

# Pension Fund Committee AGENDA

**DATE:** Wednesday 1 July 2015

**TIME:** 6.30 pm

**VENUE:** Committee Room 5,  
Harrow Civic Centre

## **MEMBERSHIP** (Quorum 3)

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**Chair:** Councillor Adam Swersky

**Councillors:**

Keith Ferry

Norman Stevenson  
Bharat Thakker

**(Non-voting Co-optee):**

Mr H Bluston

**Trade Union Observer(s):**

Mr J Royle - UNISON  
Ms P Belgrave - GMB

## **Reserve Members:**

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1. Antonio Weiss
2. Nitin Parekh

1. Kanti Rabadia
2. Barry Macleod-Cullinane

**Contact:** Daksha Ghelani, Senior Democratic Services Officer  
Tel: 020 8424 1881 E-mail: [daksha.ghelani@harrow.gov.uk](mailto:daksha.ghelani@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. APPOINTMENT OF VICE-CHAIR

To appoint a Vice-Chair of the Committee for the Municipal Year 2015/16.

## 4. MINUTES (Pages 5 - 12)

That the minutes of the meeting held on 25 March 2015 be taken as read and signed as a correct record.

## 5. 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, Friday 25 June 2014. Questions should be sent to [publicquestions@harrow.gov.uk](mailto:publicquestions@harrow.gov.uk)**

**No person may submit more than one question].**

## 6. 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).

## 7. DEPUTATIONS

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

## 8. INFORMATION REPORT - LONDON BOROUGH OF HARROW PENSION FUND PERFORMANCE REVIEW (Pages 13 - 34)

Report of the Interim Director of Finance.

## 9. INFORMATION REPORT - ESTABLISHMENT OF PENSION FUND RISK REGISTER (Pages 35 - 52)

Report of the Interim Director of Finance.

## 10. WORK PROGRAMME FOR 2015-16 (Pages 53 - 56)

Report of the Interim Director of Finance.

## 11. INFORMATION (VERBAL) REPORT - PENSION BOARD

Report of the Interim Director of Finance.

## 12. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

## 13. EXCLUSION OF THE PRESS AND PUBLIC

To resolve that the press and public be excluded from the meeting for the following items of business, on the grounds that they involve 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 Nos</u>	<u>Titles</u>	<u>Description of Exempt Information</u>
14 - 20	Presentation by Aviva Investors/Presentation by Pantheon Ventures/Review of Bond Allocation/Review of Investment Adviser Contract/Annual Review of Internal Contractors at Fund Managers/Investment Management Monitoring/Performance of Fund Managers	Information under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972, relating to the financial or business affairs of any particular person (including the authority holding that information).

## **AGENDA - PART II**

- 14. INFORMATION REPORT - PRESENTATION BY AVIVA INVESTORS** (Pages 57 - 60)

Report of the Interim Director of Finance.

- 15. INFORMATION REPORT - PRESENTATION BY PANTHEON VENTURES** (Pages 61 - 64)

Report of the Interim Director of Finance.

- 16. REVIEW OF BOND ALLOCATION** (Pages 65 - 76)

Report of the Interim Director of Finance.

- 17. REVIEW OF INVESTMENT ADVISER CONTRACT** (Pages 77 - 86)

Report of the Interim Director of Finance.

- 18. INFORMATION REPORT - ANNUAL REVIEW OF INTERNAL CONTROLS AT FUND MANAGERS** (Pages 87 - 98)

Report of the Interim Director of Finance.

- 19. INFORMATION REPORT - INVESTMENT MANAGER MONITORING** (Pages 99 - 168)

Report of the Interim Director of Finance.

- 20. INFORMATION REPORT - PERFORMANCE OF FUND MANAGERS FOR QUARTER ENDED 31 MARCH 2015 AND VALUATION AT 31 MAY 2015** (Pages 169 - 176)

Report of the Interim Director of Finance.

*[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.]

# PENSION FUND COMMITTEE

## MINUTES

### 25 MARCH 2015

**Chair:** \* Councillor Keith Ferry

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

**Co-optee (Non-voting):** \* Howard Bluston \* John Royle  
Pamela Belgrave

[Note: Other Attendance:

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

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

\* Denotes Member present

#### 45. Attendance by Reserve Members

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

#### 46. Declarations of Interest

**RESOLVED:** To note that the following interests were declared:

##### Agenda Item 8 – London Pensions Collective Investment Vehicle

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.

#### 47. Minutes

**RESOLVED:** That the minutes of the meeting held on 26 November 2015, be taken as read and signed as a correct record, subject to the following amendments:

Page 7, final paragraph: amend to read “Mr Colin Robertson, Independent Adviser to the Committee, declared a non-pecuniary interest in that he was an adviser to State Street Global Markets. He would remain in the room for the presentation and questions.

Page 8, All Agenda Items, paragraph 2: delete ‘State Street Global Markets’ and replace with ‘BlackRock’.

#### 48. Public Questions, Petitions and Deputations

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

### RESOLVED ITEMS

#### 49. Establishment of Pension Fund Risk Register

The Committee received a report of the Director of Finance and Assurance with a draft risk register appended for Members’ information and comment.

The Treasury and Pension Fund Manager introduced this item and advised Members that the risk register had been established for a number of reasons, but in particular that it had been a recommendation within the last two external audit reports, and would sit alongside the Funding Strategy Statement and Statement of Investment Principles.

He informed the Committee that the register was based on a Council-wide template, and, for the Fund, contained nine categories of risk, which were potentially analysed as ‘red’, ‘amber’ or ‘green’. There were three areas of risk considered ‘amber’, in the areas of actuarial assumptions and investment strategy. There were no risks identified as ‘red’.

An independent adviser suggested that Item 9 be categorised as a ‘C2 red risk’, rather than a ‘D2 amber risk’. The Treasury and Pension Fund Manager agreed to review this and report back to the next meeting.

A Member commented that in Item 17 it would be more accurate to state that asset allocation was ‘periodically’ reviewed, rather than ‘regularly’ reviewed. Another Member asked for greater clarity on the definitions of risk and benefit.

It was suggested that the register be shown to the external auditors and the newly formed Pension Board.

**RESOLVED:** That the Draft Risk Register be agreed.

## **50. London Pensions Collective Investment Vehicle**

The Committee received a report of the Director of Finance and Assurance updating Members on the establishment of the London Pensions Collective Investment Vehicle (CIV).

The Chair informed the Committee that he had attended a cross-borough meeting of the CIV group and gave his opinion that he had little confidence in the process so far. Further funds were being sought, and while it was possible that these amounts would be compensated for through the savings achieved, he thought that the amounts required should have been identified and stated at the outset. He did not think there was sufficient clarity about the process for the selection of fund managers, and felt that meetings requiring the input and agreement of 30 representatives would be unwieldy.

The Vice-Chair had also attended a meeting, at the Chair's suggestion, and concurred with his views about lack of detail and transparency.

The Director of Finance and Assurance reminded the committee that the theory behind the CIV was the potential for saving on fees; research had shown that boroughs were investing in similar products and therefore there was potential for economies of scale. There had also been the intention to divert the introduction of a government led scheme for London boroughs. He believed it was sensible to be a member of the CIV, and suggested inviting the Programme Director of the CIV committee to a future meeting.

Members agreed that the principle of saving on fees was sound. A Member commented that Harrow should only commit to passive investment funds at this stage, and should not relinquish sovereignty.

**RESOLVED:** That

- (1) the report be noted;
- (2) the further payment of £50,000 in respect of legal and other costs necessary to establish the London Pensions Collective Investment Vehicle be agreed;
- (3) where a further, urgent payment is needed and no meeting of the Pension Fund Committee is scheduled within deadline, delegated authority be given to the Director of Finance and Assurance to make payments of up to £25,000, following consultation with the Chair of the committee;
- (4) in respect of (3) above, any such payments are reported to the next meeting of the committee.

## **51. Work Programme 2015-16**

The Committee received a draft work programme for the Municipal Year 2015-16.

Members considered the content, duration and timing of the proposed programme and requested that the meeting with managers be limited to five managers and take place in a single day, and that consideration be given to moving the date of the meeting on 26 November 2015 to 25 November 2015.

**RESOLVED:** That the work programme be agreed subject to the requested amendments.

## **52. Training Programme 2015-16**

The Committee received an outline training programme for the Municipal Year 2015-16.

Members discussed the timing of content and dates for training in the light of the forthcoming general election and further developments in the London Pensions Collective Investment Vehicle.

**RESOLVED:** That the training programme be agreed.

## **53. Information Report - Strategy Update**

The Committee received a progress report on their agreed allocation strategy. The Treasury and Pension Fund Manager stated that the strategy as agreed had been followed, and that no re-balancing was required at present.

**RESOLVED:** That the report be noted.

## **54. Information Report - Pension Board**

The Committee received a verbal progress report from the Treasury and Pension Fund Manager on the establishment of a Pensions Board and considered the following points:

- the Pension Board's terms of reference;
- the purpose and membership of the Pension Board;
- funding of the Pension Board;
- the role of the Pension Board in relation to the Pension Fund Committee;
- the intended outcomes of the Pension Board's work.

**RESOLVED:** That the verbal progress report be noted.

## **55. 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>
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)).

#### **56. Information Report - Presentation by Record Currency Management**

The Committee received a presentation by Record Currency Management on the currency overlay mandate they manage on behalf of the Council.

**RESOLVED:** That the presentation be noted.

## **57. Review of Mandate of BlackRock Investment Management**

The Committee received a confidential report of the Director of Finance and Assurance which provided the background to a request by BlackRock Investment Management to adjust their mandate for bonds and index linked gilts.

The Committee considered that a that a further report from the Investment Adviser would be necessary before they could make a decision on the matter

**RESOLVED:** That

- (1) the report be noted;
- (2) a further report be brought to the Committee.

## **58. HB Public Law - Staff Transfer Arrangements**

The Committee received a confidential report of the Director of Finance and Assurance which set out the latest position in negotiations with the London Borough of Barnet in respect Pension liabilities arising from the transfer of Legal Services staff.

**RESOLVED:** That

- (1) the report be noted;
- (2) it be noted that in the event of no agreement being reached, the matter will be referred to a third actuary for resolution.

## **59. Information Report - Annual Review of Internal Controls at Fund Managers**

The Committee received a confidential report of the Director of Finance and Assurance which summarised the latest internal controls reports for each of the Council's Fund Managers.

**RESOLVED:** That the report be noted.

## **60. 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.

**61. Information Report - Performance of Fund Managers for Quarter Ended 31 December 2014 and Valuation at 31 January 2015**

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 31 December 2014.

**RESOLVED:** That the report be noted.

(Note: The meeting, having commenced at 6.35 pm, closed at 9.40 pm).

(Signed) COUNCILLOR KEITH FERRY  
Chair

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**REPORT FOR: Pension Fund Committee**

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**Date of Meeting:** 1 July 2015

**Subject:** Information Report – London Borough of Harrow Pension Fund Performance Review

**Responsible Officer:** Dawn Calvert, Director of Finance (Interim)

**Exempt:** No

**Wards affected:** All

**Enclosures:** Presentation by State Street Global Services (WM Performance Services)

**Section 1 – Summary**

The Committee is requested to receive a presentation from the Fund's performance measurement adviser, State Street Global Services (WM Performance Services) on the performance of the Fund for periods ending 31 March 2015.

**FOR INFORMATION**

## Section 2 – Report

1. Karen Thrumble of State Street Global Services (WM Performance Services) will deliver the attached presentation discussing the Fund's performance over the various periods ended 31 March 2015.

### Financial Implications

2. The report from State Street Global Services explains the financial performance of the Fund over various periods.

### Risk Management Implications

3. The risks arising from investment performance are included in the Pension Fund risk register.

### Equalities implications

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

### Council Priorities

5. 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: Dawn Calvert



Director of Finance  
(Interim)

Date: 17 June 2015

**Ward Councillors notified:**

**NO**

## **Section 4 - Contact Details**

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

**Background Papers:** None

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# London Borough of Harrow

Performance Review  
Periods to End March 2015

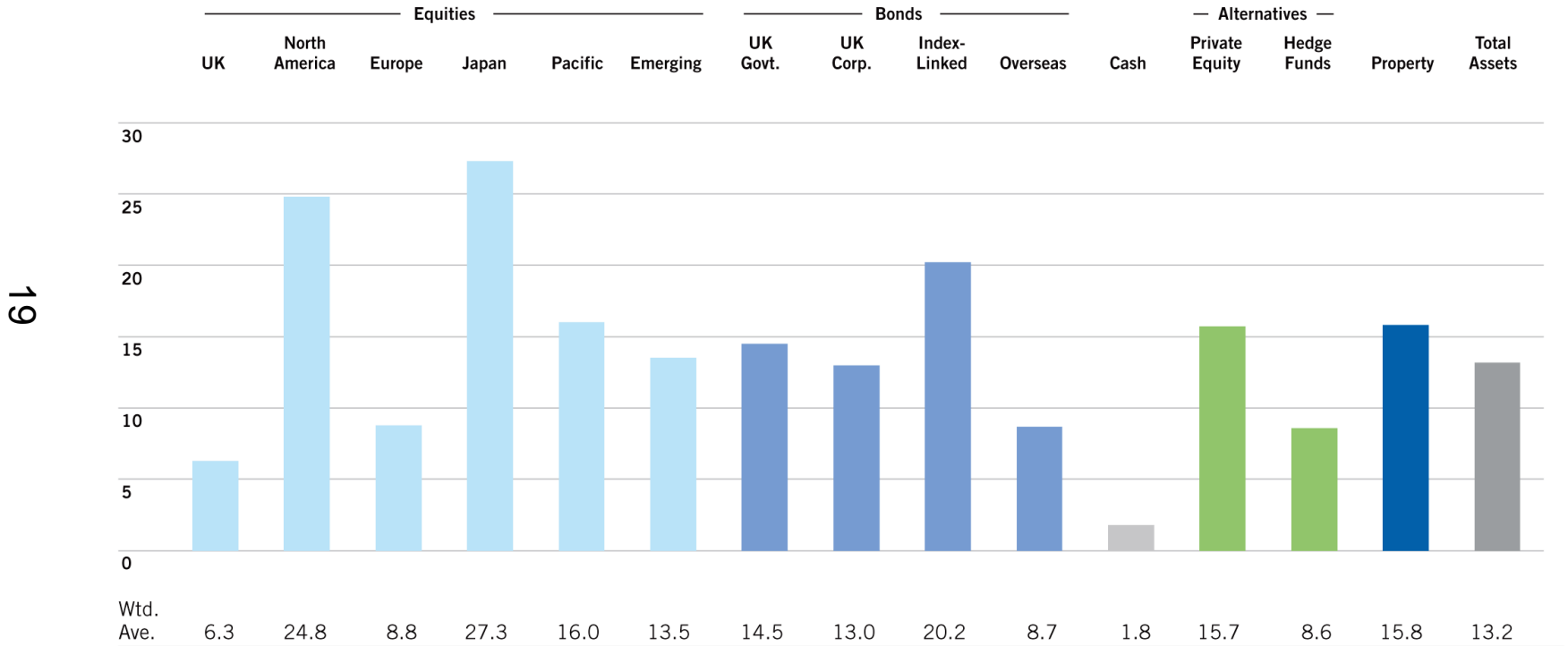
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Karen Thrumble  
July 1<sup>st</sup> 2015

## Market Background

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# 2014/2015 Returns (%)



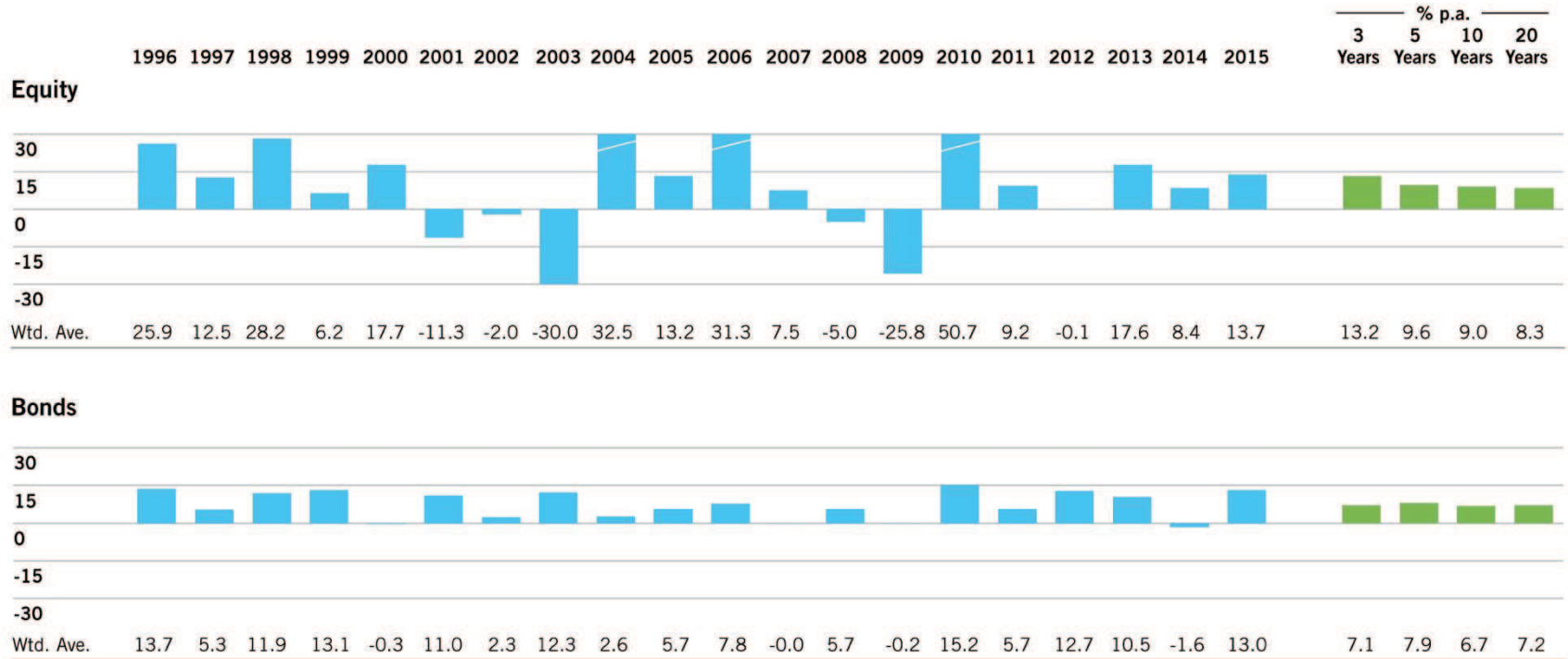
Source: State Street Global Services Performance Services, 2015.

Past performance is not a reliable indicator of future results.

# Long Term Performance

## Annual Returns (%)

20



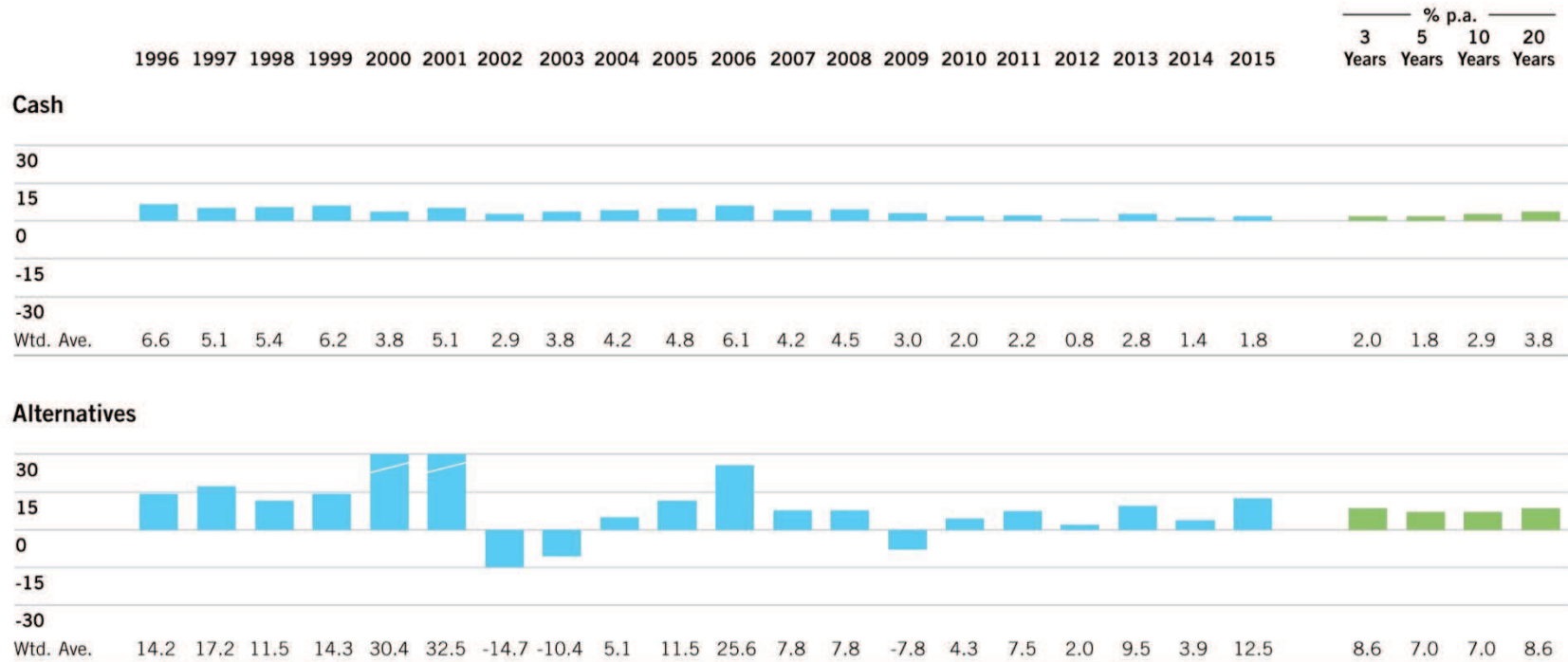
\* Source: State Street Global Services Performance Services, 2015.

Past performance is not a reliable indicator of future results.

# Long Term Performance

## Annual Returns (%)

21



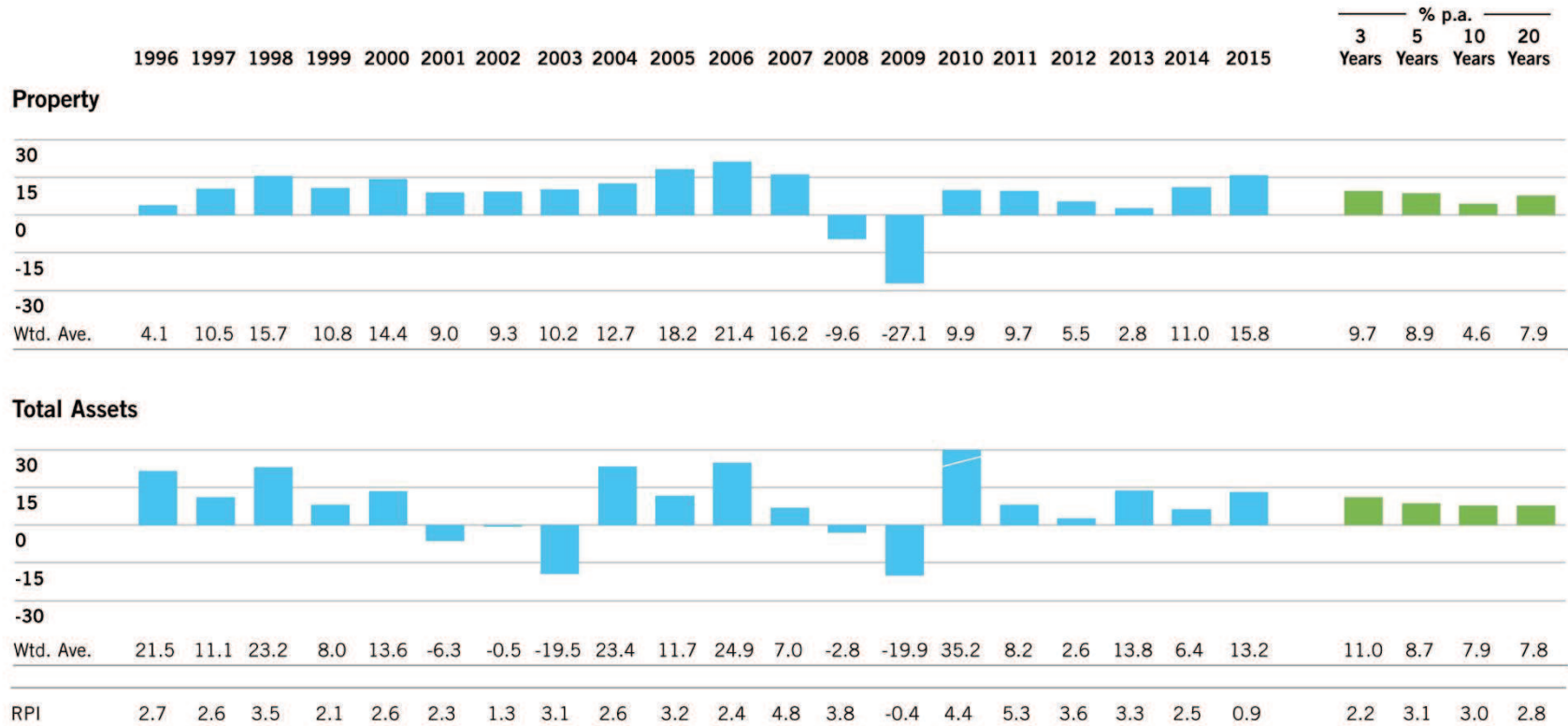
\* Source: State Street Global Services Performance Services, 2015.

Past performance is not a reliable indicator of future results.

# Long Term Performance

## Annual Returns (%)

22

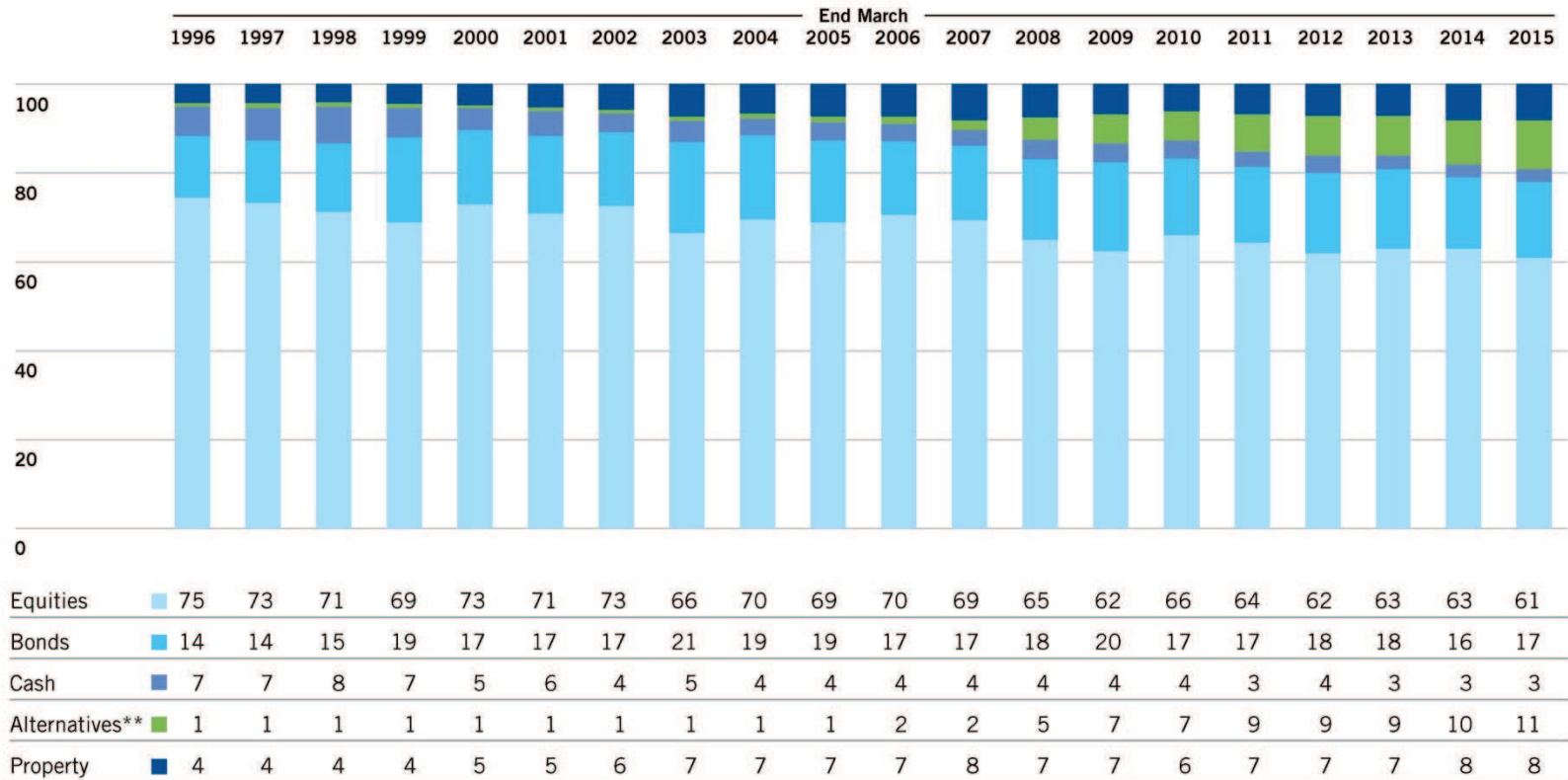


\* Source: State Street Global Services Performance Services, 2015.

Past performance is not a reliable indicator of future results.

# Longer Term Asset Allocation (%)

23



\*\* Includes Pooled Multi-Asset from March 2010.

\* Source: State Street Global Services Performance Services, 2015.

Past performance is not a reliable indicator of future results.

## Fund Performance

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# Fund Structure and Benchmark

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Values (GBP)'00 Mandate		Value at 31/03/2014	% Fund	Value at 31/03/2015	% Fund
SSGA	Eq Gbl			220,705	33
OLDFIELD	Eq Gbl			77,276	11
GMO GLOBAL	Eq Emer Mkt			76,541	11
SSGA	Eq UK	155,513	26		0
FIDELITY	Eq Gbl	68,638	12		0
WELLINGTON	Eq Gbl	113,911	19		0
LONGVIEW	Eq Gbl	49,507	8	75,561	11
BLACKROCK	Fixed Int	72,598	12	87,111	13
AVIVA	Prop UK	45,051	8	50,562	7
ST LIFE	Diversified Grow th	27,890	5	30,679	5
INSIGHT	Diversified Grow th			28,857	4
BARING	Diversified Grow th	26,630	5	0	0
PANTHEON	Private Eq	25,119	4	22,955	3
INT FUND	Cash	1,661	0	6,633	1
BLACKROCK	Cash	40	0	43	0
RECORD	Curr Overlay	1,113	0	-2,649	0
TRANSITION	Trans				
Total Fund		587,669	100	674,272	100

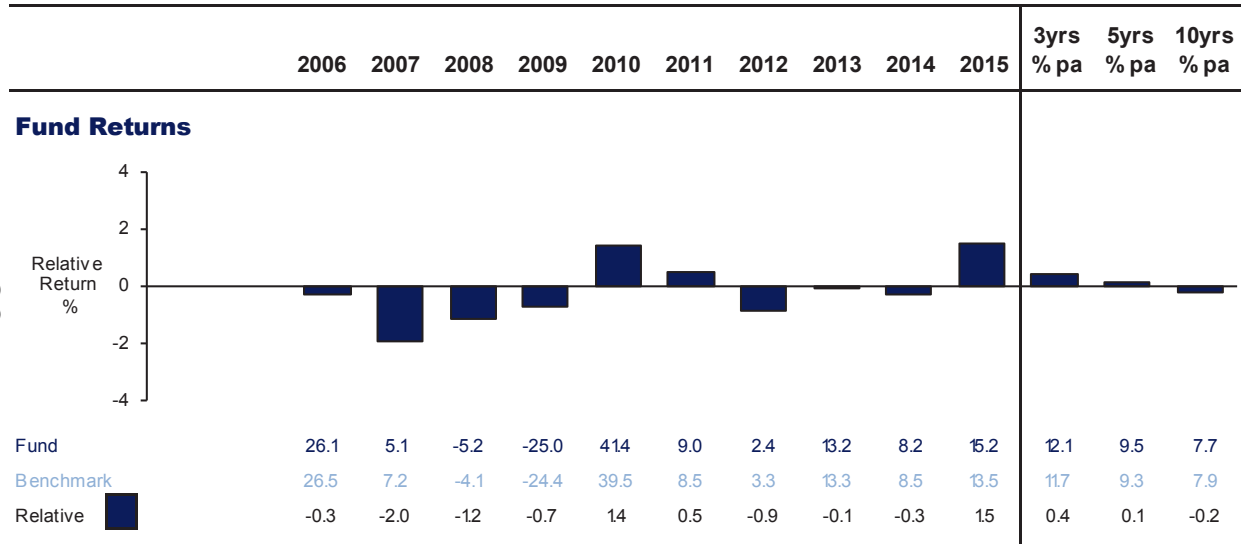
	%	
Global Passive Equity	31.0	MSCI All World 50% Hedged
Global Active Equity	21.0	MSCI World NDR 50% Hedged
Emerging Markets	10.0	MSCI Emerging Markets
Bonds	13.0	80% BAML Eurosterling >10 Years 20% FTSE Index Linked Gilts > 5 Years
Property	10.0	IPD UK PPF All Balanced Funds
Pooled Multi Asset	10.0	3 Month LIBOR +4%
Private Equity	5.0	FTSE All World Index

A year of significant change with the restructure of the equity portfolios and replacement of Barings DG with Insight.

# Performance Overview

Latest year's excellent performance has brought the medium term results above benchmark.

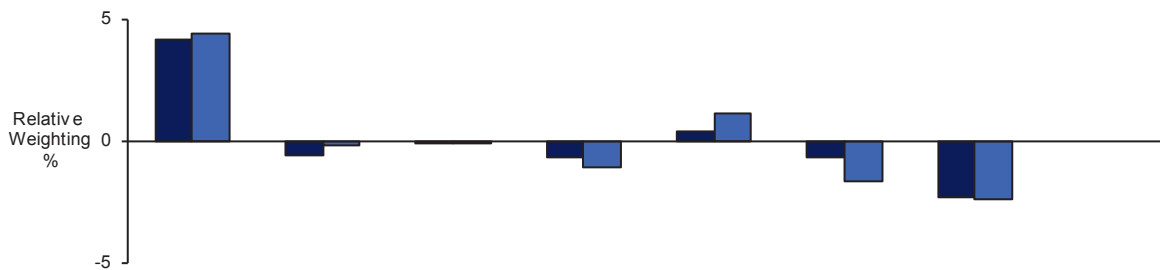
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# Latest Year Performance

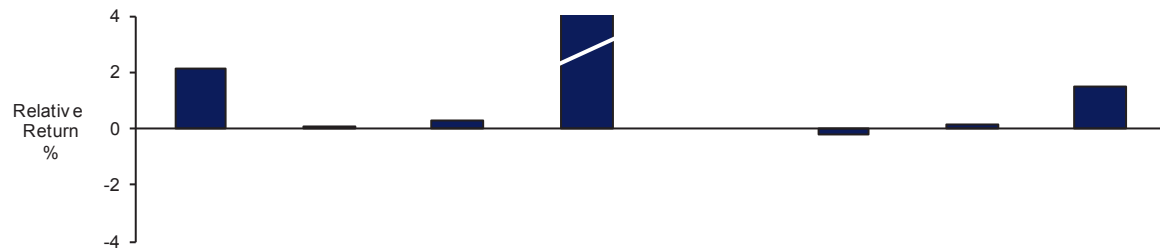
Equity UK Bonds UK IL Multi Asset Cash Private Eq Property Total Fund

## Asset Allocation



Fund Start	66.1	9.8	2.5	9.3	0.4	4.3	7.7	100.0
Fund End	66.4	10.3	2.5	8.8	1.1	3.4	7.5	100.0
BM Start	62.0	10.4	2.6	10.0		5.0	10.0	100.0
BM End	62.0	10.5	2.7	9.9		5.1	10.0	100.0
Impact	-	-0.1	-	0.1	-0.1	-0.1	-0.1	-0.3

## Stock Selection



Fund	14.9	19.7	21.4	9.2	0.0	18.9	16.8	15.2
Benchmark	12.6	19.6	21.0	4.6		19.2	16.6	13.5
Impact	1.4	-	-	0.4		-	-	1.8

Equity selection was well above index, driving the latest year results.

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# Longer Term Manager Performance

Performance has been in line with or above benchmark over the medium term.

	12 Months	3 Years	5 Years	10 Years	Since Inception	Incept. Date
LONGVIEW	19.5	20.3	14.9		16.1	20/11/2009
LB OF HARROW - LONGVIEW B/M	14.0	15.6	11.3		12.1	
	4.8	4.1	3.2		3.6	
BLACKROCK	19.8	11.0	10.7	8.3	7.9	31/7/2003
LB OF HARROW BLACKROCK FIBM	19.9	11.0	10.6	8.5	8.0	
	-0.1	0.0	0.1	-0.2	-0.2	
PANTHEON VENTURES	18.9	13.6	10.0		6.3	30/4/2007
LB HARROW PANTHEON B/M	19.2	6.3	3.9		3.6	
	-0.2	6.9	5.8		2.6	
AVIVA COMBINED FUND	16.8	10.3	10.3	4.9	6.7	29/12/2000
AREF/IPD ALL BALANCED	16.6	9.4	8.4	4.3	6.1	
	0.2	0.9	1.7	0.6	0.6	
STANDARD LIFE	10.0				7.4	18/6/2013
GBP 3 MONTH LIBOR +4%	4.6				4.5	
	5.2				2.8	

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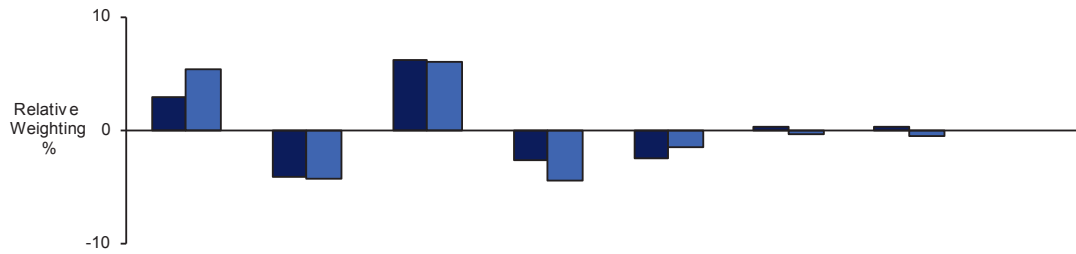
## Performance Relative To Other Funds

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# Latest Year Performance Relative to Other Funds

Equity    Bonds    Multi Asset    Alternatives    Cash    Curr Instr    Property    Total Fund

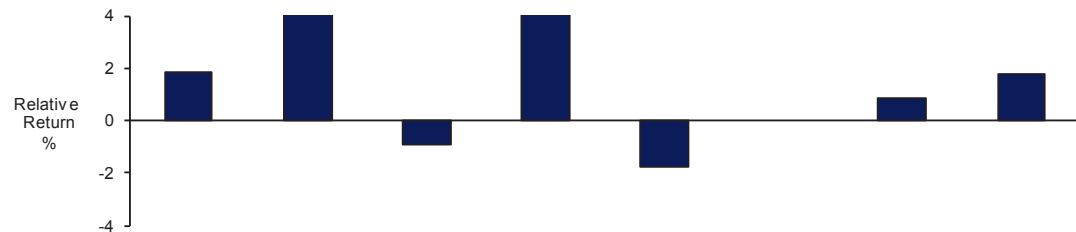
## Asset Allocation



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Fund Start	66.0	12.3	9.3	4.3	0.4	0.2	7.7	100.0
Fund End	66.8	12.8	8.8	3.4	1.1	-0.4	7.5	100.0
BM Start	63.1	16.4	3.1	7.0	2.9	0.0	7.4	100.0
BM End	61.5	17.1	2.8	7.9	2.7	-0.0	8.1	100.0
Impact	-	-	-0.2	-	0.2	-0.5	-	-0.4

## Stock Selection



Fund	15.8	20.1	9.2	18.9	0.0	n/a	16.8	15.2
Benchmark	13.7	13.0	10.2	12.5	1.8	-100.0	15.8	13.2
Impact	1.2	0.8	-0.1	0.2	-	-	0.1	2.2

Both equity and bond selection added value. The Fund benefited from having a low UK equity weighting and from having longer duration bonds than its peers.

# Longer Term Performance Relative to Other Funds

Fund has comfortably outperformed the peer group over the short and medium term.

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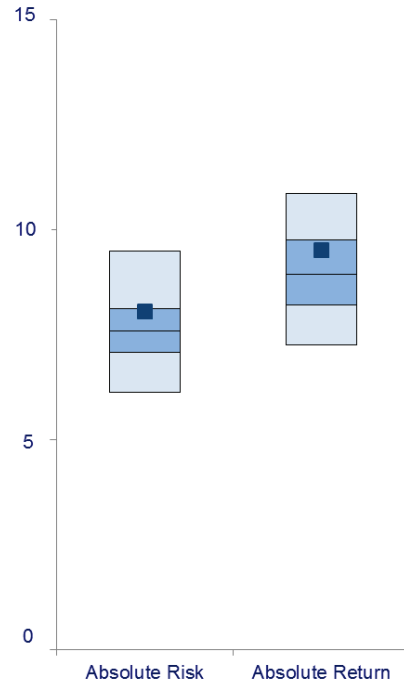
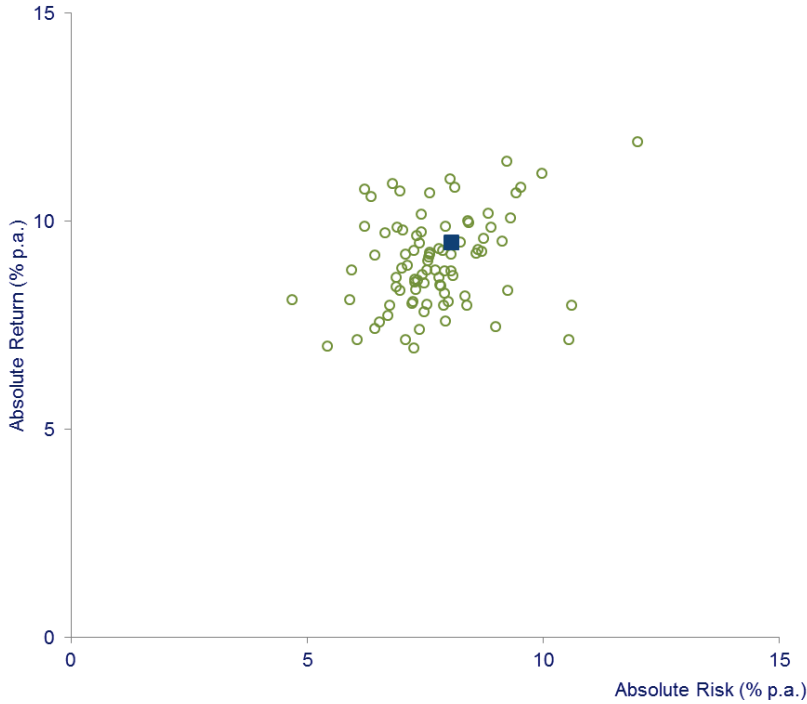
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	3yrs % pa	5yrs % pa	10yrs % pa
<b>Fund Returns</b>													
Fund	26.1	5.1	-5.2	-25.0	41.4	9.0	2.4	13.2	8.2	15.2	12.1	9.5	7.7
Benchmark	24.9	7.0	-2.8	-19.9	35.2	8.2	2.6	13.8	6.4	13.2	11.0	8.7	7.9
Relative	0.9	-1.8	-2.5	-6.3	4.6	0.7	-0.2	-0.5	1.7	1.8	1.0	0.7	-0.2
Ranking	(27)	(88)	(80)	(89)	(11)	(22)	(64)	(67)	(18)	(17)	(20)	(27)	(58)

# Overall Performance Compared to Other Funds

## Last Five Years

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Absolute Risk & Return



Fund is more volatile than its peers but this has been rewarded with a return that is ahead of average.



# Summary

- In this year of change the Fund has achieved strong results both in absolute and relative terms.
- Equity performance was strong with Longview in particular continuing to add significant value.
- Relative to other funds performance was good too. The Fund benefited from having a low commitment to the UK equity market and from having a relatively long duration bond portfolio. Currency hedging had a negative effect over the year.

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**REPORT FOR: Pension Fund Committee**

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<b>Date of Meeting:</b>	1 July 2015
<b>Subject:</b>	<b>Information Report</b> - Establishment of Pension Fund Risk Register
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance (Interim)
<b>Exempt:</b>	No
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Appendix 1 – Risk Register

**Section 1 – Summary**

**Summary**

The report attaches as Appendix 1 a revised risk register for the Pension Fund.

**FOR INFORMATION**

## **Section 2 – Report**

1. At their meeting on 25 March 2015 the Committee received a draft risk register for the Pension Fund.
2. Whilst they agreed the register they asked for various drafting points and other more substantive points to be considered. Progress has been made in respect of some of these points and the Committee will be asked to review others at later meetings.
3. Items progressed:
  - Definitions of terms – included
  - Item 17 – drafting point
  - Director of Finance – change of name
  - Consultation with External Auditor – will take place during forthcoming audit
4. Items being considered further:
  - Item 9 - should this become a C2 risk?
  - Effect of bank failure and other counterparty risk
  - Effect of deflation
  - Private equity – transparency and performance
5. The Committee are asked to receive this report and the attached appendix.

### **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: Dawn Calvert



Director of Finance  
(Interim)

Date: 18 June 2015

**Ward Councillors notified:** NO

### **Section 4 - Contact Details and Background Papers**

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

**Background Papers:** None

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## PENSION FUND RISK REGISTER

<b>LIKELIHOOD</b>					
<b>A</b> Very High					
<b>B</b> High		18,19			
<b>C</b> Significant		10,11,12,17			
<b>D</b> Low	20,31	4,6,13,14,37	8,9,16,		
<b>E</b> 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		
<b>F</b> Almost Impossible			43		
<b>IMPACT</b>	<b>4</b> Negligible Impact / Benefit	<b>3</b> Marginal Impact / Minor Benefit	<b>2</b> Critical Impact / Major Benefit	<b>1</b> Catastrophic Impact / Exceptional Benefit	

## DEFINITIONS OF TERMS - THREATS

### LIKELIHOOD

A Very High	Greater than 80% (almost certainly will occur)
B High	51-80% (more likely to occur than not)
C Significant	25-50% (fairly likely to occur)
D Low	10-24% (low but could occur)
E Very Low	3-9% (extremely unlikely)
F Almost Impossible	0-2%

### 'IMPACT

4 O 1 Catastrophic	Services could not be sustained or major project fails to deliver
2 Critical	Serious disruption to services
3 Marginal	Small effect on services
4 Negligible	Trivial effect on services



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
		<b>GOVERNANCE</b>							
1		Those charged with governance of the Fund are unable to fulfil their responsibilities effectively	E2			Ian Talbot			Dawn Calvert
2		Pension Fund Committee members have insufficient knowledge to make correct decisions	E2			Ian Talbot			Dawn Calvert
3		Inadequate investment and actuarial advice is available to the Pension Fund Committee	E2			Ian Talbot			Dawn Calvert

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		Dawn Calvert
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		Dawn Calvert
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		Dawn Calvert
7	<b>FUNDING - ASSETS AND LIABILITIES</b> 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		Dawn Calvert

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		Dawn Calvert
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		Dawn Calvert
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		Dawn Calvert
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		Dawn Calvert
12	Other demographic factors change increasing the cost of Fund benefits thereby increasing liabilities.	At each triennial valuation assumptions are reviewed.	C3			Ian Talbot		Dawn Calvert

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		Dawn Calvert
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		Dawn Calvert
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		Dawn Calvert

16	<b>FUNDING - INVESTMENT STRATEGY</b> 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	Dawn Calvert
17	<b>INVESTMENT</b> 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 periodically reviewed and adjustments made if required	C3	Ian Talbot	Dawn Calvert
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	Dawn Calvert

19	Failure by fund managers to achieve benchmark (passive) or performance target (active) returns for their given mandates	<p>Diversification of managers and asset classes mitigates the impact of a single manager under-performing.</p> <p>Managers are selected via an extensive process of "due diligence."</p> <p>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.</p> <p>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.</p> <p>Procurement frameworks and adviser's advice are used to fast track the appointment of new managers if changes are required</p>	B3			Ian Talbot		Dawn Calvert
20	Fees and charges of investment managers, actuary and investment adviser are excessive.	<p>Both at tender stage and throughout the contracts charges which are value for money are sought and challenged when appropriate.</p> <p>Fees and charges are identified in the Annual Financial Statement and specifically highlighted for the Pension Fund Committee to consider.</p>	D4			Ian Talbot		Dawn Calvert

21	<b>SECURITY</b> 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			Dawn Calvert
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			Dawn Calvert
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			Dawn Calvert

24	Failure of custodian	Use custodians under banking and FSA regulation	E2			Ian Talbot		Dawn Calvert
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		Dawn Calvert
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		Dawn Calvert
27	<b>OPERATIONAL</b> 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



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

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

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**Date of Meeting:** 1 July 2015

**Subject:** Work Programme for 2015-16

**Responsible Officer:** Dawn Calvert, Director of Finance (Interim)

**Exempt:** No.

**Wards affected:** All

**Enclosures:** None

**Section 1 – Summary and Recommendation**

**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 meetings on 26 November 2014 and 25 March 2015 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 last 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 remainder of the financial year.

### **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

Lead Member roles

Long term funding

Work programme for 2015-16

### **15 September – “Meet the Managers”**

Longview Partners

GMO

Oldfield Partners

Standard Life Investments

Insight Investment

### **September / October**

Responsible and Ethical Investing

### **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

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.

## Financial Implications

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

## Risk Management Implications

5. The Pension Fund has a risk register which includes the risks associated with the recommended work programme.

## Equalities implications

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

## Council Priorities

7. 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: Dawn Calvert



Director of Finance (Interim)

Date: 17 June 2015

Name: Caroline Eccles



on behalf of the  
Monitoring Officer

Date: 18 June 2015

**Ward Councillors notified:**

**NO**

## Section 4 - Contact Details

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

**Background Papers:** None





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