

Pension Fund Committee AGENDA

DATE: Wednesday 25 March 2015

TIME: 6.30 pm

VENUE: Committee Room 5,
Harrow Civic Centre

MEMBERSHIP (Quorum 3)

Chair: Councillor Keith Ferry

Councillors:

Adam Swersky

Barry Macleod-Cullinane
Bharat Thakker (VC)

(Non-voting Co-optee):

Mr H Bluston

Trade Union Observer(s):

Mr J Royle - UNISON
Ms P Belgrave - GMB

Reserve Members:

1. Antonio Weiss
2. Nitin Parekh

1. Norman Stevenson
2. Kam Chana

Contact: Una Sullivan, Democratic & Electoral Services Officer
Tel: 020 8424 1785 E-mail: una.sullivan@harrow.gov.uk

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

- (i) to take the place of an ordinary Member for whom they are a reserve;
- (ii) where the ordinary Member will be absent for the whole of the meeting; and
- (iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
- (iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Panel;
- (b) all other Members present.

3. MINUTES (Pages 7 - 12)

That the minutes of the meeting held on 26 November 2014 be taken as read and signed as a correct record.

4. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order notice of them was received and there be a time limit of 15 minutes.

[The deadline for receipt of public questions is 3.00 pm, 20 March 2015. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

5. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

6. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

7. ESTABLISHMENT OF PENSION FUND RISK REGISTER (Pages 13 - 30)

Report of the Director, Finance and Assurance

8. LONDON PENSIONS COLLECTIVE INVESTMENT VEHICLE (Pages 31 - 34)

Report of the Director, Finance and Assurance

9. WORK PROGRAMME 2015-16 (Pages 35 - 38)

Report of the Director, Finance and Assurance

10. TRAINING PROGRAMME 2015-16 (Pages 39 - 42)

Report of the Director, Finance and Assurance

11. INFORMATION REPORT - STRATEGY UPDATE (Pages 43 - 46)

Report of the Director, Finance and Assurance

12. INFORMATION REPORT - PENSION BOARD (Verbal Report)

Verbal Report of the Director, Finance and Assurance

13. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

14. EXCLUSION OF THE PRESS AND PUBLIC

To resolve that the press and public be excluded from the meeting for the following item of business, on the grounds that it involves the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

| <u>Agenda Item No</u> | <u>Title</u> | <u>Description of Exempt Information</u> |
|-----------------------|--|--|
| 15. | Presentation by Record Currency Management | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information). |
| 16. | Presentation by BlackRock | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information). |
| 17. | HB Public Law | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information). |
| 18. | Annual Review of Internal Controls at Fund Managers | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information). |
| 19. | Investment Manager Monitoring | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information). |
| 20. | Performance of Fund Managers for Quarter Ended 31 December 2014 and Valuation at 31 January 2015 | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information). |

AGENDA - PART II

15. INFORMATION REPORT - PRESENTATION BY RECORD CURRENCY MANAGEMENT (Pages 47 - 50)

Report of the Director, Finance and Assurance

16. REVIEW OF MANDATE OF BLACKROCK INVESTMENT MANAGEMENT (Pages 51 - 78)

Report of the Director, Finance and Assurance

17. HB PUBLIC LAW - STAFF TRANSFER ARRANGEMENTS (Pages 79 - 82)

Report of the Director, Finance and Assurance

18. INFORMATION REPORT - ANNUAL REVIEW OF INTERNAL CONTROLS AT FUND MANAGERS (Pages 83 - 100)

Report of the Director, Finance and Assurance

19. INFORMATION REPORT - INVESTMENT MANAGER MONITORING (Pages 101 - 170)

Report of the Director, Finance and Assurance

20. INFORMATION REPORT - PERFORMANCE OF FUND MANAGERS FOR QUARTER ENDED 31 DECEMBER 2014 AND VALUATION AT 31 JANUARY 2015 (Pages 171 - 176)

Report of the Director, Finance and Assurance

[Please note that Aon Hewitt, Advisers to the Fund, will be attending this meeting.]

*** DATA PROTECTION ACT NOTICE**

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[Note: The questions and answers will not be reproduced in the minutes.]

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PENSION FUND COMMITTEE

MINUTES

26 NOVEMBER 2014

Chairman: * Councillor Keith Ferry

Councillors: * Barry Macleod-Cullinane * Bharat Thakker
* Adam Swersky

Co-optee (Non-voting): * Howard Bluston Steve Compton
* Pamela Belgrave

[Note: Other Attendance:

(1) Colin Robertson and Honorary Alderman Richard Romain attended as Independent Advisers to the Committee

(2) Mr Tony Baily of Aon Hewitt attended in an advisory role, as the Council's Adviser.

* Denotes Member present

32. Attendance by Reserve Members

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

33. Declarations of Interest

RESOLVED: To note that the following interests were declared:

Agenda Item 7 – Re-Structure of Equities Mandates and Transition Management

Mr Colin Robertson, Independent Adviser to the Committee, declared a non-pecuniary interest in that he was consulting with State Street Global Markets

on behalf of other clients. He would remain in the room whilst the matter was considered.

Agenda Item 10 – Update Report

Councillor Barry Macleod-Cullinane declared a non-pecuniary interest in that he had been an adviser at London Councils when the proposals for the London Collective Investment Vehicle had been drafted. He would remain in the room whilst the matter was considered.

All Agenda Items

Councillor Barry Macleod-Cullinane declared a non-pecuniary interest in that he was a member of the Local Government Pension Scheme by virtue of his employment with London Councils.

Mr Howard Bluston, Co-opted member of the Committee, declared a non-pecuniary interest in that he had regular dealings with Aon Hewitt and State Street Global Markets through his work with other clients.

34. Minutes

RESOLVED: That the minutes of the meeting held on 23 September 2014, be taken as read and signed as a correct record, subject to the addition of Colin Robertson and Honorary Alderman Richard Romain in attendance as Independent Advisers to the Committee.

35. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

36. Re-structure of Equities Mandates and Transition Management

The Committee received the report of the Director of Finance and Assurance which set out a summary of decisions taken in respect of the Pension Fund's equities mandates.

RESOLVED: That the report be noted.

37. Presentation on Transition Management

The Committee received a presentation from Paul Gallagher of State Street Global Markets in which he described the rationale, functions and operation of the transition service provided by State Street and explained the explicit and implicit costs of transactions along with the company's charges.

RESOLVED: That

- (1) Paul Gallagher of State Street Global Markets be thanked for his informative presentation;

- (2) the Treasury and Pension Fund Manager and his team be thanked for their hard work throughout the transition process.

38. Statement of Investment Principles

The Committee received the report of the Director of Finance and Assurance which set out the revision proposed.

RESOLVED: That the Statement of Investment Principles be revised as follows:

Delete paragraph 4.8 and replace it with “Stock lending is permitted in pooled funds where applicable. Details of investment managers’ procedures and controls are available on request.”

39. Update Report

The Committee received the report of the Director of Finance and Assurance, which provided an update on actions taken and other developments since the last meeting of the Committee.

Pension Board

An officer stated that a Pension Board had been established ahead of the April deadline and it would aim to hold its first meeting in May 2015. The Director of Finance and Assurance and Director of Legal and Governance Services, following consultation with the Portfolio Holder for Finance and Major Contracts had delegated authority to make changes to the draft terms of reference and to the Constitution as required, following the current government consultation. Final regulations informing the role and function of the Board had not yet been passed and progress could not be made until this had been completed. Legislation would be monitored and reviewed, and officers would ensure that Harrow’s Pension Board was consistent with the regulations and those of other local authorities.

A Member queried the role and operation of the Board, and the mechanism for reporting back to the Committee. He also suggested that the Chair should be pro-active in pursuing information and action in this matter, and expressed his dissatisfaction when the Chair declined to do so. The Chair stated that the Board was a completely separate entity from the Committee, and that he in turn was disappointed that plans for such bodies were so far advanced without information or legislation in place to support their creation and operation.

London Pensions Collective Investment Vehicle

All mandated actions had now been implemented, and the Chair and Vice-Chair would represent Harrow as lead and reserve members.

Responsible and Ethical Investment

Members discussed the suitability and practicality of adopting a responsible and ethical investment strategy, and whether it was possible to find an optimum balance between the need to achieve the maximum return for the fund and adherence to responsible and ethical investment principles. In response to a suggestion that a policy should be included in the Statement of Investment Principles (SIP), Members noted that the SIP already made reference to this in paragraph 10.1. A Member offered to draft a brief report on the matter for the next meeting of the Committee.

Alternatives to Traditional Fixed Income Investments

Members considered whether a strategy review was necessary, and agreed that the paper on this, circulated approximately 3 years ago, should be circulated. They also discussed the content and timing of training in order to maximise their knowledge and understanding prior to consideration of specific issues.

In response to Members' comments about the style of presentation in this report and the terminology used, Tony Baily of Aon Hewitt explained that this was a generic style and that to customise the information or provide a bespoke report would incur greater costs. He agreed that canvassing the opinions of other authorities could provide an opportunity to tailor reports for laymen and local authorities which might offer economies of scale in costs.

RESOLVED: That the report be noted.

40. Work Programme for 2014-15 and 2015-16

An officer introduced the report and invited the Committee's comments on items for consideration and suggestions for training.

Members considered the optimum programme, timing and content for training, and agreed to hold two half days for meeting fund managers, along with individual sessions for fund managers with specific issues.

Members considered aspects of the Statement of Investment Principles (SIP) including the desirability and practicality of including a strong statement on responsible and ethical investment, and the audit requirements and expectations for the SIP.

RESOLVED: That

- (1) the Work Programme be agreed, subject to the following additions and amendments:
 - a training session be arranged at 5.30 pm prior to each meeting of the Committee;
 - in addition to the report on responsible and ethical investing discussed in minute 39, a full officers report be considered in September 2015;

- the Statement of Investment Principles be reviewed in November 2015;
- (2) training prior to the meeting on 25 March 2015 would be on bonds and currency hedging; for subsequent meetings officers will propose three themes for training, with one to be agreed and arranged.

41. 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> |
|-------------|---|---|
| 14. | Appointment of Diversified Growth Fund Manager | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)). |
| 15. | Information Report – Investment Manager Monitoring | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)). |
| 16. | Information report – Performance of Fund Managers for Quarter Ended 30 September 2014 | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)). |
| 17. | Update Report (Item 10) – Confidential Appendices | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)). |

42. Appointment of Diversified Growth Fund Manager

The Committee received the report of the Director of Finance and Assurance which invited the appointment of Insight Investment Management Ltd to take over the diversified growth fund mandate currently held by Baring Asset Management Ltd.

A Member queried if it would be possible to write to the new manager and advise them in respect of the Committee's expectations in respect of responsible and ethical management. The Chair stated that until the decision was approved and implemented the Committee could not act, but that in any event, this was not part of the current Statement of Investment Principles.

RESOLVED: That

- (1) the appointment of Insight Investment Management Ltd be agreed;
- (2) officers implement the transfer in the most effective and efficient manner possible.

43. Information Report - Investment Manager Monitoring

The Committee received a confidential report of the Director of Finance and Assurance which presented Aon Hewitt's quarterly report on Harrow's Fund Managers, detailing strengths, weaknesses and overall ratings.

RESOLVED: That the report be noted.

44. Information Report - Performance of Fund Managers for Quarter Ended 30 September 2014

The Committee received a confidential report of the Director of Finance and Assurance which set out the performance of the investment managers and of the overall fund for the quarter, year and three years ending 30 September 2014.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 6.30 pm, closed at 8.45 pm).

(Signed) COUNCILLOR KEITH FERRY
Chairman

REPORT FOR: Pension Fund Committee

| | |
|-----------------------------|---|
| Date of Meeting: | 25 March 2015 |
| Subject: | Establishment of Pension Fund Risk Register |
| Responsible Officer: | Simon George, Director of Finance and Assurance |
| Exempt: | No |
| Wards affected: | All |
| Enclosures: | Appendix 1 – Risk Register |

Section 1 – Summary and Recommendation

Summary

The report attaches as Appendix 1 a draft risk register for the Pension Fund on which the Committee are invited to comment and for which their agreement is sought.

Recommendation

The Committee are asked to comment on and agree the draft risk register.

Section 2 – Report

1. In several of their statements on the management of Pension Funds CIPFA, the Pensions Regulator and other authorities have emphasised the importance of risk management and of the maintenance of a risk register to assist in that management.
2. Risk management is central to the Committee’s management of the Pension Fund as reflected by its coverage in key documents such as the Funding Strategy Statement and the Statement of Investment Principles.
3. Whilst the Committee is very conscious of the importance of risk management and has discussed it on many occasions it does not currently maintain a risk register for the Fund. In their last two reports the external auditors have highlighted this and recommended “that risks should be recorded in a risk register and should be regularly reviewed to ensure that they are being appropriately managed.” In their response to the latest audit report in September 2014 officers’ management response was that such a register will be set up.
4. Attached is a draft risk register using the Council’s normal template on which the Committee’s comments and agreement are invited.
5. It would probably be appropriate for the Committee to review the register on an annual basis but they could receive it more often should they wish.

Financial Implications

6. The proper management of risk is a key part in the successful management of the Pension Fund.

Risk Management Implications

7. Risk management is the subject of this report

Equalities implications

8. There are no direct equalities implications arising from this report.

Council Priorities

9. The performance of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council’s priorities

Section 3 - Statutory Officer Clearance

Name Simon George



Director of Finance and Assurance

Date: 11 March 2015

Name: Caroline Eccles



on behalf of the Monitoring Officer

Date: 16 March 2015

Ward Councillors notified:

NO

Section 4 - Contact Details and Background Papers

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

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PENSION FUND RISK REGISTER

| LIKELIHOOD | | | | | |
|-------------------------------|--------------------------------------|--|--|--|--|
| A Very High | | | | | |
| B High | | 18,19 | | | |
| C Significant | | 10,11,12,17 | | | |
| D Low | 20,31 | 4,6,13,14,37 | 8,9,16, | | |
| E Very Low | 32 | 5,25,26,28,30, 33,35,36,38, 39,40,41 | 1,2,3,7,15,21, 22,23,24,27, 29,34,42,44,45 | | |
| F Almost Impossible | | | 43 | | |
| IMPACT | 4 Negligible Impact / Benefit | 3 Marginal Impact / Minor Benefit | 2 Critical Impact / Major Benefit | 1 Catastrophic Impact / Exceptional Benefit | |

| Risk No. | Objective No. | Controls (In Place and Effective) | Risk Rating This Quarter (after controls) | Risk Rating Last Quarter | Controls (Underway or Planned) (Incl. Implementation Date) | Control Owner | Target Risk Rating | Target Date | Risk Owner |
|----------|---------------|--|---|--------------------------|---|---------------|--------------------|-------------|--------------|
| 1 | | <p>GOVERNANCE</p> <p>Those charged with governance of the Fund are unable to fulfil their responsibilities effectively</p> | E2 | | | Ian Talbot | | | Simon George |
| 2 | | <p>Pension Fund Committee members have insufficient knowledge to make correct decisions</p> <p>Regular training is provided via a structured training programme to allow Members to review and challenge recommendations.</p> <p>Actuarial, investment, independent and officer advice is available to assist Members in making their decisions.</p> | E2 | | | Ian Talbot | | | Simon George |
| 3 | | <p>Inadequate investment and actuarial advice is available to the Pension Fund Committee</p> <p>Properly considered appointment of actuary and investment adviser with relevant experience and professional standards in place.</p> <p>Appointment of additional independent advisers</p> | E2 | | | Ian Talbot | | | Simon George |

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|---|---|--|----|--|--|------------|--|--------------|
| 4 | Officers do not have sufficient knowledge and experience to advise the Committee and manage the Fund. | Suitably qualified staff appointed. Ongoing professional development (including training and technical reading); liaison with other funds and professional bodies and other networks. Training and development needs monitored through annual and monthly meetings with managers. Use of external advisers where appropriate. | D3 | | | Ian Talbot | | Simon George |
| 5 | Failure to adhere to relevant statutory regulations including updates from LGPS | Investment and Administration sections review DCLG website, other literature and have networking arrangements to ensure they remain up-to date. Sufficient resources are in place to implement LGPS changes while continuing to administer the scheme. Membership of relevant professional groups ensures any potential changes in statutory requirements are properly implemented | E3 | | | Ian Talbot | | Simon George |
| 6 | Non-compliance with LGPS investment regulations on permitted investments | Statement of Investment Principles and investment management mandates are structured to ensure compliance. Robust monitoring arrangements for investment managers are in place. | D3 | | | Ian Talbot | | Simon George |
| 7 | FUNDING - ASSETS AND LIABILITIES Pension Fund objectives are not defined and agreed | Objectives are defined in the Funding Strategy Statement which is reviewed regularly by the Pension Fund Committee | E2 | | | Ian Talbot | | Simon George |

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|----|--|---|----|--|--|------------|--|--------------|
| 8 | The Fund's assets are not sufficient to meet its long term liabilities. Fall in returns on Government bonds leading to rise in value placed on liabilities and an increase in deficit | Fund assets and liabilities are subject to regular assessment through triennial actuarial valuations. The Fund's investment strategy, as described in the Statement of Investment Principles, is regularly reviewed to seek to ensure that optimum returns are realised to meet its liabilities. | D2 | | | Ian Talbot | | Simon George |
| 9 | The relative movement in the value of the Fund's assets does not match the relative movement in the Fund's liabilities | Fund assets and liabilities are subject to regular assessment through triennial actuarial valuations. The Funding Strategy Statement is regularly reviewed in line with the triennial valuation with the main objective of ensuring the long term solvency of the Fund. | D2 | | | Ian Talbot | | Simon George |
| 10 | Pay and price inflation is higher than anticipated increasing the value of liabilities | Fund assets and liabilities are subject to regular assessment through triennial actuarial valuations | C3 | | | Ian Talbot | | Simon George |
| 11 | The Fund's pensioners are living longer than assumed in actuarial assumptions thereby increasing liabilities. | At each triennial actuarial valuation life expectancy assumptions are specifically reviewed taking into account both national and local longevity experience. | C3 | | | Ian Talbot | | Simon George |
| 12 | Other demographic factors change increasing the cost of Fund benefits thereby increasing liabilities. | At each triennial valuation assumptions are reviewed. | C3 | | | Ian Talbot | | Simon George |

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| 13 | Increase in number of early retirements due to service reductions and/or ill-health retirements. | Employers are charged the “strain” cost of non-ill-health retirements; ill health retirement experience is closely monitored. Controls are included in admission agreements for new bodies joining the Fund. Experience between triennial valuations is monitored and incorporated in the valuation process. | D3 | | | Ian Talbot | | Simon George |
| 14 | Structural changes in an employer’s membership (eg fall in active membership) leading to non-recovery of past service deficits | Past service deficits are being recovered by cash rather than percentage of payroll. | D3 | | | Ian Talbot | | Simon George |
| 15 | Insufficient assets to meet short and medium term liabilities | Including investment income the Fund currently achieves an annual surplus. Medium term requirements are being reviewed. Cashflow is monitored and reconciled on a daily basis. Most of the Fund’s investments can be accessed relatively quickly. | E2 | | | Ian Talbot | | Simon George |
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|----|---|--|----|------------|--------------|
| 16 | FUNDING - INVESTMENT STRATEGY Long term investment strategy in relation to fund liabilities is inappropriate | External investment adviser, actuary and performance measurement consultant provide specialist guidance to the Pension Fund Committee. Strategy is documented, regularly reviewed and approved by Pension Fund Committee. Strategy is in accordance with LGPS investment regulations. The Pension Fund Committee has explicitly considered its tolerance of risk and this is reflected in its allocation strategy. | D2 | Ian Talbot | Simon George |
| 17 | INVESTMENT Significant allocation to any single asset category and its underperformance relative to expectation. Failure of individual investments to perform up to expectation | Diversified investment strategy and investment management structure minimises impact at fund level of any individual investment failure. Performance measurement consultant and investment adviser supply regular review of the performance of the portfolio as a whole and of the individual managers. Asset allocation is regularly reviewed and adjustments made if required | C3 | Ian Talbot | Simon George |
| 18 | General fall in investment markets leading to poor performance. | The Committee, as advised by the actuary considers long term returns. Diversification between asset classes and regular monitoring of investment performance | B3 | Ian Talbot | Simon George |

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|----|--|--|----|--|------------|--|--------------|
| 19 | <p>Failure by fund managers to achieve benchmark (passive) or performance target (active) returns for their given mandates</p> | <p>Diversification of managers and asset classes mitigates the impact of a single manager under-performing. Managers are selected via an extensive process of "due diligence." Manager performance is reviewed by Committee at each meeting against benchmark and performance objectives and with investment adviser's report; poor performance is highlighted and addressed by the Committee and officers. Regular dialogue is maintained with the investment advisers and managers; the Committee meets the managers once a year and officers meet them on at least one further occasion. Procurement frameworks and adviser's advice are used to fast track the appointment of new managers if changes are required</p> | B3 | | Ian Talbot | | Simon George |
| 20 | <p>Fees and charges of investment managers, actuary and investment adviser are excessive.</p> | <p>Both at tender stage and throughout the contracts charges which are value for money are sought and challenged when appropriate. Fees and charges are identified in the Annual Financial Statement and specifically highlighted for the Pension Fund Committee to consider.</p> | D4 | | Ian Talbot | | Simon George |

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| 21 | SECURITY Investment manager may not have appropriate control framework in place to protect Pension Fund assets | Client agreements which include the control framework are in place. Assets are held by external custodians separate from the investment managers; custodians are expected to comply with ICAEW's Audit and Assurance Faculty's guidance on internal controls of service organisations. Each investment manager's annual audit of internal controls is reviewed by officers and the Pension Fund Committee. Investment managers maintain an appropriate risk management framework to minimise the level of risk to pension fund assets. | E2 | | | | Ian Talbot | | | Simon George |
| 22 | Negligence, fraud or default by individual investment manager. | Legal requirements on fund managers set out in investment management agreements, FSA and other regulatory requirements; separation of investment management and custody arrangements; annual review of operational controls | E2 | | | | Ian Talbot | | | Simon George |
| 23 | Custody arrangements may not be sufficient to safeguard fund assets | Client agreements which include the control framework are in place. External custodians comply with ICAEW's Audit and Assurance Faculty's guidance on internal controls of service organisations. Regular reconciliations carried out to check external custodian records | E2 | | | | Ian Talbot | | | Simon George |

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| 24 | Failure of custodian | Use custodians under banking and FSA regulation | E2 | | | Ian Talbot | | Simon George |
| 25 | Counterparty default in stock lending programme. | Programme managed by experienced investment manager, State Street Global Advisors with risk controls over custody arrangements, counterparty credit worthiness, exposure limits and collateral agreements in place | E3 | | | Ian Talbot | | Simon George |
| 26 | Investments may not be accurately valued | Investments are valued using best current practice as agreed with the investment managers. Valuations reported to Pension Fund Committee | E3 | | | Ian Talbot | | Simon George |
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| | OPERATIONAL | | | | | | | |
| 27 | Major emergency or system failure | Business Continuity Plan in place | E2 | | | Linda D'Souza | | Jon Turner |
| 28 | Failure of pensions administration IT systems | Adequate IT systems and support in place supported by a robust Business Continuity Plan | E3 | | | Linda D'Souza | | Jon Turner |
| 29 | Systems and data may not be secure and appropriately maintained | Authentication controls including regular password changes and robust user administration procedures are in place. Access rights restricted. Data is backed up on an incremental basis daily and fully backed up weekly. Audit trails and reconciliations are in place. System is protected against viruses and other system threats. Software is regularly updated to ensure LGPS requirements are met | E2 | | | Linda D'Souza | | Jon Turner |

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| 30 | Failure to comply with LGPS pensions benefits regulations (eg as a result of incorrect benefit calculations and the holding of incorrect data) | Proper administration procedures in place supported by independent internal and external audit review of internal control arrangements | E3 | | | Linda D'Souza | | Jon Turner |
| 31 | Contributions to the Fund are not received, processed and recorded completely and accurately in accordance with scheme rules. | Sufficient resources are in place, structured appropriately, to carry out the necessary transaction processing. Procedures exist to identify any non-payment of contributions. Internal audit reviews take place regularly and there is an External Audit review of the accounts annually | D4 | | | Linda D'Souza | | Jon Turner |
| 32 | Life events relating to scheme members eg joining the scheme, transfers in and out and retirements are not processed and recorded properly in accordance with scheme rules | Procedure notes describing all key processes are in place. Induction and training procedures are in place. Adequate staff resources are in post | E4 | | | Linda D'Souza | | Jon Turner |
| 33 | Standing data and permanent records are not accurate or do not reflect changes in circumstances | Business processes are in place to identify changes to standing data. Records are supported by appropriate documentation; input and output checks are undertaken; reconciliations are carried to between input and source records. Documentation is maintained in line with agreed policy. Data matching exercises (National fraud Initiative) identifies some discrepancies | E3 | | | Linda D'Souza | | Jon Turner |
| 34 | Breach of data protection legislation. | Data security protocol | E2 | | | Linda D'Souza | | Jon Turner |

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|----|---|--|----|--|--|--|---------------|--|------------|
| 35 | Employers' failure to carry out their responsibilities for scheme administration. | Regular communication and guidance to employers on scheme matters | E3 | | | | Linda D'Souza | | Jon Turner |
| 36 | Failure by AVC providers to provide proper services to the Pension Fund. | Regular reviews undertaken. | E3 | | | | Linda D'Souza | | Jon Turner |
| 37 | Concentration of knowledge in a small number of officers and risk of departure of key staff | Appoint suitably qualified staff. Ensure training and succession planning in place | D3 | | | | Linda D'Souza | | Jon Turner |
| 38 | Increase in workload for employers | Maintain close relationships with employers to make them aware of likely changes. Encourage employers to take account of pensions issues when considering restructuring or contracting out. Keep abreast of new developments. Work closely with software suppliers and ICT services to manage developments and planned maintenance to minimise impact | E3 | | | | Linda D'Souza | | Jon Turner |
| 39 | Failure to communicate or engage with Pension Fund stakeholders | Maintain a communication and governance strategy and Governance Compliance Statement subject to regular review. Utilise a range of formal and informal communication routes with stakeholders | E3 | | | | Linda D'Souza | | Jon Turner |
| 40 | Increasing use of new methods of service provision eg academies, free schools without full understanding of pensions implications | Ensure all employers are aware of pensions implications and of associated legislation and guidance | E3 | | | | Linda D'Souza | | Jon Turner |

| | | | | | | | | | |
|----|---|--|----|--|--|--|---------------|--|------------|
| 41 | Employees opting out of the scheme voluntarily | Effective communication helps members to make properly informed decisions about membership ensuring that they understand the value of membership. | E3 | | | | Linda D'Souza | | Jon Turner |
| 42 | Default by a participating employer | Ongoing liabilities managed through the triennial valuation process. Periods allowed to repay deficits are set depending on the value of the employer's covenant and linked to contract periods for transferee employer bodies. Any cessation lump sum required from an employer leaving the Fund is calculated on a minimum risk basis by the Actuary. Major employers are "scheduled" in regulations and backed by long term tax receipts and the constitutional permanence of local government | E2 | | | | Linda D'Souza | | Jon Turner |
| 43 | Administering authority failing to commission the fund actuary to carry out a termination valuation for a departing admission body and losing the opportunity to call in a debt | System of close monitoring of employers in place | F2 | | | | Linda D'Souza | | Jon Turner |
| 44 | Inability or refusal of an employer to pay cessation valuation | Action through courts | E2 | | | | Linda D'Souza | | Jon Turner |

| | | | | | | | | |
|----|--|--|--|----|--|-------------|--|--------------|
| 45 | | <p>ACCOUNTING</p> <p>Failure to comply with Pension Fund accounting requirements.</p> | <p>Sufficient properly qualified and trained staff are employed to carry out processes; knowledge is maintained via written guidance, networks, professional press and training.</p> <p>Accounting, management and administration processes are maintained in accordance with legislation and external regulations and the Council's Financial Regulations.</p> <p>Regular reconciliations are carried out between in-house records and those maintained by external custodian and investment managers.</p> <p>Internal audit reviews.</p> <p>External Audit annual review</p> | E2 | | Ilan Talbot | | Simon George |
|----|--|--|--|----|--|-------------|--|--------------|

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**REPORT FOR: PENSION FUND
COMMITTEE**

| | |
|-----------------------------|---|
| Date of Meeting: | 25 March 2015 |
| Subject: | London Pensions Collective Investment Vehicle |
| Responsible Officer: | Simon George, Director of Finance and Assurance |
| Exempt: | No |
| Wards affected: | All |
| Enclosures: | Appendix 1- Pensions CIV Sectoral Joint Committee: Background and Progress Update Report 17 December 2014 |

Section 1 – Summary and Recommendations

Summary

The report provides an update on the establishment of the London Pensions Collective Investment Vehicle. It also seeks the Committee's agreement to the payment of £50,000 (making £75,000 in total) as the Council's contribution towards the legal and other costs necessary to establish the CIV and to the Director of Finance and Assurance, in consultation with the Chairman of the Committee, being given delegated authority to make further payments of up to £25,000 in total.

Recommendations

The Committee are asked to agree:

- to the payment of £50,000 (£25,000 paid in January 2015 and £25,000 to be paid in 2015-16) in respect of legal and other costs necessary to establish the London Pensions Collective Investment Vehicle;
- that where any further payment is needed urgently and a meeting of the Committee is not imminent delegated authority be given to the Director of Finance and Assurance, in consultation with the Chairman of the Committee, to make payments of up to £25,000 in total and to advise the Committee subsequently.

Section 2 – Report

1. At its meeting on 29 July 2014 the Committee resolved to recommend to the Council that the Council:
 - (1) become a shareholder in a private company limited by shares which will be incorporated to be the Authorised Contractual Scheme Operator (the “ACS Operator”) of the Collective Investment Vehicle;
 - (2) contribute £1 to the ACS Operator as initial capital;
 - (3) delegate to the Chairman of the Pension Fund Committee authority to act for the Council in exercising its rights as a shareholder of the ACS Operator and to authorise the Vice Chairman of the Pension Fund Committee to act in his absence and;
 - (4) agree to join the London Boroughs’ “Pensions CIV Joint Committee” to be formed under Section 102 of the Local Government Act 1972 and to delegate to such Joint Committee those functions necessary for the proper functioning of the ACS Operator, including the effective oversight of the ACS Operator and the appointment of Directors.
2. The Committee also resolved that, subject to the Council agreeing the above recommendations:
 - (1) The Director of Finance and Assurance be authorised to consider any requests for additional capital and, if he assesses that a capital commitment is likely to be beneficial to the Pension Fund, to seek agreement from the Committee;

- (2) £25,000 be contributed to be used to commission specialist expert professional advice associated with the development of the proposed CIV.
3. On 13 November 2014 the Council agreed the Committee's recommendations.
 4. On the basis of the decision taken by the Committee on 29 July the initial sum of £25,000 was paid to London Councils on 1 December 2014.
 5. On 17 December 2014 the Pensions CIV Sectoral Joint Committee met and received the "Background and Progress Update" report attached as Appendix 1. In paragraphs 37 to 42 the project budget is discussed with the commitments required from the participating boroughs as follows:

Initial contribution on joining - £25,000

Second contribution requested in January 2015 - £25,000

Third contribution at the beginning of 2015-16 - £25,000

6. An invoice for the second payment of £25,000 was paid on 22 January 2015.
7. In view of the Committee's previous decision their agreement to this second payment and to the further payment of £25,000 is now sought.
8. The Committee are asked to agree that, where a payment is needed urgently and a meeting of the Committee is not imminent, delegated authority be given to the Director of Finance and Assurance, in consultation with the Chairman of the Committee, to make single payments of up to £25,000 and to advise the Committee subsequently.

Financial Implications

9. A reduction in administration and investment management costs would be a contributory factor to the overall wellbeing of the Pension Fund.

Risk Management Implications

10. Risk in connection with the Pension Fund is included on the Directorate Risk Register.
11. Additionally, a separate risk register for the Fund is being considered elsewhere on the agenda.

Equalities Implications

12. There are no direct equalities implications arising from this report.

Council Priorities

13. Investment performance has a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution and which, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

| | | |
|-----------------------|-------------------------------------|-------------------------------------|
| Name Simon George | <input checked="" type="checkbox"/> | Director of Finance and Assurance |
| Date: 11 March 2015 | | |
| Name: Caroline Eccles | <input checked="" type="checkbox"/> | on behalf of the Monitoring Officer |
| Date: 16 March 2015 | | |

| | |
|-----------------------------------|-----------|
| Ward Councillors notified: | NO |
|-----------------------------------|-----------|

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None

REPORT FOR: Pension Fund Committee

Date of Meeting: 25 March 2015

Subject: Work Programme for 2015-16

Responsible Officer: Simon George, Director of Finance and Assurance

Exempt: No

Wards affected: All

Enclosures: None

Section 1 – Summary and Recommendations

Summary

This Report presents a draft work programme for the year to March 2016 on which the Committee's comments and agreement are requested.

Recommendation

That, subject to any comments the Committee wish to make, the work programme for the period up to March 2016 be agreed.

Section 2 – Report

1. At their meeting on 26 November 2014 the Committee considered a draft work programme for the financial year to 31 March 2016. They broadly agreed the recommended programme but asked for various amendments. Additionally, events have taken place since the Committee met which have necessitated further minor amendments. Below is a draft implementing these amendments which the Committee is asked to consider as its programme of work for the financial year 2015-16.

23 June 2015

Performance of fund managers for quarter ended 31 March 2015 and manager monitoring
Performance Review 2014-15 by The WM Company
Monitoring of operational controls at managers - outstanding
Lead Member roles
Long term funding
Review of Investment Adviser contract
Work programme for 2015-16
Private Equity – presentation by Pantheon
Property – presentation by Aviva Investors

8 September 2015

Performance of fund managers for quarter ended 30 June 2015 and manager monitoring
Annual Report and Financial Statements 2014-15
Investment management expenses
Responsible and Ethical Investing
Issues raised by Pension Board
Work programme for 2015-16

Autumn – “Meet the Managers” (two half days)

Longview Partners
GMO
Oldfield Partners
Standard Life Investments
Insight Investment

26 November 2015

Performance of fund managers for quarter ended 31 September 2015 and manager monitoring
London Pension Fund Collaboration (CIV)
Issues raised by Pension Board
Statement of Investment Principles
Work programme for 2015-16 and 2016-17

9 March 2016

Performance of fund managers for quarter ended 31 December 2015 and manager monitoring
Monitoring of operational controls at managers
Issues raised by Pension Board
London Pension Fund Collaboration (CIV)
Infrastructure and local investing
Work programme for 2016-17

2. The Committee will have the opportunity to update this programme at every meeting but are invited to comment on the draft programme above and agree it at this stage.
3. In addition to the Committee's work programme training opportunities will be offered for an hour prior to each meeting as discussed in a report elsewhere on the agenda.

Financial Implications

4. There are no financial implications arising from this report.

Risk Management Implications

5. Risk in connection with the Pension Fund is included on the Directorate Risk Register
6. Additionally, a separate risk register for the Fund is being considered elsewhere on the agenda.

Equalities implications

7. There are no direct equalities implications arising from this report.

Council Priorities

8. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name: Simon George



Director of Finance and Assurance

Date: 11 March 2015

Name: Caroline Eccles



on behalf of the Monitoring Officer

Date: 11 March 2015

Ward Councillors notified:

NO

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager 0208 424 1450

Background Papers - None

REPORT FOR: Pension Fund Committee

| | |
|-----------------------------|---|
| Date of Meeting: | 25 March 2015 |
| Subject: | Training Programme 2015-16 |
| Responsible Officer: | Simon George, Director of Finance and Assurance |
| Exempt: | No |
| Wards affected: | All |
| Enclosures: | Appendix – Training Programme for 7 July 2014 |

Section 1 – Summary and Recommendation

Summary

The Committee is asked to consider and agree upon a training programme for 2015-16.

Recommendation

The Committee is recommended to consider and agree upon a training programme for 2015-16.

Section 2 – Report

1. The CIPFA publication *Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012* endorsed by the Department for Local Government and Communities set out guidance on best practice principles in respect of the governance of the Local Government Pension Scheme.

2. Within this publication Principle 1, *Effective Decision Making* states:

Administering Authorities should ensure that:

- *Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor implementation; and*
- *Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.*

3. CIPFA has further developed the concepts described above in its publication *Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-executives in the Public Sector*. There are six areas of knowledge and skills relating to the Local Government Pension Scheme which CIPFA has identified as being the core technical requirements for those involved in decision making as follows:

- Legislative and governance context;
- Accounting and auditing standards
- Procurement of financial services and relationship management
- Investment performance and risk management
- Financial markets and investment products; and
- Actuarial methods, standards and practices

4. It is the responsibility of the Council to ensure that those involved in decision making, primarily the Pension Fund Committee receive the training necessary to ensure that these core requirements are met.

5. Since the Committee were appointed at the Annual Council meeting on 12 June 2014 the following training has taken place:

7 July 2014

6. As an introduction to most of the issues listed above a presentation, with appropriate documentation, was given for all Members and Reserve Members of the Committee as follows:

- Governance and key legislation
- Glossary of investment and pension words
- Asset classes
- Annual report
- Governance Compliance statement
- Communications Policy Statement
- A brief guide to the Local Government Pension Scheme

- Statement of Investment Principles
- Funding Strategy Statement
- Actuarial Methodology
- 2013 Actuarial Valuation
- Example of WM Performance Review
- LGPS Governance Regulations (Pension Board)

Attached as the Appendix is the detailed agenda

Three Members of the Committee and two reserve members were able to attend.

June – July 2014

7. All Members of the Committee were given the opportunity to attend three all-day training sessions run by Aon Hewitt as follows:
 - Governance and Key Legislation
 - Funding and Actuarial Matters
 - Investments

Several Members were able to attend one or more of these sessions.

23 September 2014

8. At the meeting of the Committee the Members in attendance received a presentation on Performance Measurement from State Street Investment Analytics (WM Performance Services).

26 November 2014

9. At the meeting of the Committee all Members received a presentation on Transition Management from State Street Global Markets.
10. In addition they received “training” documentation from Aon Hewitt in respect of Fixed Income Investments and Strategic Currency Hedging.
11. Whilst many of the relevant requirements have been met it is appropriate for the Committee to agree a training programme for the year 2015-16. The Committee is invited to comment on and agree the following draft programme:

23 June 2015

Private Equity Investment
Property Investment

September / November 2015

Responsible and Ethical Investment
Liability Driven Investment

March 2016

Infrastructure and local investing

12. Members will be kept advised of other training opportunities as they arise.

Financial Implications

13. No direct financial implications arise from this report.

Risk Management Implications

14. There are a number of risks associated with the Fund's decision making arrangements and these are considered in a separate risk register for the Fund elsewhere on the agenda.

Equalities implications

15. There are no direct equalities implications arising from this report.

Council Priorities

8. Management of the Fund has a direct impact on its financial health which directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities

Section 3 - Statutory Officer Clearance

| | | |
|-----------------------|-------------------------------------|-------------------------------------|
| Name Simon George | <input checked="" type="checkbox"/> | Director of Finance and Assurance |
| Date: 16 March 2015 | | |
| Name: Caroline Eccles | <input checked="" type="checkbox"/> | on behalf of the Monitoring Officer |
| Date: 16 March 2015 | | |

Ward Councillors notified: NO

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None

REPORT FOR: Pension Fund Committee

Date of Meeting: 25 March 2015

Subject: Information Report – Strategy Update

Responsible Officer: Simon George, Director of Finance and Assurance

Exempt: No

Wards affected: All

Enclosures: None

Section 1 – Summary

The Committee is advised of progress on the implementation of their agreed allocation strategy.

FOR INFORMATION

Section 2 – Report

1. Over recent years the Committee and its predecessor have reviewed the overall strategy of the Fund the final version was agreed in the autumn of 2013 as follows:

| | Agreed allocation % | Range as included in SIP % |
|---------------------------------|------------------------|-------------------------------|
| Bonds | | |
| Index linked | 3 | |
| Corporate | 10 | |
| TOTAL | 13 | 11-15 |
| Equities | | |
| Global passive | 31 | |
| Developed World active | 21 | |
| Emerging markets active | 10 | |
| TOTAL | 62 | 58-68 |
| Property | | |
| TOTAL | 10 | 8-12 |
| Private equity | | |
| TOTAL | 5 | 4-6 |
| Diversified growth funds | | |
| TOTAL | 10 | 8-12 |
| GRAND TOTAL | 100 | |

- Over recent months a major programme has taken place to implement this structure and as at the end of January 2015 the position was as follows

| | Allocation £'000 | Allocation % |
|---------------------------------|----------------------------|------------------------|
| Bonds | | |
| Index linked | 17,407 | 3 |
| Corporate | 71,188 | 11 |
| TOTAL | 88,595 | 14 |
| Equities | | |
| Global passive | 209,678 | 32 |
| Developed World active | 142,479 | 22 |
| Emerging markets active | 74,249 | 11 |
| TOTAL | 426,406 | 65 |
| Property | | |
| TOTAL | 49,759 | 8 |
| Private equity | | |
| TOTAL | 23,414 | 4 |
| Diversified growth funds | | |
| TOTAL | 58,188 | 9 |
| Cash | | |
| TOTAL | 3,943 | |
| GRAND TOTAL | 650,305 | 100 |

- Since all asset classes are within the agreed ranges no further re-balancing is necessary.

Financial Implications

- Asset allocation is a significant source of projected returns.

Risk Management Implications

- Risk in connection with the Pension Fund is included on the Directorate Risk Register.
- Additionally, a separate risk register for the Fund is being considered elsewhere on the agenda.

Equalities implications

7. There are no direct equalities implications arising from this report.

Council Priorities

8. Investment performance has a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities

Section 3 - Statutory Officer Clearance

| | | |
|-----------------------|-------------------------------------|-------------------------------------|
| Name Simon George | <input checked="" type="checkbox"/> | Director of Finance and Assurance |
| Date: 11 March 2015 | | |
| Name: Caroline Eccles | <input checked="" type="checkbox"/> | on behalf of the Monitoring Officer |
| Date: 12 March 2015 | | |

| | |
|-----------------------------------|-----------|
| Ward Councillors notified: | NO |
|-----------------------------------|-----------|

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None

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