

PENSION FUND INVESTMENTS PANEL MINUTES

14 JUNE 2010

Chairman: * Councillor Mano Dharmarajah

Councillors: * Tony Ferrari * Richard Romain
* Thaya Idaikkadar

In attendance: * Howard Bluston

[Note: Other Attendance: (1) Robert Thomas and Terence Thornton attended in an observer role, as representatives of Harrow UNISON and GMB;

(2) Alistair McKissack of Hymans Robertson attended in an advisory role, as the Council's Actuary/Adviser.]

* Denotes Member present

1. Appointment of Chairman

RESOLVED: That the Panel note the appointment of Councillor Mano Dharmarajah as the Chairman of the Pension Fund Investment Panel for the Municipal Year 2010/11.

2. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members.

3. Appointment of Vice- Chairman

RESOLVED: That Councillor Thaya Idaikkadar be appointed as Vice-Chairman of the Pension Fund Investment Panel for the 2010/11 Municipal Year.

4. Appointment of Non-voting Co-optee

RESOLVED: To note the appointment of Mr Howard Bluston as a non-voting co-optee to the Pension Fund Investment Panel for the 2010/11 Municipal year.

5. Declarations of Interest

RESOLVED: To note that there were no declarations of interests made.

6. Minutes

RESOLVED: That the minutes of the meeting held on 8 March 2010, be taken as read and signed as a correct record.

7. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

8. Training Proposals for Pension Fund Investment Panel

The Panel received a report of the Corporate Director of Finance that set out proposals for training Members of the Pension Fund Investment Panel. This was based on the assumption that there would be some new members.

In response to queries raised by the Panel, officers advised that:

- the estimated cost of training was included within the estimated fees payable to Hymans Robertson based on them attending both training days. Officers would revisit the proposed content of the training based on the comments received from the Panel;
- training would be tailored to Harrow Council's investment strategy and include a separate slot for bonds and property to allow sufficient time for each;
- officers would consider if training sessions could be offered at another time during the calendar year or alternatively be offered before Panel meetings scheduled for the 2010/11 Municipal year;
- officers would send out options to Members of the Panel by email.

RESOLVED: That

- (1) officers investigate and identify options for future training delivery and dates;
- (2) Members of the Panel be consulted on these options and a training schedule be arranged accordingly.

9. Exclusion of the Press and Public

RESOLVED: That the press and public be excluded from the meeting for the following items under Part I of Schedule 12A to the Local Government Act 1972, paragraph 3 (as they contain Information relating to the financial or business affairs of any particular person or the authority holding that information):

Item Title

13. INFORMATION REPORT – Presentation by Record and Mellon Currency Managers
14. Property Portfolio Consolidation
15. Market Update from Hymans Robertson
16. Performance of Fund Managers – Quarter Ending 31 March 2010

10. Presentation by Record and Mellon Currency Managers

The Panel received presentations from Mellon and Record who were currency fund managers for the Pension Fund.

Representatives from Mellon reported that:

- currencies were traded through a pooled vehicle offshore. The benchmark of the currency fund managed by Mellon was the FTSE 100 index. The objective was to increase the performance of the pension fund by 20% per annum over the Financial Times Stock Exchange (FTSE) 100 Index;
- Mellon employed quantitative methods to determine the strength of currencies and capture the differing objectives of currency holders;
- in response to market conditions, researchers had introduced three new robust signals to manage changes within the global market environment. As a result of moderating these signals to meet demands, the fund had experienced positive performances during 2009/10. It was anticipated that the performance at the start of this financial year would provide a return of 20% in 2010/11.

The representatives responded to questions from the Panel as follows:

- an increase in the stock market would generate a quicker recovery of the fund. If market conditions remained stable it would be possible for the value of the fund to improve;
- the product and the index against which the product was benchmarked were broadly equal in terms of volatility;
- interest rates were judged to drive currencies in the long term. As a result, monetary policy was captured in terms of rates and purchasing power parity.

The Panel then received a presentation from representatives from Record who reported that:

- its strategy was based on the premise that high interest rate currencies outperform low interest rate currencies in the long term. It used this as an indicator within the currency market in order to exploit market trends;
- it had used the Forward Rate Buyers (FRB5) Index published by the FTSE to make observations relating to the performance of currencies. It had observed that over time, selecting the largest global currencies with the highest and lowest interest rates provided a return over time that outperformed bonds and equities;

In response to questions raised by the Panel, the representatives and officers confirmed that:

- negative performance within the fund was due to the economic downturn. Record had maintained its investment strategy despite low interest rates globally. It accepted that performance was dependant upon what happened to interest rates and how long it took to go back to 'normal' trends. However, Record would not be changing the strategy but would wait until market conditions returned which once again provided opportunities to make positive returns;
- Record considered real interest rates when assessing the return to be earned by the fund.

Following the presentations, Members discussed the performance of both Fund Managers and expressed concerns regarding the overall performance of Record's management of the currency portfolio. Members felt that previous losses might not be recouped in the long term if the portfolio was maintained in accordance with the existing arrangements.

RESOLVED: That

- (1) the presentation by Mellon be noted;

- (2) Record to be informed that it was to be removed from its position, in accordance with contractual procedures, as one of the Council's currency fund Managers for the Pension Fund. That this should be managed in such a way as to minimise further losses and may be over a period of time commensurate with achieving this.

11. Review of Property Investments

The Panel received a report of the Corporate Director of Finance that set out an update on property investments. The report provided an update on the recent developments at the Fund's property managers, options relating to the future manager structure, as well as, a recommendation to transfer assets from UBS to Aviva.

As trustees of the fund, Members of the Panel discussed the options available to them in terms of future arrangements for the property portfolio of the fund. It was felt that the existing property portfolio held with UBS was underperforming and there was concern around senior manager departures. They discussed the options and asked officers to explore an in –specie transfer to Aviva at a favourable price In order to reduce costs relating to the transfer of assets from UBS to Aviva.

RESOLVED: That officers give notice in respect of UBS Triton and explore an in –specie transfer from UBS to Aviva;

12. Market Update from Hymans Robertson

Item deferred until the next meeting on 26 July 2010.

13. Performance of Fund Managers - Quarter Ending 31 March 2010

Item deferred until the next meeting on 26 July 2010.

14. Any Other Urgent Business

Update Report

A Member sought an update on a number of actions that were agreed at the previous meeting. Officers reported that:

- a copy of the quarterly newsletter CMS produced by Hymans Robertson would be emailed to Panel members;
- they would confirm the benchmark and performance target used in relation to the bond portfolio managed by Blackrock;

they would confirm that the benchmark used was net of fees for the bond portfolio;

Following the update provided by officers, a Member requested that an opportunity for an update report be considered following the approval of the minutes.

Role of Adviser and Actuary

A Member sought clarification on who was the Advisor and Actuary for the Council. The Director of Corporate Finance explained that Hymans Robertson currently had dual responsibility. She informed the Panel that the Council intended to initiate a tender process for the roles of Adviser and Actuary in this financial year and were currently intending to join with Croydon and some other councils in a joint process. She explained that it was not obligatory to appoint the same firm for the role of adviser and actuary and these would be considered separately as part of the tender. The Panel would be updated on progress.

RESOLVED: That the updates be noted;

15. Extension and Termination of Meeting

RESOLVED: In accordance with the Committee Procedure Rule 14.2 (Part 4B of the Constitution) it was:

At 9.56 to continue until 10.15 pm.

(Note: The meeting, having commenced at 6.32 pm, closed at 10.05 pm).

(Signed) COUNCILLOR MANO DHARMARAJAH
Chairman