitin Parekh

Councillors: * Dean Gilligan (2) * Bharat Thakker
* Norman Stevenson

Trade Union Observers: John Royle Pamela Belgrave

Independent Advisers: * Mr C Robertson Independent Adviser
† Honorary Alderman R Romain Independent Adviser

* Denotes Member present
(2) Denotes category of Reserve Member
† Denotes apologies received

1. Attendance by Reserve Members

RESOLVED: To note the attendance at this meeting of the following duly appointed Reserve Members:-

Ordinary Member

Reserve Member

Councillor Antonio Weiss

Councillor Dean Gilligan

2. Declarations of Interest

RESOLVED: To note that the following interests were declared:

All Agenda Items

Councillor Norman Stevenson 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.

Councillor Bharat Thakker declared a non-pecuniary interest in that he had a personal investment made by Standard Life. He would remain in the room whilst the matters were considered and voted upon.

Councillor Dean Gilligan declared a non-pecuniary interest in that he was a member of the GMB trade union. He did not work in Harrow and would remain in the room whilst the matters were considered and voted upon.

Colin Robertson, Independent Adviser, declared that he and his mother had personal investments in GARS and Colin Cartwright, Aon Hewitt, declared that his wife had a small investment in GARS. They would remain in the room whilst the matters were considered and voted upon.

3. Appointment of Vice-Chair

RESOLVED: To appoint Councillor Bharat Thakker as Vice-Chair of the Committee for the 2018/2019 Municipal Year.

4. Minutes

RESOLVED: That the minutes of the meeting held on 7 March 2018, be taken as read and signed as a correct record, subject to the following amendment:

Minute 258 Declarations of interest

To note that Howard Bluston was a Director of Brent and Harrow Chamber of Commerce.

5. Public Questions, Petitions and Deputations

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

RECOMMENDED ITEMS

6. Appointment of Co-opted Member

The Committee noted that Annual Council had not appointed a non-voting co-optee to the Committee for the Municipal Year 2018/19.

Resolved to RECOMMEND: (to Council)

That Howard Bluston be re-appointed as a non-voting co-optee for the Municipal Year 2018/19 under the same arrangements as 2017-18 with no advisory or representative duties attached to the role.

RESOLVED ITEMS

7. 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.

It was noted that, at its meeting on 14 June, the Pension Board had requested the inclusion of its minutes in the update report. As, due to timetabling, this had not been possible for the last meeting, Members were provided with feedback. It was noted that Harrow had performed well in terms of Pensions administration performance statistics measured against national benchmarks. It was noted that the Press had attended the Board meeting and had given a positive write up.

RESOLVED: That the Work Programme for the period up to March 2019 be agreed.

8. Information Report - Quarterly Trigger Monitoring Q1 2018

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

The Committee noted that no de-risking actions were recommended at the current time. Aon Hewitt considered that yields would rise faster than indicated by the market over the next three and five year period.

A Member referred to the fall in the funding ratio and Colin Cartwright, Aon Hewitt, stated that this reflected the fall in equity prices and also the fall in gilt yields which increased the value of the liabilities, although there could have been a small improvement subsequent to the production of the report.

RESOLVED: That the report be noted.

9. Performance Measurement Services

The Committee received a report of the Director of Finance, which set out the performance management services being provided by Pension and Investment Consultants Limited (PIRC). The report benchmarked performance to 31 March 2018 and the Committee was invited to comment on the format and presentation requirements going forward.

An officer introduced the report and drew particular attention to the return of 8.2% pa achieved by the Fund over the last three years which, although

below the benchmark result of 8.8%, was reasonable in terms of the target. The Fund had been ranked in the top 25% of its peers over the last five years

Colin Robertson, Independent Adviser, stated that he remained dissatisfied with PIRC's work on performance measurement and he was of the view that the shortcomings needed to be addressed. He drew particular attention to the following issues:

- are the 3 and 5 year total fund peer group performance numbers percentiles or actual rankings (out of 61 funds);
- he suspected that the 12.4% private equity performance over the quarter was due to a return of capital not being properly accounted for and wondered whether cashflows were being properly treated elsewhere;
- saying that asset allocation underperformance was largely due to holdings of cash was covering only part of the narrative as what the cash was held in place of was crucial;
- he was still surprised that the significant overweight position in equities in recent years, combined with regular profit taking in equities but never down to an underweight position, had not led to a significant boost to performance from asset allocation.

The view of Colin Robertson that the performance numbers relative to the benchmark should be given at least as much prominence as the peer group numbers because the fund was managed against the benchmark, not against the peer group, was endorsed by Colin Cartwright, Aon Hewitt. In response to a question as to alternative providers, the Committee was informed that the few such providers available were mostly incorporated with a custodian.

An officer suggested that Colin Robertson attend the meeting with a representative of PIRC the following week to express the Committee's concerns and agree the statistics required for a useful report.

RESOLVED: That the report be noted.

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

The Committee received a report which summarised the internal control review for Insight Investment, one of the Fund's ten investment managers, for the year ended 31 December 2017. The Committee was informed that the report had been reviewed and showed that controls were operating effectively and, where exceptions had been identified, that there had been a satisfactory management response.

RESOLVED: That the report be noted.

11. Information Report - London Borough of Harrow Pension Fund: Draft Annual Report and Financial Statements for the year ended 31 March 2018

The Committee's comments were sought on the draft Pension Fund Annual Report and Financial Statements for the year ended 31 March 2018.

An officer introduced the report highlighting that the timetable had been amended to require completion of the audit by 31 July 2018. As questions had not been raised the Auditors were assumed to be content with their findings and feedback had been requested by the officers.

In response to questions and suggestions the following was noted:

- the audit of the accounts had commenced in June and not July as stated in the report;
- amendment would be made to the introduction to insert wording on the work with the London CIV and the regular updating of Members' knowledge;
- to ensure a consistent approach regarding percentiles v rankings in the tables;
- inclusion of mitigating comments as to why the fund performance over one year of 5.3% was below the benchmark return of 7.2% on page 11 of the accounts;
- to ensure consistency in wording of either independent consultant or advisers;
- to reword references to the Pension Board to reflect its monitoring and reporting role.

RESOLVED: That the report be noted.

12. Information Report - London CIV Revised Governance Arrangements

The Committee received a report outlining the new governance arrangements for London LGPS CIV Limited (London CIV). Members were invited to comment on the proposed terms of reference to be considered at the LCIV AGM on 12 July 2018.

An officer highlighted the key changes including the dissolution of the current CIV Sectoral Joint Committee and creation of a Shareholder Committee of only twelve Local Authority representatives plus the Chair of the London CIV Board. Access to the CIV would be via the shareholder group rather than direct and there would be a greater need for officers to be involved in raising issues.

The view was expressed that it would be difficult for 33 entities to be involved under the revised arrangements and it was hoped that there would be further clarification in July.

RESOLVED: That the report be noted.

13. Any Other Urgent Business

Joe Peach, Aon Hewitt, advised the Committee that some members of the Pension Fund had AVCs in Critical Life and it was possible that this business would be transferred to other funds. The Committee would be advised when further information was available.

14. 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 item(s) for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
16.	London CIV Investment Strategy Pooling Options	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).
17.	Information report – Investment Manager Performance Monitoring for Period Ending 31 March 2018	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information))
18.	Information Report – London CIV LPGS Recharge and Pension Guarantee Agreements	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information))

15. London CIV Investment Strategy Pooling Options

The Committee received a report from the Director of Finance inviting Members to review the updated investment strategy report produced by Aon Hewitt and to consider the proposed next steps to investing passive equity in the London CIV including options for reducing fund manager fees.

Colin Cartwright, Aon Hewitt, referred to Harrow's low position on the chart of the percentage of AUM pooled per borough. He outlined the discussions on

the passive equity portfolio considerations that had occurred since the March Committee meeting and provided a recommendation on how to proceed.

The Committee discussed the quotes received in relation to managing the current passive equity portfolio, London CIV fees and transition costs. Taking this into account, together with liquidity, whether dealing took place on a weekly or daily basis, and current relationship, the recommendation of Aon Hewitt was to transition the portfolio to BlackRock. Colin Robertson, Independent Adviser, endorsed the recommendation.

In response to a question, Aon Hewitt advised that a move of bond assets to passive was not suggested at the present time but would be reviewed in future.

It was noted that depending on the legal documents the matter could be completed in approximately three months.

RESOLVED: That the Pension Fund's passive equity portfolio be transitioned to BlackRock.

16. Information Report - Investment Manager Performance Monitoring for period ending 31 March 2018

The Committee received a confidential report on Aon Hewitt's quarterly report on Harrow's investment managers. All managers other than Pantheon who had been rated had been given either 'Buy' or 'Qualified' ratings. The Pantheon private equity funds were rated by different criteria and had received a range of ratings.

Colin Cartwright, Aon Hewitt, informed the Committee of the development of a distinct Environmental, Social and Governance (ESG) rating system for buy-related investment managers with a rating of 2 being the market average. It was anticipated that ESG factors would be incorporated into new regulations. In response to a question, ESG ratings included how ESG factors were taken into account in the investment process but not what stocks / sectors such as oil were excluded and an example of which were indices on carbon footprints. There had not been any evidence of an investment manager who would leave the organisation due to the requirement to have an ESG rating.

The Committee was informed that Aviva had announced that it was selling its indirect real estate business, including the management of the Encore+ fund and the multi-manager business to LaSalle Investment Management. Subsequent to discussions Aon Hewitt had taken the decision to place both Encore+ and the Aviva Real Estate Multi-Manager business 'on review' and would revisit both ratings once the sale was completed. Aon Hewitt did not have any concerns regarding the sale as LaSalle were purchasing the whole team from Aviva and would be focusing on direct property funds. Colin Robertson, Independent Adviser, suggested that Aon Hewitt had a good impression of LaSalle from their assessment of LaSalle's other products.

Colin Robertson, Independent Adviser, suggested that feedback be obtained on what Insight were doing to prevent a re-occurrence of the 3% loss over Q1

2018. He also suggested that a comparison with how potential DGF candidates had performed over that period would be beneficial. Colin Cartwright, Aon Hewitt, undertook to report back.

RESOLVED: That the report be noted.

17. INFORMATION REPORT - London CIV LGPS Recharge and Pension Guarantee Agreements

The Committee received a report of the Director of Finance on two separate legal agreements for London LGPS CIV Limited (London CIV) participation in the Local Government Pension Scheme as an admission body. The report was considered on the grounds of urgency as the agreements needed to be signed before the next meeting of the Committee.

Members were advised that the documents had been agreed in principle at the London CIV Pensions Sectoral Joint Committee (PSJC) on 31 January 2018. On 14 March 2018 the PSJC agreed that the formal process for each authority to progress the signing of the agreements could begin. It was noted that authority to seal the agreements had been delegated to the Chair of the Pension Fund Committee in conjunction with the Section 151 officer.

The Committee noted that the report was before it for information but sought further clarification from the London CIV on the risks and liabilities in connection with signing the agreements.

RESOLVED: That

- (1) the report be noted; and
- (2) a further information report be submitted to the next meeting.

(Note: The meeting, having commenced at 6.30 pm, closed at 7.40 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair