

PENSION FUND COMMITTEE

MINUTES

18 DECEMBER 2019

Chair:	* Councillor Keith Ferry	
Councillors:	* Dean Gilligan	* 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

* Denotes Member present

† Denotes apologies received

92. Attendance by Reserve Members

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

93. Declarations of Interest

RESOLVED: To note that the following interest was 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.

94. Minutes

RESOLVED: That the minutes of the meeting held on 11 September 2019, be taken as read and signed as a correct record.

95. Matters Arising from the Minutes of the Meeting held 11 September 2019

Pension Fund Committee – Performance Dashboard and Update on Regular Items (Minute 87)

An officer undertook to ensure that the various documents – an overview of the CIV – referred to in the last paragraph on page 9 of the agenda were sent to all members of the Committee.

He explained why representatives of the London CIV were unable to attend the pre-meeting session of the Committee that evening. The Committee agreed that the London CIV ought to be invited to the next meeting for a pre-meeting session at 5.30 pm and to remain for the Committee meeting scheduled to be held on 25 March 2020 at 6.30 pm when an item would be included on the agenda.

Actuarial Valuation 2019 (Minute 90)

The Director of Finance reported on her discussions with the Council's external auditor, Mazars, regarding the 2019 valuation update. She reported that she had brought the matter to their attention and informed them that the methodology had changed. The change had not been of an immediate concern for Mazars but they would comment further during the audit process in January or February 2020. The Director undertook to inform the Committee of any concerns expressed by Mazars.

96. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

97. Pension Fund Committee - Performance Dashboard and Update on Regular items

The Committee received a report of the Director of Finance, together with appendices 1-5 of which appendix 4 was confidential, which set out

- the draft Work Programme inviting Members' comments and agreement;

- a new investment and management performance dashboard report summarising key fund performance and risk indicators and trigger monitoring report and PIRC Performance Indicators;
- the Fund's performance to 30 September 2019;
- issues raised by Pension Board, if any.

A revised Appendix 5 ' Fund Valuation and Performance – March 2019 to November 2019) was tabled at the meeting to ensure that the Committee was availed of the latest position.

The Committee commented as follows:

Draft Work Programme 2019-20

- the Investment Strategy Review meeting be given a priority and take place by January 2020. The Review to address asset classes and investments that are sustainable and low in carbon. The session could use the Council's Actuary's, Hymans Robertson's, assumption that the McCloud Judgement would not cost more than 3% of the fund's liabilities;
- the 'Meet the Managers' session should also be afforded a priority and that it be arranged after the Investment Strategy Review meeting but before the end of February 2020 with a decision on which Managers to invite to be confirmed following the Investment Strategy Review meeting. It was also important to meet with potential new Managers as well as existing Managers who had not performed well;
- Members ought to give consideration to the impact on fund deficits of high global equities exposure in public sector pension schemes and whether the amount of equity investment needed to be altered.

Pension and Investment Consultants Limited (PIRC)

- Members agreed that the Director of Finance arrange a performance review meeting with PIRC and report back on available options; the meeting to include the Independent Adviser, Colin Robertson.

Summary Performance Dashboard for period ended 30 September 2019

- the Investment Dashboard showed an increase in the funding level by 14% partly due to new methodology used in the 2019 actuarial valuation;
- it was important that correct benchmarking data was made available to the Committee for investments in infrastructure as this impacted on reported performance;
- concern was expressed about underperformance by some Fund Managers to a given benchmark. In response, Aon drew the

Committee's attention to page 30 of the agenda which set out the report from the PIRC as this showed that, in the longer term, the performance was good and close to the equity market performance;

- in response to a question Aon said that due to the uncertainty around Brexit and the problems facing the High Street, a 2% benchmark return for property over a year was correct;
- an Independent Adviser suggested the potential for use of specialist fund of funds and/or close ended funds for property investment. Aon explained that the current Fund Manager invested in certain sectors to provide a 'vanilla' effect and looked at opportunistic investments which provided a higher return. Aon suggested a 'watching brief' and explained that the London CIV (Collective Investment Vehicle) did not currently have any available options. He agreed with the need to reconsider investments in property and examine mandates outside of the London CIV;
- Aon reported that the Fund did not have a problem with liquidity but agreed that wider discussion should take place during the review of the Investment Strategy;
- the issue of high fees also needed addressing as the fees for multi-asset management were high.

Quarterly Trigger Monitoring

- Aon suggested that the trigger monitoring document was considered redundant as "gilt plus" was no longer used in the actuarial valuation. Members thought the report to be of value and agreed that it continue to be provided at future meetings.

PIRC Report

- an Independent Adviser explained that for periods to the end of March 2019, the Fund had performed well relative to the PIRC local authority universe. The report from the PIRC compared all the funds and set out average performance;
- however, performance also needed to be measured against the fund strategic benchmark and here the performance had been disappointing. This had been attributable to manager selection more than to asset allocation.

RESOLVED: That

- (1) subject to comments set out in the preamble above, the Work Programme for the period up to March 2020 be agreed;
- (2) the comments on the performance and investment dashboard be noted;

- (3) the comments in the preamble be noted and the Director of Finance be requested to arrange the relevant meetings.

98. Competition and Markets Authority Order: Setting Investment Consultant Objectives

The Committee received a report of the Director of Finance, which set out the proposed objectives for the investment consultant to comply with the Competition and Markets Authority (CMA) Order.

Aon introduced the report and reported on the 2018 CMA review of the investment consultant and fiduciary management markets following which an Order was issued which required Pension Fund Trustees, including the Local Government Pension Scheme,

- to set objectives for their investment consultants closely linked to the pension scheme's strategic objectives;
- the objectives to be reviewed at least every three years and after a significant change to the investment strategy;
- the performance of the investment consultant to be reviewed annually.

The CMA Order took effect from 10 December 2019. The Committee had appointed investment consultant, Aon, to advise Harrow Pension Fund and Harrow Pensions Committee and Board on all matters concerning the Pension Fund's investments. The Committee had also appointed Independent Advisers.

Aon provide regulated professional investment consultancy services.

The Committee made the following comments:

- that Aon should monitor the London CIV (Collective Investment Vehicle). In response, Aon pointed out that they would continue to monitor the Managers within the CIV but could not monitor the CIV due to a commercial conflict;
- sub-heading 2 'Implementation' on page 44 of the agenda be amended to include: The Investment Consultant (IC), Aon, would comment on the performance of the London CIV';
- in the first bullet point of the same section, 'Independent Advisers' should be added;
- in the second bullet point of the same section, 'understanding' to be amended to 'understanding and assessing';
- paragraph 4 on page 40 of the agenda on the role of advisers be amended to read: The independent advisers provide an independent perspective and used their expert knowledge to inform the debate on the issues in front of the Committee. Independent Advisers did not

provide regulated independent advice. It was agreed that the Terms of Reference of the Independent Advisers be presented to the next meeting of the Committee;

- page 44, Section 1 - Strategy to read 'The IC will support the Committee with respect to Responsible Investment (RI) and stewardship matters.

RESOLVED: That the report be noted and that the Terms of Reference of the Independent Advisers and the Consultant be submitted for information to the next meeting of the Committee.

99. Urgent Business

The following matters were considered to be urgent to allow the Committee to be availed of the latest position.

(1) Independent Advisers

In response to a question, an officer reported on the position relating to the appointment of Independent Advisers and that a further report would be submitted to the March 2020 meeting of the Committee following a procurement process.

(2) Report on the London CIV

An Independent Adviser reported on the resources available at the London CIV (Collective Investment Vehicle) which appeared to be challenging.

The Chair and an officer who attended meetings of the London CIV also reported on the situation at the London CIV. Members also referred to local authorities that had not yet invested through the London CIV.

A discussion ensued and Aon advised how the London CIV worked and that it was not managing the money directly and that the funds were managed by the Fund Managers appointed by the CIV. The local authority could withdraw the money if the Fund Managers were not performing although the money would need to be reinvested in another fund within the CIV. An Independent Adviser was of the view that the 'menu' from the CIV was restrictive. Another Independent Adviser pointed out that the choice of fund manager was much wider at the CIV than at the other pools. Indeed at other pools, funds only got to choose the asset class not the manager.

The Chair stated that the performance of the Committee in the last 8 to 10 years in managing the Fund had been good. However, since then, there appeared to be no choice but to invest through the London CIV and there were concerns over its operation. Members considered whether the matter ought to be brought to the attention of the LGA (Local Government Association).

100. 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>
11.	Pension Fund Committee - Performance Dashboard and Update on Regular items – Appendix 4	Information under paragraph 3 contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
12.	Actuarial Valuation 2019 Update	Information under paragraph 3 contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
13.	Investment Strategy Review Update	Information under paragraph 3 contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

101. Pension Fund Committee - Performance Dashboard and Update on Regular items

[See Minute 97]

102. Actuarial Valuation 2019 Update

Members received a confidential report of the Director of Finance, which included progress on the triennial valuation to date from the Council's Actuary, Hymans Robertson LLP, the proposed stabilised employer contribution rates for three years from 1 April 2020, and the proposed treatment for the Fund arising from the McCloud ruling.

An officer introduced the report and referred to paragraph 3 of the report as set out on page 56 of the agenda. He reported that the improvement in the funding level had been, in part, due to the change in methodology by the Council's actuary. He referred to the details set out on the McCloud Judgement on page 63 of the agenda.

RESOLVED: That

- (1) the proposed employer contribution rates for three years from 1 April 2020, for the Council and other long term stable employers, be noted;
- (2) the proposal for how the Fund allows for the McCloud ruling until the remedy to the McCloud ruling was confirmed be noted;

- (3) the proposed amended wording to be made to the Funding Strategy Statement to administer the McCloud ruling in relation to cessation valuations be noted.

103. Investment Strategy Review Update

The Committee received a confidential report of the Director of Finance which requested consideration of the proposed Investment Strategy Review update last undertaken in 2017 following the 2016 Actuarial Valuation. It was considered appropriate to review the current investment strategy as the Fund's actuary, Hymans Robertson LLP, was undertaking the 2019 Actuarial Valuation.

The Investment Strategy Review would assess the risk and return characteristics of the Pension Fund's current investment strategy and provide suggestions of alternative investment strategies for the Committee to consider, if appropriate.

Members noted that a discussion had ensued earlier (Minute 97 refers) and made the following further comments:

- in July 2019, full Council had adopted a Motion on 'Declaring a Climate Emergency' and this needed to be reflected in the Review. Aon advised that Fund Managers were required to report on investments and whether these were climate friendly;
- that the five points reflected on page 79 of the agenda ought to be enshrined in the Review. Fund Managers ought to advise the Committee on an annual basis setting out how the Council's policy was being implemented.

An officer advised that the London CIV had carried out a Responsible Investment, Environmental, Social and Governance (ESG) stocktake survey which set out the LCIV members' current position and which could be incorporated in the Investment Strategy Review.

RESOLVED: That, having considered the Investment Strategy Review outline as set out at Appendix 1 to the report, the actions required to progress the Review be agreed.

(Note: The meeting, having commenced at 5.06 pm, closed at 6.52 pm).

(Signed) COUNCILLOR KEITH FERRY
Chair