

PENSION FUND COMMITTEE

MINUTES

12 MARCH 2019

Chair:	* Councillor Nitin Parekh	
Councillors:	* Norman Stevenson	* Antonio Weiss
	* 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

51. Attendance by Reserve Members

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

52. 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.

Councillor Richard Almond, who was not a member of the Committee, declared an interest in that he had investments in Standard Life and Aviva. He would remain in the room to listen to the discussion and decision-making.

Howard Bluston, non-voting co-optee, declared non-pecuniary interests in that he had previously worked with Aon and that he knew a number of Fund Managers, including BlackRock. He added that he had clients who had invested in GARS (Global Absolute Return Strategies Fund). He would remain in the room whilst all matters were considered and make contributions.

Colin Cartwright, Aon, declared that his wife had a small investment in GARS (Global Absolute Return Strategies Fund). He would remain in the room whilst matters were considered and advise the Committee.

Colin Robertson, Independent Adviser, declared that he and his mother had personal investments in GARS (Global Absolute Return Strategies Fund). He would remain in the room whilst matters were considered and make contributions.

53. Minutes

RESOLVED: That the minutes of the ordinary meeting held on 27 November 2018 and the special meeting held on 16 January 2019 be taken as read and signed as a correct record.

54. Matter Arising from the minutes of the meeting held on 27 November 2018

Minute 41 – Resolution 2 – Local Government Scheme Pension Scheme Amendment Regulations

The Chair reported that HB Public Law would not be present at the meeting that evening as the work that was identified in Minute 41 was of a specialist nature and consequently the Council's Legal Service (HB Public Law) would seek to instruct specialist lawyers to undertake this work. It was expected that, in the first instance, Bevan Brittan would be approached with details of the work required for a quotation and indication if this was within their expertise. Legal Services would liaise with the relevant officers in relation to the outsourcing of this work.

In response to a question, the Chair confirmed that work in this area would continue and quotations would be sought. An officer reported that the work would be dealt with on a case by case basis and it would be reviewed by the lawyers and the Council's actuary, Hymans Robertson.

55. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

56. Meetings of the Pension Fund Committee - Municipal Year 2019/20

RESOLVED: To note that the meetings of the Pension Fund Committee were scheduled to be held on the following dates during the Municipal Year 2019/20:

Wednesday 26 June 2019 at 6.30 pm
Wednesday 11 September 2019 at 6.30 pm
Tuesday 26 November 2019 at 6.30 pm
Wednesday 25 March 2020 at 6.30 pm.

57. Pension Fund Committee - Update on Regular Items

The Committee received a report of the Director of Finance, which provided an update on the Work Programme, the performance of Fund Managers and issues raised by the Pension Board.

An officer introduced the report and highlighted the following:

- the value of the Pension Fund since March 2018 had initially risen, then fallen and had recently recovered, as outlined at paragraph 10 of the report;
- the Pension Board had last met in December 2018 and had received confirmation that there had been no reported breaches of law in the previous quarter. The Board had received reports on Fund administration performance to 30 September 2018;
- the actuarial valuation as at 31 March 2019 would be reported over the 2019-20 Pension Fund Committee cycle with the results of the 2019 Actuarial Valuation due to be reported to Pension Fund Committee by 25 March 2020.
- officers would be working with Aon in relation to the Investment Strategy with a view to co-ordinating critical timings and identifying investments from the London CIV (Collective Investment Vehicle). A report would be submitted to the Committee;
- a 'Meet the Managers' session would be held in September or October 2019.

Members asked that a date for the 'Meet the Managers' be identified early and that October was the preferred month, except that the school half term dates ought to be avoided.

RESOLVED: That

- (1) the comments and the Work Programme for the period up to March 2020 be agreed;
- (2) officers be requested to circulate dates for a 'Meet the Managers' session to be held in October 2019;
- (3) it be noted that a workplan report on the Investment Strategy would be submitted to the June 2019 meeting of the Committee.

58. Information Report - Quarterly Trigger Monitoring Q4 2018

The Committee considered a report from the Fund's Investment Adviser, Aon, on Quarterly Trigger Monitoring and noted that no de-risking actions were being recommended at present.

A representative from Aon reported that the fall in the value of investment assets was due to the volatility of the financial markets and he assured Members that there was no need for alarm. He reported that the global equity holding was at its maximum and it was becoming harder to decide where to invest and suggested that the money be held in cash in the interim. He responded to questions on the implications for the Council's budget and clarified the role of the Pension Board which was to examine process and decision-making of the Committee.

An adviser informed Members that asset allocation was their primary purpose and outlined an anomaly in that good performance in bond markets was 'rewarded' with poor funding levels. He did not support financial asset allocation in pairs as it could produce inertia. He advised that any decision should be based on Strategic Asset Allocation and whether Members were comfortable holding assets above the strategic benchmark.

Another adviser stated that whilst each investment should be assessed on its own merits, sales and purchases needed to be considered together to avoid unduly high levels of cash being held. He advised that cash holdings should not exceed 5-10% due to issues of perception as it would be seen as deviation from the Strategic Allocation and there was no strategic allocation to cash.

Following further discussion and questions, representatives of Aon advised that 2.5% or 5% of the Fund held in equities ought to be sold and held in cash. Due to current financial market conditions, their preference was 5%. They clarified that the proposal was to hold cash with Blackrock and, if possible, to hold it within the London CIV (Collective Investment Vehicle) as a pooled asset and further proposals would be submitted to the next meeting of the Committee.

RESOLVED: That

- (1) the report be noted and the Director of Finance be instructed to rebalance to the Strategic Benchmark Allocation by redeeming 5% across all equity holdings and that the cash holding be held with Blackrock to sit within the London CIV (Collective Investment Vehicle) as a pooled asset;
- (2) Aon be requested to submit a working plan that supported the transfer of assets to the London CIV (Collective Investment Vehicle) to the June 2019 meeting of the Committee.

59. Information Report: 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 report benchmarked performance to 31 December 2018, as set out in the appendix to the report, and the Committee was invited to comment on the format and presentation requirements for future reports.

An officer introduced the report and informed the Committee that the issue of underperformance of Fund Managers was being addressed separately. An adviser reported that DGF funds were generally under performing and comparison with the Peer Group had confirmed this position. A representative from Aon reported that Longview and Oldfield had done what had been expected of them over the last quarter. The performance of Insight and Standard Life had been disappointing and GMO would continue to be monitored.

In relation to the quality of reports, an independent adviser reported that, despite representations made to PIRC, he continued to remain dissatisfied with PIRC's quality of work, although there had been some improvement. The Committee noted that officers, with the assistance of the adviser, would bring their continued concerns to the attention of PIRC. A representative from Aon reported that, over time, the London CIV (Collective Investment Vehicle) ought to be in a position to provide the information required.

RESOLVED: That

- (1) the report and the comments made be noted;
- (2) officers make further representations to PIRC regarding the quality of their work as set out in the preamble above.

60. Information Report: External Audit Plans 2018/19

The Committee received a report of the Director of Finance, which set out the External Audit Plan 2018/19 received from the Council's external auditor, Mazars.

An officer introduced the report and informed the Committee of the increase in reporting requirements, including the changes that were expected which would result in the updating of future reports. In response to a question from

an adviser about materiality levels, he reported that officers had requested a higher materiality figure than that set by Mazars who had to make a judgement on the level of materiality to report on. In response, the independent adviser stated that he welcomed this approach and asked if their 'description of risk' in relation to the 'Valuation of unquoted investments' at page 57 of the agenda had been challenged. He sought assurance that Mazars were working jointly with the internal audit function of the Council as their 'statement on' page 57 of the agenda did not reassure him of his concern.

In light of the various discussions, Members were of the view that it would be beneficial if Mazars attended a meeting of the Committee.

RESOLVED: That the External Audit Plans (Audit Strategy Memoranda for the Pension Fund) be noted, including the comments made in the preamble above, and that the Council's external auditor, Mazars, be invited to the June 2019 meeting of the Committee.

61. Statutory Guidance on Asset Pooling

Members received a report of the Director of Finance, which set out the recently published draft statutory guidance by the Ministry for Housing Communities and Local Government (MHCLG) on asset pooling and outlined the key points raised by the guidance for consideration by the Committee.

An officer introduced the report and stated that the MHCLG was carrying out an informal consultation process on its draft statutory guidance on LGPS (Local Government Pension Scheme) asset pooling and he invited comments from the Committee.

An independent adviser raised concerns in respect of the following:

- encroachment of pools in determining the Funds' asset allocation;
- requirement for a reasonable number of different asset class funds to be available so as to enable funds to make appropriate asset allocation decisions;
- suggesting infrastructure exposure should be similar to that in overseas Pension Funds did not make sense, not least as these funds had a wide range of exposure to infrastructure.

In response to various questions, the officer and the Fund's Investment Adviser, Aon, reported that there appeared to be a 'crackdown' on LGPS to comply with asset pooling. In respect of Harrow's Pension Fund, the equity and fixed income investments would be required to be held with the London CIV (Collective Investment Vehicle) and the Council was moving in the right direction. Additionally, for certain asset classes, the Pools could work together but this was for now an unknown area.

Clarification was also sought in relation to investments outside of the Pool, as referenced on page 76, paragraph 6.4, of the agenda. A Member asked if the

Terms of Reference would need amending as a result of the statutory guidance. The officer stated that whilst the guidance was statutory in nature, there was scope for interpretation provided it was supported by a robust business case.

An adviser stated that the role of Councillors on the Committee was to make Strategic Asset Allocation decisions and, in line with paragraph 7.2, page 76, of the agenda, a change in mind set was required as the Council would no longer be able to select its Fund Managers as before. The co-optee referred the Committee to paragraph 5.1, page 74, of the agenda as one which summed up the position. Another adviser stated that it was therefore important to have a range of asset classes available for investment.

RESOLVED: That

- (1) the report be noted and Members be requested to provide feedback, in addition to the comments in the preamble above, to the Director of Finance on the draft MHCLGO guidance before the consultation deadline of 28 March 2019 and the Director, following consultation with the Chair, be authorised to provide a response to the consultation;
- (2) the Director of Finance clarify if the Terms of Reference of the Pension Fund Committee would need reviewing as a result of the changes in governance.

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

The Committee received a report and a confidential appendix, which summarised the latest internal control 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, that there had been satisfactory management responses.

Prior to the consideration of the report, an officer tabled an amended version of the main report in order to provide the most recent reviews of internal controls at investment managers and these aspects were highlighted in the tabled document published with the agenda. The officer introduced the revised report and reported that further reports on internal controls would be presented to the June 2019 meeting of the Committee due to the change in ownership of Aviva Investors to La Salle and London CIV Longview Partners LLP whose 'audit year' had ended in December 2018. He referred to the confidential appendix and drew attention to issues relating to Aberdeen Standard Investments internal controls report.

RESOLVED: That the report be noted.

63. Information Report - Investment Consultancy Services Procurement

Members received a report and a confidential appendix of the Director of Finance, on the re-procurement of Investment Consultancy Services using the National LGPS Framework as previously agreed by the Committee and noted

the appointment of Aon as the Investment Consultant to Harrow's Pension Fund.

RESOLVED: That the report be noted.

64. 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 items for the reasons set out below:

<u>Agenda Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
17.	Information Report - Annual Review of Internal Controls at Investment Managers – Appendix	Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information).
18.	Information Report - Investment Consultancy Services Procurement - Appendix	Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information).
19.	London CIV Asset Pooling; Investment Strategy Manager Review	Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information).
20.	Information Report - Investment Manager Performance Monitoring for period ending 31 December 2018	Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information).
21.	Local Government Scheme Pension Scheme Amendment Regulations	Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information).
22.	Independent Advisor Appointments	Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information).

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

[See Minute 62 above.]

66. Information Report - Investment Consultancy Services Procurement

[See Minute 63 above.]

67. London CIV Asset Pooling; Investment Strategy Manager Review

Members received a confidential report of the Director of Finance and the Fund's Investment Manager, Aon, which requested the Committee to disinvest from Aberdeen Standard Life GARS, as previously agreed and to further consider the options available and actions required for investment in infrastructure and other liquid assets through the London Collective Investment Vehicle, details of which were set out at Appendix 1, Multi Asset Credit and Infrastructure Options.

Representatives of Aon provided reasons for the recommendations set out in the officer report and responded to questions from the Committee. The Committee wished it recorded that they had considered the question relating to the drawing down period and CQS transition and were satisfied with the advice received from representatives of Aon that there was no requirement to give consideration for a transition manager.

RESOLVED: That, subject to an ongoing review, the Director of Finance, in consultation with the respective Fund Managers and the London CIV (Collective Investment Vehicle), be requested to instruct officers to take the required action to:

- (1) redeem the Fund's entire allocation to Aberdeen Standard Life GARS (Global Absolute Return Strategies Fund) with immediate effect;
- (2) to make a strategic allocation of 11% of the Fund to the London CIV Multi-Asset Credit Fund managed by CQS to be funded from the transfer proceeds from Aberdeen Standard Life GARS (Global Absolute Return Strategies Fund);
- (3) to make a strategic allocation of 7.5% of the Fund to the London CIV Infrastructure Fund to be funded from the Insight Diversified Growth Fund and surplus cash;
- (4) to amend the Investment Strategy Statement Investment Strategy Allocation model to reflect the proposed changes set out in the officer report;
- (5) to engage with the London CIV to set out the Fund's priorities for asset pooling.

68. Information Report - Investment Manager Performance Monitoring for period ending 31 December 2018

The Committee considered a confidential report of the Director of Finance, together with a report on Harrow's investment managers from the Fund's Investment Manager, Aon. The report from Aon set out the position relating to Aviva UK Property which was "In Review". All other Fund Managers, except

Pantheon, had been given either a “Buy” or a “Qualified” rating and Aberdeen Standard Investments had been placed under a ‘Sell’ rating following a due diligence review in the latest quarter.

RESOLVED: That the report be noted.

69. Local Government Scheme Pension Scheme Amendment Regulations

The Committee received a report of the Director of Finance, which set out proposals to update the Fund’s Funding Strategy Statement for Transferee Admission Bodies, (‘Contractors’) to reflect the amendments to the Local Government Pension Scheme Amendment Regulations introduced in May 2018 and to introduce pass through agreements as the preferred approach for assessing contribution rates for new contractors.

An officer introduced the report and referred to the ‘note’ from HB Public Law (Minute 54 refers) and confirmed that legal advice would be received in all instances. The officer responded to various questions on passporting, pension regulation review, benefits/risks to the employer, strain on the Fund and stated that Harrow’s Fund was comparable and prudent with that of other London boroughs. In response to a further question on the 75% probability of achieving a fully funded target, he explained that this funding target was agreed with the actuary.

A Member remained concerned about the long terms liabilities as a result of the revised regulations.

RESOLVED: That the following changes to the Funding Strategy Statement be agreed:

- (1) for changes required to reflect the amendments to the LGPS Regulations regarding cessation introduced in May 2018;
- (2) to implement pass-through as the preferred approach for new Transferee Admission Bodies, ‘Contractors’;
- (3) to implement the proposed contribution rate setting criteria for Transferee Admission Bodies.

70. Independent Advisor Appointments

Prior to the consideration of the report, the independent advisers, Colin Robertson and Richard Romain, and the co-optee, Howard Bluston, left the room during the discussion and decision-making relating to this item.

The Committee received a report of the Director of Finance, which set out proposals for the procurement of Independent Advisers to the Pension Fund as the current contract expired in July 2019. Members noted the various minor amendments that would be required to the appendix under the following headings: Pension Fund Committee’s powers and duties being amended to reflect those set out in the Council’s Constitution, role specification to refer to

'an individual' and the correct company name of the Fund's Investment Adviser.

Members received advice from the Fund's Investment Adviser, Aon, on their experiences of advisers appointed by other authorities and their varied skill set. The representatives advised that the Committee would need to decide on the skill set they would require in the future.

Members commented on the benefits of retaining independent advisers and the co-optee and

RESOLVED: That two Independent Advisers be sought and that, subject to the minor amendments set out in the preamble above, the role description, budget, advertising strategy and appointment strategy be agreed for the independent advisers to the Council's Pension Fund Committee.

(Note: The meeting, having commenced at 6.35 pm, closed at 8.26 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair