

Pension Fund Committee

Minutes

9 September 2020

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	

104. Welcome

The Chair welcomed Jeremy Randall, Interim Pensions Consultant, to his first meeting of Harrow's Pension Fund Committee. The Chair asked that the Committee's best wishes be conveyed to Iain Millar, Jeremy's predecessor, who had left the employment of the Council.

105. Attendance by Reserve Members

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

106. Declarations of Interest

RESOLVED: To note that

- (1) the Declarations of Interests published in advance of the meeting on the Council's website were taken as read and no further declarations were made at the meeting;
- (2) the Members, Advisers and Co-opted Member, who had declared interests remained in the virtual meeting whilst the items were considered and voted upon, except that the Advisers and the Co-opted Member left the meeting prior to the consideration of agenda item 17 – Appointment of Independent Advisors.

107. Appointment of Vice-Chair

RESOLVED: To appoint Councillor Bharat Thakker as Vice-Chair of the Pension Fund Committee for the 2020/2021 Municipal Year.

108. Minutes

RESOLVED: That the minutes of the meeting held on 18 December 2019 be taken as read and signed as a correct record, subject to the following amendment:

Minute 97 – Performance Dashboard and Update on Regular Items

Paragraph titled 'Summary Performance Dashboard for period ended 30 September 2019', 3rd bullet point on pages 9 and 10 of the Main Agenda, to delete the sentence 'In response, Aon drew the ... market performance'.

109. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

110. London Borough of Harrow Pension Fund: Draft Annual Report, External Audit Plan and Financial Statements for the year ended 31 March 2020

The Committee received a report of the Director of Finance, which set out the draft Pension Fund Annual Report, External Audit Plan and Financial Statements for the year ended 31 March 2020 on which the Committee's comments were invited.

An officer reported that draft Pension Fund Annual report was subject to external audit and that Mazars had yet to complete their field work. Upon receipt of their audit, the outcome would initially be reported to the Council's Governance, Audit and Risk Management Committee on 22 October 2020 and, thereafter, to the Pension Fund Committee scheduled to be held on

25 November 2020. He added that the Report complied with the revised reporting guidelines due to the Covid-19 pandemic. The final Report would need to be published by 1 December 2020 as this was the only date that had not altered in the reporting cycle. He added that the membership of the Fund had remained stable albeit with minor movements and, given the size of the Fund, was not considered to be an issue.

Members were informed that the Council remained the biggest employer accounting to 82.5% of the Fund membership but the membership also included other educational bodies, the largest of which comprised of some 319 members. The value of the investment assets of the Pension Fund had decreased during the year 2019-20, but in the period from 1 April to 31 July 2020 the figure had risen although the markets remain volatile due to the Covid-19 pandemic.

Members and an adviser asked the following questions:

Q1: What were the potential implications of the increase in the number of pensioners by over 8% compared to the decrease in active members in the scheme which was down by 4% and how did that compare to previous years? Would the changes in the trend cause problems in the future?

The table at page 26 of the agenda also required an explanation – lower charging structure.

The Director of Finance stated that officers would provide the comparisons and future reports would include such data. She accepted that the numbers might appear stark and would be monitored and kept under review. She acknowledged that there had been a reduction in contributions whilst the liabilities had increased.

An officer added that last year's figures showed that the membership was stable and details were set out on page 40 of the agenda. He added that the table on page 26 of the agenda set out Investment Management Expenses which had been negotiated with the London CIV (Collective Investment Vehicle). He explained that whilst the other costs had increased, the move to the London CIV had resulted in an overall decrease in investment management costs. The Oversight and Governance costs had gone up as, every 3 years, a full actuarial valuation is required, and 2019-20 is the year in which the work for the 2019 Valuation is carried out. The costs of the actuarial valuations are not spread over three years, hence there was a "spike" in costs in 2019-20.

Q2: What were the implications of the decrease in assets of the Pension Fund from £850m last year to £776m this year, particularly when the July 2020 figure was £877m?

An officer informed the Committee that the figures quoted by the Councillor were correct. He added that the updated appendix 5 as set out in the second supplemental agenda tracked the month to month movement since March 2020. There had been a significant fall in the value of the assets across the

range of asset classes due to the volatility in the financial markets globally due to the Covid-19 pandemic global lockdowns, and 31 March 2020 was close to the lowest point of valuations. There had been a recovery in the period to 31 July 2020.

The same officer reported that the Council had not made any significant realignment except in respect of the London CIV Infrastructure Fund draw down which the Committee had previously agreed.

Q3: Page 17 of the agenda stated that benefit payments exceeded contributions, which conflicted with page 33 which referred to a positive cash flow under liquidity risk? Additionally, on page 16 of the agenda, who determined the benchmark – the PIRC benchmark was too generic and could not be taken seriously?

An officer explained that there had been significant transfers out of the Fund in 2019/20 as a result of which it was not as cash positive now when compared with previous years. The benchmark was calculated by PIRC (Pension and Investment Consultants Limited) but, in essence, it was a weighted average of the targets that each investment manager was set for their investment strategy, using the Strategic Asset Allocation benchmark for the weights. Each investment manager had a target return and PIRC did a computation and provided a weighted average which was the benchmark.

Q4: Was there a breakdown in staff who had been made redundant Corporately and in Schools?

The Director of Finance undertook to discuss this request with HR (Human Resources) and provide the relevant information for the last 3 years. She added that, except for the pension liabilities, redundancy payments were not a draw on the Pension Fund but were funded by the Council.

In response to additional questions on the impact of redundancies on the Pension Fund due to the restructuring of staff within schools, the Director reported that any restructuring would result in a benefits transfer. In respect of redundancies, these would be paid from the existing Fund. An officer added that where staff took early retirement due to redundancy, as well as the early payment of pension, there would be a loss of contribution to the Fund - the employer would have to cover the cost of the resulting “strain” on the pension fund. The Councillor requested a breakdown of figures.

RESOLVED: That the report be noted.

111. Annual Review of Internal Controls at Investment Managers

Members received a report of the Director of Finance and a confidential appendix, which provided a summary of the contents of the latest internal controls reports for seven of the Fund’s investment managers. The reports had been reviewed and showed that the controls were operating effectively and, where exceptions had been identified, there had been a satisfactory management response.

An officer introduced the report and stated that it was best practice for all Funds to receive annual reports and to show that, where issues had been identified, appropriate controls had been put in place. He added that should Members wish to discuss any of the 'exceptions' set out in the confidential appendix, the Committee would need to move into a private session. Members were also informed that the London CIV had provided details of their reviews of the various underlying Fund managers and there were no unresolved issues to report.

Members queried the reference to SCR in the confidential appendix. An officer undertook to provide details of the acronym used.

RESOLVED: That the report be noted.

[Post Meeting Note: SCR is short for "Server Control Rooms". The access to these is restricted to authorised personnel and controlled via proximity cards. Reports of access are reviewed by a senior manager each month. In the case identified, there was one month where the review had not been properly evidenced. The manager responded by confirming that this was now being done, and that a review of the period in question confirmed that all access to the areas had been appropriate.]

112. 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 and appendix 5 updated, which set out:

- the draft Work Programme on which the Committee's comments and agreement were requested;
- the investment and management performance dashboard report summarising key fund performance, risk indicators, trigger monitoring report and PIRC (Pension and Investment Research Consultants) Performance Indicators;
- the Fund's performance to July 2020;
- an update on the Pension Board.

An officer introduced the report and referred to the draft Work Programme until March 2021. He invited the Committee to consider whether it wanted to hold a 'Meet the Managers' day before the November 2020 meeting of the Committee or to use the time to focus on progressing the review of the Investment Strategy. The decision could be taken when the Committee would be considering the report on the Investment Strategy Review during the private session of the meeting.

The same officer added that the Performance Dashboard had been produced by the Council's Advisors to the Fund/Fund's Investment Consultant, Aon, and he referred to the Trigger Monitoring report set out at appendix 2 on the

Supplemental Agenda. It was acknowledged that the change in actuarial valuation methodology used means that the approach to trigger monitoring was out of date and updated versions of the trigger monitoring report would not be submitted to future meetings of the Committee.

Members' attention was also drawn to the report from the PIRC, setting out the Fund's quarterly performance, and an updated appendix 5, second supplemental agenda referred, which set out the Fund Valuation and Performance.

It was noted that a report on the Review of the Risk Register would be submitted to the November 2020 meeting of the Committee, including the emerging risks.

Members also discussed the subject of training which had previously been provided prior to each Committee meeting and agreed that the training sessions be resumed. Members were asked to notify officers of the areas of training that they would like covered. As part of the training sessions, the Chair emphasised the need to invite the London CIV (Collective Investment Vehicle) and he briefed the Committee on the CIV Annual General Meeting which he had attended. He suggested that the Chief Investment Officer of the London CIV be invited to a training session.

RESOLVED: That

- (1) subject to any comments set out in the preamble above, the Work Programme for the period up to March 2021 be agreed;
- (2) the comments on the performance and investment dashboard report be noted;
- (3) the Director of Finance invite the Chief Investment Officer of the London CIV to a training session to be held before a future meeting of the Committee.

113. 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:

Agenda Item No	Title	Description of Exempt Information
13.	Annual Review of Internal Controls at Investment Managers – Appendix 1	Information under paragraph 3 - contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
14.	Pension Fund Committee	Information under paragraph 3 -

	- Performance Dashboard and Update on Regular Items – Appendix 4	contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
15.	Pension Fund Committee - London Collective Investment Vehicle (LCIV) Update	Information under paragraph 3 - contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
16.	Pension Fund Committee - Investment Strategy Review	Information under paragraph 3 - contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
17.	Appointment of Independent Advisors	Information under paragraph 3 - contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

114. Annual Review of Internal Controls at Investment Managers

[See Minute 111 above.]

115. Pension Fund Committee - Performance Dashboard and Update on Regular Items

[See Minute 112 above.]

116. Pension Fund Committee - London Collective Investment Vehicle (LCIV) Update

The Committee received a report of the Director of Finance which provided an update on the work of the London Collective Investment Vehicle (CIV) and its current Fund offerings.

An officer introduced the report and outlined the percentage of the Fund that was managed by the London CIV. He referred to the CIV's annual report which summarised their activities and highlighted concerns in respect of a MAC (multi-asset credit) Fund Manager and described what these were, details of which were set out in paragraph 5 of the main report.

The Council's Fund Advisor, Aon, stated that whilst the direction of travel was satisfactory, there were some questions that needed answering by the London CIV.

An adviser referred to his meeting with London CIV's CIO (Chief Investment Officer) and raised some operational concerns about the individual's planned

investment process which he had provided to the Committee separately. The adviser suggested that the CIO be invited to Harrow to allow for scrutiny by the Committee. The Committee was in general agreement of this suggestion.

The Chair also remarked on the lack of presence of the London CIV as he had expected the organisation to have visited the participating boroughs on a quarterly basis. An adviser undertook to assist in extending an invitation to the CIO and referred to the quarterly reports submitted by the London CIV which he considered to be of poor quality.

RESOLVED: That the report be noted and that the London CIV be invited to attend the training session to be held prior to the November meeting of the Committee.

[See also Minute 112, Resolution (3)]

117. Pension Fund Committee - Investment Strategy Review

Members received a report of the Director of Finance on the Investment Strategy for the Pension Fund investment portfolio and proposed how the review of the Strategy ought to be taken forward.

The Council's adviser to the Fund/Fund's Investment Consultant, Aon, referred to their report and outlined the Pension Fund's current Investment Strategy. The report highlighted the need to adopt a definition of asset classes and the need to incorporate Responsible Investment in light of the Council having declared a Climate Change Emergency.

A representative from Aon responded to questions on flexibility and good discipline and assured the Committee that the views of the advisers and the co-optee had been incorporated.

An adviser enquired about the parameters that would be set. He asked if the fund would be forced to sell if equities were 51% (rather than 50%). He hoped that this would not be the case. He saw the need for some flexibility to be applied and was of the view that it would be reasonable for it to be plus or minus 3%. Any breach greater than 3% should be reported to the Committee for rebalancing and he sought Members' views in this regard. In response, Aon pointed out that for equities, the Fund's rebalancing triggers were + / - 5%, and it was good practice to carry out automatic rebalancing on a quarterly basis.

RESOLVED: That, having considered the Investment Strategy review as set out in appendices 1 and 2 of the report,

- (1) it be agreed that the high level allocation be in three "buckets" as follows:
 - 50% equities, with any breach greater than + or - 5% necessitating rebalancing and being reported to the Committee
 - 25% Diversifying return assets
 - 25% Risk control assets;

- (2) further actions required to complete the review be as set out in paragraph 5 of the report.

118. Appointment of Independent Advisors

Prior to the consideration of the report, the independent advisers, including the co-optee, left the virtual private meeting during the discussion and decision-making relating to this item.

The Committee received a confidential report of the Director of Finance, which set out the proposals to extend the appointments of the existing Independent Advisors to the Pension Fund and to enable a procurement exercise to be undertaken in the 2021-22 financial year.

The Chair stated that whilst some Members might have wanted to carry out a procurement exercise after the local elections in May 2022, it would be prudent, given the circumstances set out in the report, for a procurement exercise to be undertaken earlier.

RESOLVED: That the extension of the appointments of the current independent advisors, Mr Colin Robertson and Honorary Alderman Richard Romain, to 31 March 2022, be endorsed, including their role description.

(Note: The meeting, having commenced at 6.30 pm, closed at 7.50 pm).

(Signed) COUNCILLOR KEITH FERRY
Chair