Pension Fund Committee AGENDA

DATE: Tuesday 6 September 2016

TIME: 6.30 pm

VENUE: Committee Room 5,
Harrow Civic Centre

MEMBERSHIP (Quorum 3 Councillors)

Chair: Councillor Nitin Parekh

Councillors:

Jo Dooley	Norman Stevenson Bharat Thakker (VC)
(Non-voting Co-optee):	Mr H Bluston
Trade Union Observer(s):	Mr J Royle - UNISON Ms P Belgrave – GMB
Independent Advisers:	Colin Robertson Richard Romain

Reserve Members:

1. Adam Swersky	1. Kanti Rabadia
2. Antonio Weiss	2. Barry Macleod-Cullinane

Contact: Daksha Ghelani, Senior Democratic Services Officer
Tel: 020 8424 1881 E-mail: daksha.ghelani@harrow.gov.uk

Harrow COUNCIL
LONDON

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 5 - 14)

That the minutes of the meeting held on 21 June 2016 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, Thursday 1 September. 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. INFORMATION REPORT - ACTUARIAL VALUATION 2016 (Pages 15 - 18)

Report of the Director of Finance.

8. PERFORMANCE MEASUREMENT SERVICES (Pages 19 - 24)

Report of the Director of Finance.

9. INFORMATION REPORT - LONDON BOROUGH OF HARROW PENSION FUND: MANAGEMENT EXPENSES 2015/16 (Pages 25 - 30)

Report of the Director of Finance.

10. INFORMATION REPORT - LOCAL GOVERNMENT PENSION SCHEME POOLING ARRANGEMENTS UPDATE (Pages 31 - 70)

Report of the Director of Finance.

11. CURRENCY HEDGING (Pages 71 - 78)

Report of the Director of Finance.

12. QUARTERLY TRIGGER MONITORING Q2 2016 (Pages 79 - 86)

Report of the Director of Finance.

13. PENSION FUND COMMITTEE - UPDATE ON REGULAR ITEMS (Pages 87 - 94)

Report of the Director of Finance.

14. INFORMATION REPORT - ANNUAL REVIEW OF INTERNAL CONTROLS AT INSIGHT INVESTMENT (Pages 95 - 104)

Report of the Director of Finance.

15. INFORMATION REPORT - PROPERTY OPPORTUNITIES (Pages 105 - 114)

Report of the Director of Finance.

16. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

17. 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:

Agenda Item No	Title	Description of Exempt Information
17.	Information Report – Investment Manager Monitoring	Exempt from publication under paragraph 3, Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)

AGENDA - PART II

18. INFORMATION REPORT - INVESTMENT MANAGER MONITORING (Pages 115 - 182)

Report of the 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

21 JUNE 2016

Chair:	*	Councillor Nitin Parekh		
Councillors:	*	Jo Dooley	*	Bharat Thakker
	*	Norman Stevenson		
Co-optee (Non-voting):	*	Howard Bluston	*	John Royle
				Pamela Belgrave

[Note: Other Attendance: (1) John Royle attended in an observer role, as the representative of Harrow UNISON;

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

(3) Colin Cartwright of Aon Hewitt attended in an advisory role, as the Council's Investment Adviser.

(4) Richard Harbord, Chair of the Pension Board, and Gerald Balabanoff, Vice-Chair of the Pension Board, attended the meeting as observers. They left the room prior to the consideration of confidential items 18 and 19 on the agenda.

(5) Gemma Sefton, Hymans Robertson, attended the meeting as Council's Actuary.]

* Denotes Member present

130. Attendance by Reserve Members

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

131. Declarations of Interest

RESOLVED: To note that the following interests were declared:

All Agenda Items

Councillor Norman Stevenson, a Member on the Committee, declared a non-pecuniary interest in that he was a Director of Cathedral Independent Financial Planning Ltd., and that his wife was a member of Harrow Council's Local Government Pension Scheme. He added that some of his clients were also members of Pension Schemes. He would remain in the room whilst the matters were considered and voted upon.

Howard Bluston, a non-voting co-optee, declared a non-pecuniary interest in that he was Chair of Edward Harvist Charity, which was managed by BlackRock Investment Management. He added that he had regular dealings with Aon Hewitt, the Council's Investment Adviser, and that he had represented the Committee at the Local Authority Pension Fund Forum. He would remain in the room whilst the items were discussed and make contributions as a non-voting co-optee on the Committee.

Gerald Balabanoff, Vice-Chair of the Pension Board and Scheme Members' Representative on the Board, declared that he was present as an observer. He would remain in the room to listen to the discussion except for Part II items on the agenda.

132. Appointment of Vice-Chair

RESOLVED: To appoint Councillor Bharat Thakker as Vice-Chair of the Committee for the 2016/2017 Municipal Year.

133. Minutes

RESOLVED: That the minutes of the meeting held on 9 March 2016, be taken as read and signed as a correct record, subject to the following amendments:

(1) Howard Bluston (Non-Voting Co-optee) and John Royle (Harrow UNISON) being marked as 'present' at the meeting;

(2) Minute 121: 1st Paragraph, Colin Robertson's name being replaced with that of Colin Cartwright and Councillor Councillor Bharat Thakker being included as part of the small group.

134. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

135. Information Report - Local Government Pension Scheme Pooling Arrangements Update

The Committee received a report of the Director of Finance, which provided an update on the development of the pooling arrangements and the London CIV (Collective Investment Vehicle), and invited comments on the Fund's draft submission to the CIV as part of its submission to DCLG (Department of Communities and Local Government) by 15 July 2016.

An officer highlighted:

- the main conclusions arising from the Harrow Review, as set out in paragraph 8 of the report, which included the returns and associated costs;

- that the DCLG tended to communicate with embryonic pools rather than individual administering authorities.

The officer circulated two pages titled 'London CIV – Individual Borough Response' setting out an updated version of the London Borough of Harrow response. The officer referred to the circulated pages and sought comments on the summaries. He added that he had liaised with Colin Cartwright (Aon Hewitt) and Colin Robertson (Independent Adviser) in this regard and reported as follows:

- the assets on page 1 as at 31 March 2015 showed an amount of Liquid Assets of £653.383m and Illiquid Assets of £21.462m, comprising those assets which ought to remain outside the CIV. In terms of the transition timeline for individual funds, 44% of the Harrow Fund would be invested in the CIV by the end of 2016 and 58% by the end of 2018. The officer explained that this was an aspiration but there was a need to be satisfied with the opportunities available;

- page 2 of the circulation showing 'Indicative Sub-Funds Available on CIV' had been produced by the CIV and there was concern as to whether sufficient opportunities would be available for all Funds. In 2016, officers were led to believe that the CIV would let the contract to Longview;

- if Longview sub-fund was set up in 2016, the transition would be straightforward. Transition costs would be low during the first year. An opportunity for transition from Oldfields could arise in 2018;

- a satisfactory emerging markets fund needed to be available before any transition from GMO could be considered;

- if funds became available in 2016, it would be possible to carry out the transition from State Street Global Services. Colin Cartwright (Aon Hewitt) reported that various Funds were being negotiated.

Colin Robertson (Independent Adviser) reported that the issues were wide and that only three funds were available currently. It was not possible to progress as Fund Managers were unknown.

Members noted that there were no alternatives except for a full or 90% of transition of asset management to the CIV by 2020. Significant transition was expected by 2018 or, possibly, earlier by 2017 but it was a moving feast. The Secretary of State could intervene if the government was not satisfied with the Council's performance. There would not be any constraints on the management of the Strategy but constraints would exist on the Manage Strategy. The Asset Class Strategy was the more important of all the strategies. Any influence on the CIV would be through the Joint Committee which currently consisted of 32 Member authorities but might increase to 33. A view was that the CIV ought to offer Funds that were acceptable to Harrow.

Richard Romain (Independent Adviser) asked if the investment structure would need to change and enquired about the soft/hard close methodology. He commented that the Pension Fund Strategy was risk averse and his message to Members of the Committee was that they needed to choose a strategy which fitted in with its complementarity.

Colin Cartwright (Aon Hewitt) advised that changes in Fund Managers could be made at any time and that such changes would incur transition costs but that it ought to be a judgement call. The majority of the assets for the next few years fitted in with complementarity set. It was intended that the Investment Strategy would be retained and that it would be for the CIV to ensure that Harrow's Fund was not being constrained. In relation to exercising a choice for a Global Equity Manager, it was expected that the CIV would identify the best managers and present them per se having carried out various checks, such as monitoring and negotiations on bulk buying. Members expressed concern about the CIV's direction of travel and expressed uncertainty.

Members returned to the papers circulated at the meeting and were generally satisfied with the draft response and

RESOLVED: That the report be noted, including the comments set out in the additional pages circulated at the meeting except that page 1 of the papers circulated be amended to read:

"Subject to suitable investment products being available the timeline we envisage is, by the end of 2016, 44% of our Fund being invested in the CIV, by the end of 2018, 58% and by the end of 2020, 96%. Subject to meeting our strategic objectives, we may/should consider putting up to 10% of our Fund in infrastructure investments, including local developments, but we are likely to prefer long term debt infrastructure rather than start up equity".

136. London Borough of Harrow Pension Fund: Draft Annual Report and Financial Statements for the year ended 31 March 2016

Members received a report of the Director of Finance setting out the draft Pension Fund Annual Report and Financial Statements for the year ended 31 March 2016.

An officer outlined the following key points:

- net assets of the Fund had decreased and its performance was low in the local authority annual league table of investment returns. Harrow was ranked 87 out of 90;

- the number of pensioners had increased, including the number of deferred pensioners whilst active members remained stable;

- management fees, including fees charged by investment managers, were £3.5m and a further report would be submitted to the next meeting;

- the major asset classes had performed poorly and the Fund's investments reflected this disappointing performance producing an investment return of -1.9%;

- the number of employer organisations within the Harrow Pension Fund, including the Council, would have a significant influence on the Fund;

- despite a reduction in net assets of fund available to fund benefits at the period end from 2014/15 to 2015/16, this was not considered to be a huge loss and would be an issue for Hymans Robertson LLP (Council's Actuary) to address as part of their valuation exercise.

A Member commented that the deferred membership figures were a worrying trend and asked if this was typical of local authorities. In response, Gemma Sefton (Hymans Robertson LLP) drew attention to the changes in membership and that, over time, active membership had fallen due to redundancies but had now stabilised.

Another Member asked how the increase in cash outflows due to the impact of falling membership, longevity and pension increases would be factored into the Investment Strategy. Colin Cartwright (Aon Hewitt) explained that the CIV would explore alternatives and possibly move to income generating investments. The intention was to achieve long term growth and, over time, the Investment Strategy may need adjusting and consideration would be given as part of the valuation exercise.

Richard Romain (Independent Adviser) queried the Committee's Terms of Reference set out on page 105 of the report and an officer undertook to check these. He also referred to the section on Risk Management on page 110 of the report and suggested a statement on risk, particularly decision-making risk and reference to meetings being open to members of the public. John Royle

(Unison) asked about the number of officers who received severance packages of £100k. Colin Robertson (Independent Adviser) referred to asset risk and its importance to liabilities. He suggested that performance over a period of 3/5 years be included under Risk Management and that the distributions from Pantheon be reviewed.

RESOLVED: That the report and the comments be noted.

137. Information Report - London Borough of Harrow Pension Fund Annual Performance Review

The Committee received a report of the Director of Finance including a report from the Fund's Performance Measurement Adviser, State Street Global Services (WM Performance Services), on the performance of the Fund for period ending 31 March 2016.

An officer referred to the disappointing performance of the Fund , including its position on the league table discussed at Minute 136 above. He drew particular attention to paragraph 4 of the report about the cessation of performance measurement services previously provided by State Street Global Services and that there was a possibility that another organisation would take over the service. Members noted that the Director of Finance had requested the data going back to 1974 from State Street Global Services so that it could be released to another organisation. The date would only relate to performance.

RESOLVED: That the report be noted.

138. Quarterly Trigger Monitoring Q1 2016

The Committee received a report from the Fund's investment adviser, Aon Hewitt, on Quarterly Trigger Monitoring seeking agreement to no de-risking actions at this stage.

Colin Cartwright (Aon Hewitt) informed Members that following their request for quarterly reports on the consideration of an LDI (Liability Driven Investment which was designed to manage liabilities in line with inflation) Strategy, the report before them provided an update on the status of three de-risking triggers which were being monitored: the Fund's funding level; yield triggers based on the 20 year spot yield and view of bond yields.

He added that having put these triggers in place, including a fourth trigger which was not market related, his considered opinion was that there was no need to proceed with an LDI mandate at present. Additionally, the price of Bonds was fair and LDI's would be expensive. However, this matter ought to remain on the agenda for future consideration.

In response to questions, Colin Cartwright replied as follows:

- at present, the London CIV (Collective Investment Vehicle) did not have an LDI Mandate that would be suitable;

- an LDI Mandate would be difficult to implement in short time and it was dependant on the financial markets;

- overall, the Harrow Fund had not performed badly in comparison with other authorities over the last 3/5 years but that 2015/16 was a poor year;

- a greater appetite of risk may lead to increased returns but there were alternative ways of creating yield and these were being examined, including mitigation and volatility.

Members noted that a move towards an LDI Mandate would be a major decision for the Committee to take over time and that they ought to be familiar with its functions and workings. John Royle (Unison) asked why the Pension Fund was not used to build houses. It was noted that such action would entail a strategic decision. Richard Romain (Independent Member) added that the risks involved would be high.

An officer reported that he would capture the discussion relating to 'local investment and housing' as part of the training session on 'Infrastructure' prior to the next meeting of the Committee.

RESOLVED: That no de-risking actions be taken at this stage.

139. Information Report - Investment Strategy

The Committee received a report of the Director of Finance setting out the report from the Fund's investment adviser, Aon Hewitt, on the Fund's current investment strategy including expected return and risk.

The Committee noted that the portfolio had been modelled over a 10-year period in order to provide a headline assessment of the expected return and volatility for each strategy. The report had been provided to Hymans Robertson LLP, Council's Actuary.

RESOLVED: That the report be noted.

140. Pension Fund Committee - Update on Regular Items

The Committee received a report of the Director of Finance updating Members on the draft Work Programme, performance of fund managers for the previous quarter and issues raised by the Pension Board. The report invited comments and agreement of the draft Work programme and highlighted any significant issues raised by the Pension Board.

It was noted that the issues raised by the Pension Board had been highlighted with Hymans Robertson LLP (Council's Actuary) and that these matters - methodology and level of contribution – would be addressed by their representative, Gemma Sefton, as part of her presentation on a later item.

A typographical amendment was made to paragraph 8 of the report. A Member agreed that 13 October 2016, as proposed, was a good date to 'Meet the Managers' but that it ought to be held during the afternoon between 2.00 pm - 7.00 pm. In response to a question, an officer outlined the role of the Pension Board which was to provide an oversight and act as a critical friend to the Committee.

RESOLVED: That the Work Programme for the period up to March 2017 be agreed, subject to the comments above.

141. Information Report - Pension Fund Risk Register

The Committee received a report of the Director of Finance setting out the revised Risk Register for the Pension Fund. An officer reported that whilst the revised Risk Register was of a similar nature to the versions considered in March and July 2015 and stressed that none of the risks were in the 'red' zone. Risk Numbers 8, 9 and 16, details of which were set out below, were listed as 'critical', which meant that the situation would be critical if the risk were to occur but that the chances of such risks happening were low:

Risk 8: The Fund's assets were 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.

Risk 9: The relative movement in the value of the Fund's assets did not match the relative movement in the Fund's liabilities.

Risk 16: Long term investment strategy in relation to fund liabilities was inappropriate.

RESOLVED: That the report be noted.

142. Information Report - Annual Review of Internal Controls at Longview Partners

The Committee received a report of the Director of Finance summarising the contents of the latest internal controls report from Longview Partners LLP.

RESOLVED: That the report be noted.

143. Exclusion of the Press and Public

RESOLVED: 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:

Agenda Item No	Title	Description of Exempt Information
18.	Information Report – Actuarial Valuation	Information under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended), relating to the financial or business affairs of any particular person (including the authority holding that information).
19.	Information Report – Investment Manager Monitoring	Information under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended), relating to the financial or business affairs of any particular person (including the authority holding that information).

144. Information Report - Actuarial Valuation 2016

The Committee received a confidential report of the Director of Finance and a presentation from Gemma Sefton, Hyman Robertson LLP, on progress on the triennial valuation to date and, in particular, on the consideration of the valuation assumptions.

Gemma Sefton circulated a presentation and undertook to explain the rationale behind other matters raised during the meeting. Her presentation included an overview of the 2016 Valuation and covered the Funding Strategy and financial, demographic and pre-retirement assumptions. During her presentation on the 'Discount Rate: Modelling of different combinations', Richard Romain (Independent Adviser) sought assurances that the figures had not been overtly influenced. The Director of Finance stated that the Council worked closely with Hymans Robertson LLP (Council's Actuary) which had taken a prudent approach and due diligence had been applied in this regard and one which she supported.

Gemma Sefton referred to the Investment and Funding Strategies and how assumptions had been arrived at and on the basis of all available information. She added that long term targets were key and whilst contribution rates could be smoothed, she had not experienced such pressures and, over time, the justification for rates would need to be evidenced. She added that her role was to comment on the asset allocation and she understood that the asset strategy retained flexibility.

Gemma Sefton responded to additional questions on stewardship, 100% funding, deficits, inflation assumptions, including whether these were forward looking or based on historical information, and suitability of investments. She referred to the contribution holiday offered some time in the past and which had been taken up by Harrow, the responsibility to future generations of taxpayers, and sustainability and deliverability of the Fund which remained the remit of the Director of Finance. She also explained why and how the RPI

(Retails Price Index)/CPI (Consumer Price Index) were used in relation to inflation assumptions and the conservative approach taken.

The Committee noted that future reports to the Committee would address inflation assumptions but that relevant information would be circulated shortly.

The Chair thanked Gemma Sefton for her presentation.

RESOLVED: That the presentation be received and noted.

145. Information Report - Investment Manager Monitoring

The Committee received a confidential report of the Director of Finance setting out Aon Hewitt's quarterly report on Harrow's investment managers. All managers were rated either "Buy" or "Qualified" although the ratings of one of the managers were being assessed as part of the annual research process. Colin Cartwright of Aon Hewitt drew Members' attention to a 'Flash Report' circulated previously and how his investment team had arrived at the revised grading due to the investment processes and risk controls, including the style of management.

Members discussed their options, including Value Managers and whether the CIV (Collective Investment Vehicle) might be of any assistance. The complementarity approach was referred to again and any losses involved, including fees. Members discussed their options and

RESOLVED: That

(1) a further report be submitted to the September 2016 meeting of the Committee and it be noted that Members would be meeting several of the Fund Managers subsequent to the meeting;

(2) in the interim, Members be briefed if the position deteriorated.

(Note: The meeting, having commenced at 6.31 pm, closed at 9.40 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair

REPORT FOR: **PENSION FUND COMMITTEE**

Date of Meeting:	6 September 2016
Subject:	**Information Report** – Actuarial Valuation 2016
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	None

Section 1 – Summary

This report invites the Committee to receive a presentation from the Actuary, Hymans Robertson LLP on progress on the triennial valuation to date and, in particular, on the initial results and the next steps.

For Information

HarrowCOUNCIL LONDON

Section 2 – Report

1. At its meeting on 9 March 2016 the Committee asked that the Actuary, Hymans Robertson LLP, as currently led by the partner, Ms Gemma Sefton, shoud attend each of its meetings during 2016-17 to discuss the progress of the valuation.

2. Ms Sefton has been invited to make a presentation covering progress to date and, in particular, on the initial results and the next steps. She will make a presentation supported by slides.

3. The Committee is invited to receive this presentation, comment as Members see fit and note this report.

Financial Implications

4. Whilst, clearly, the results of the triennial valuation have a major impact on the management of the Pension Fund and the contributions from the General Fund there are no financial implications arising directly from this report.

Risk Management Implications

5. The Pension Fund has its own risk register which includes risks arising in connection with the triennial valuation.

Equalities implications

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

Council Priorities

7. Whilst the financial health of the Pension Fund and the employer's contribution 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
Date:	18 August 2016		

Ward Councillors notified:	**NO**

Section 4 - Contact Details

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

Background Papers - None

This page is intentionally left blank

REPORT FOR: **Pension Fund Committee**

Date of Meeting:	6 September 2016
Subject:	Performance Measurement Services
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Local Authority Pension Performance Analytics – Information Sheet

Section 1 – Summary and Recommendation

Summary
This report advises the Committee of developments in connection with the provision of performance measurement services for the Fund. The Committee is requested to consider this report in line with its function to administer all matters concerning the Council's Pension investments in accordance with law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

Recommendation
The Committee are recommended to agree:

to subscribe to the performance measurement service to be provided by Pension and Investment Consultants Ltd at a cost of £3,000 in 2016-17 and £4,500 in subsequent years.

Harrow COUNCIL
LONDON

Section 2 – Report

1. At their meeting on 21 June 2016 the Committee received the regular annual report from State Street Global Services (WM Performance Services) discussing the Fund's performance over the various periods ended on 31 March 2016.

2. However, the Committee were also advised that this would be the last performance measurement report to be received from State Street since they had decided to discontinue providing this service to their third-party clients.

3. Both the Committee and the Pension Board had previously expressed concern at the cessation of this much valued service and were aware that this was a view expressed by many administering authorities and stakeholders of the Local Government Pension Scheme. Whilst the possibility of another organisation taking over the service had been rumoured the Council had been advised by the Local Authority Pension Fund Forum that "State Street do not have any plans currently to transfer the data en bloc to another provider so it is important that all funds request what data is held by State Street on their fund."

4. The Director of Finance had written to State Street to request the data which could then be made available to a successor provider and this has been received.

5. The Council has now been advised that Pension and Investment Consultants Ltd (PIRC), who are known to the Council as the company which provides backup services to the Local Authority Pension Fund Forum (LAPFF), have launched "a new service monitoring UK local authority pension fund performance." PIRC have further advised that the service will be run by Karen Thrumble and David Cullinan who are known to the Council for their work with State Street and the WM Company.

6. An information sheet provided by PIRC is attached.

7. The core service to be provided will include:

   - Participation within the Local Authority Aggregate
   - Extraction of fund and portfolio data from previously calculated performance reporting
   - Fund data included in quarterly, annual and long term aggregations
   - Quarterly aggregate results and asset allocation publication
   - Annual in-depth analysis publication which provides detailed analysis of the aggregate results, allocation and changes that have occurred and trends that have been identified.
   - Annual league tables detailing individual fund performance over the latest year and longer term.

- Research articles covering topics of interest which will include such perennial subjects as ‘Has active management added value for the LGPS?’ and ‘Does internal management continue to deliver outperformance?’

8. We are also advised that once these core services are established other elements could become available including:
   - An annual, fund specific, performance report analysing the fund in the context of the peer group.
   - A performance review meeting to present the aggregate and the fund specific analysis in more detail
   - Bespoke research

9. Whilst this advice from PIRC generally bodes well for the future it is of concern that the core service will not include the fund specific quarterly service which the Committee has been used to receiving. Furthermore, PIRC have advised that:

   Most funds are now able to obtain basic performance measurement as part of their custody services therefore demand for basic performance measurement would seem quite limited. This, combined with the escalating costs of obtaining index data, increased our belief that it would not be viable to offer this service at this time.

10. Whilst it is recommended that the Committee agrees to subscribe to the new service and to forward the historic data to PIRC, officers will need to review existing processes to develop our own fund specific analysis. They will be seeking advice from fund managers and advisers to ensure that sufficient information is provided to PIRC in time for the Fund to be included in the first reports due in November and to maintain an appropriate level of service to the Committee.

11. The cost of the previous service in recent years has been approximately £20,000 pa and in 2015-16 was £22,000. The estimate for the new service is £3,000 in 2016-17 and £4,500 in subsequent years.

12. The Committee are recommended to agree to subscribe to the new performance measurement service to be provided by PIRC,

Financial Implications

13. Whilst the performance of the Fund’s investments plays an extremely important part in the financial standing of the Pension Fund there are no financial implications arising directly from this report.

14. The costs involved will be charged to the Pension Fund. Regulation 4 (5) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 provides that costs such as these incurred in the administering of the Pension Fund can be paid from it.

Risk Management Implications

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

Equalities implications

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

Council Priorities

17. 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 Date: 18 August 2016	✓	Chief Financial Officer
Name: Caroline Eccles Date: 18 August 2016	✓	on behalf of the Monitoring Officer

Ward Councillors notified:	**NO**

Section 4 - Contact Details

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

Background Papers - None

Local Authority Pension Performance Analytics

The withdrawal of State Street (WM) from the creation of their highly valued and widely used Local Authority Universe analysis service has meant that local authority funds are currently without any form of peer group comparison.

ing been approached by a number of funds expressing the view that the peer group remains a essary and still valuable form of benchmarking, PIRC has decided to offer a service to fill this gap going forward.

We intend to create a quarterly local authority aggregate analysis that will initially replace the State Street Universe reporting whilst, we hope, also improving upon the data quality and depth of analysis.

Our focus in the first few months will be to set up the new composite and create a historical time series. By the end of the first year of the new aggregate production we would hope to have expanded the service to include fund specific reporting against the aggregate.

To ensure the endeavour has the best possible chance of success it will be led by Karen Thrumble, formerly with State Street, and previously with the WM Company, and her former colleague at State Street, David Cullinan. Between them they have over 60 years of experience with this data set and the Local Authority pension fund market.

The Service

The core service will include:

- Participation within the Local Authority Aggregate
- Extraction of fund and portfolio data from previously calculated performance reporting
- Fund data included in quarterly, annual and long term aggregations
- Quarterly aggregate results and asset allocation publication
- Annual in-depth analysis publication which provides detailed analysis of the aggregate results, allocation and changes that have occurred and trends that have been identified.
- Annual league tables detailing individual fund performance over the latest year and longer term.
- Research articles covering topics of interest which will include such perennial subjects as 'Has active management added value for the LGPS?' and 'Does internal management continue to deliver outperformance?'

Once the aggregate is established and a historical data set defined we hope to add additional elements to the service which could be subscribed to as required. These would include

- An annual, fund specific, performance report analysing the fund in the context of the peer group.
- A performance review meeting to present the aggregate and the fund specific analysis in more detail
- Bespoke research

Q and A

Why should I subscribe?

Local authority pension funds need to be able to demonstrate best value – comparison of the risk and return taken against other schemes remains a key indicator of a fund's success. The analysis allows anyone involved in the running and monitoring of a local authority pension fund to review the decisions that they have taken to be understood in a wider industry context.

When do you plan to start the service?

To ensure there is no gap in any fund's long term data record, we will be collecting data from Quarter 2 2016. We expect that there will be a significant amount of work involved in establishing the ongoing data supply with each fund and also recognise that the historic information will take some time to aggregate.

refore we are aiming to produce the Q2 and Q3 aggregates by the end November 2016 with Q4 and subsequent production back to a normal timescale.

What about the historical data?

It is currently our intention to create a bespoke historical aggregate using the individual fund data that has been supplied directly to each previously participating fund. Once a fund subscribes to our service we will arrange to collect their historic data and add it to the historic aggregate. Once we have a critical mass of funds the historic aggregate will be frozen and the results published to the participants.

Who Will Own the Data?

Whilst PIRC will be the custodian of the aggregate information, the ownership remains, as before, with the participating authorities. Whilst aggregate results and analysis may be purchased by other industry participants, no individual fund data will ever be displayed or released without the express permission of each fund.

What will the implications of pooling be on the need for such analysis?

Individual funds, even within each pool, will still have quite different levels of risk and returns. A fund's asset allocation decision will remain solely with the fund, as will the choice of investment managers from within the range offered by the pool. Both these decisions need monitoring and performance reviewed. The choice of managers offered by the pools and the long term results will also require review.

It would seem likely that the government would look to compare across pools to review the relative success of each group, so the level of analysis could increase.

Do you intend to undertake core performance measurement?

Most funds are now able to obtain basic performance measurement as part of their custody services therefore demand for basic performance measurement would seem quite limited. This, combined with the escalating costs of obtaining index data, increased our belief that it would not be viable to offer this service at this time.

For further enquiries please contact:

Karen.Thrumble@pirc.co.uk (07557 857043) or
JaniceH@pirc.co.uk (020 7392 7894)
PIRC Ltd, Exchange Tower, 8th Floor, 2 Harbour Exchange, London E14 9GE
PIRC is regulated by the Financial Conduct Authority

REPORT FOR: Pension Fund Committee

Date of Meeting:	6 September 2016
Subject:	**Information Report** – London Borough of Harrow Pension Fund: Management Expenses 2015-16
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1 – Summary of Management Expenses 2015-16

Section 1 – Summary and Recommendations

The report sets out the details of management expenses incurred by the Pension Fund during 2015-16.

FOR INFORMATION

Harrow COUNCIL LONDON

Section 2 – Report

1. Attached as Appendix I is a schedule of the management expenses incurred by the Pension Fund in 2015-16.

2. Total costs are £4.630m made up as follows:

	£m
Administrative costs	0.642
Investment management expenses	3.452
Oversight and governance costs	0.536
TOTAL	**4.630**

3. This total is £0.672m higher than 2014-15 (£3.958m). Within the totals there are a number of variances, the most significant of which are:

	£m
Administrative costs	
Computer software	(0.08)
Administrative expenses – mainly pensioners' payslips	(0.10)
TOTAL	(0.18)
Investment management expenses	
GMO – full year fees in 2015-16 compared to part year in 2014-15	0.35
Longview – full year impact of increase in assets under management	0.09
Oldfields - full year fees in 2015-16 compared to part year fees in 2014-15	0.43
Fidelity – termination of contract in 2014-15	0.08
Wellington – termination of contract in 2014-15	(0.12)
Barings – termination of contract in 2014-15	(0.21)
Insight - full year fees in 2015-16 compared to part year fees in 2014-15	0.09
Other	0.17
TOTAL	0.88
Oversight and governance costs	
TOTAL	(0.03)
TOTAL	**0.67**

4. The administrative costs (£0.642m) represent 0.10% (2014-15: 0.12%) of the Pension Fund value, the investment and management expenses (£3.452m) represent 0.52% (2014-15: 0.38%) of the Pension Fund value and the oversight and governance costs (£0.536m) represent 0.08% (2014-15 0.08%) of the Pension Fund value.

Financial Implications

5. All costs contained within the report and appendices and are met by the Pension Fund. They represent 0.70% of the net assets of the Pension Fund.

Risk Management Implications

6. Relevant risks are included within the Pension Fund Risk Register.

Equalities implications

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

Council Priorities

8. Management expenses have 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
Date: 18 August 2016		

Ward Councillors notified: NO

Section 4 - Contact Details

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

Background Papers - None

This page is intentionally left blank

APPENDIX 1

	2015-16		2014-15	2013-14
	£'000	£'000	£'000	£'000
Management Expenses				
Administrative costs				
Pensions administration and central recharges		338	345	345
Computer software		174	254	83
Administrative expenses		97	198	179
LAPFF and PLSA (ex NAPF) fees		11	11	11
Other		22	15	23
TOTAL		**642**	**823**	**641**
Investment management expenses (fees shown as %)				
State Street				
UK (First £100m @ 0.05%, thereafter @ 0.04%)				
All World (First £100m @ 0.07%)	70			
All World (Thereafter @ 0.06%)	67			
TOTAL		137	93	70
(Average assets 2015-16: £220m)				
GMO				
Between £32m and £80m 0.90%		579	224	
(Average Assets 2015-16 £74m)				
Longview				
First £25m @ 0.75%	188			
Next £25m @ 0.65%	163			
Next £75m @ 0.60%	144			
TOTAL		495	403	316
(Average assets 2015-16 £76m)				
Oldfield Partners				
0.90% with a 0.15% rebate monthly.		667	234	
(Average assets 2015-16 £74m)				
Fidelity				
0.25%			271	163
Rebates			- 350	- 429
Wellington				
First £20m @ 0.65%				
Next £30m @ 0.50%				
Thereafter @ 0.45%				
TOTAL			376	557
Rebates			- 253	- 275
BlackRock				
(First £10m @ 0.35%, thereafter @ 0.15%)		147	140	126
(Average assets 2015-16 £87m)				
Aviva				
Fund of Funds fee of 0.214%	111			
Underlying managers assume 0.75%	363			
(Average assets 2015-16 £52m)		474	433	419
Insight				
0.40%		110	22	
(Average assets 2015-16 £28m)				
Standard Life				
0.75%		226	220	162
(Average assets 2015-16 £30m)				
Barings				
0.91%			208	216
Pantheon				
0.75% of committed capital	299			
Underlying managers average 2.25% management fee	265			
TOTAL		564	526	1,076
Record				
Fixed fee prior to 2014. From 2014-15 0.03% p.a of the mandate size.		28	21	20
JP Morgan custody		25	1	18
TOTAL		3,452	2,569	2,439
Oversight and governance costs				
WM Performance Services		22	20	17
Hymans Robertson Actuary		107	68	163
Aon Hewitt Investment Adviser		109	135	170
Independent advisers		30	20	
Audit fees		21	19	21
Collective Investment Vehicle		25	50	
Finance support		205	240	160
Other		17	14	
TOTAL		536	566	531
GRAND TOTAL		**4,630**	**3,958**	**3,611**

This page is intentionally left blank

REPORT FOR: **Pension Fund Committee**

Date of Meeting:	6 September 2016
Subject:	**Information Report -** Local Government Pension Scheme Pooling Arrangements Update
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1 London CIV Pool Response

Section 1 – Summary

The report updates the Committee on the development of the pooling arrangements and the London CIV and, in particular, on the problems which have arisen in connection with the launch of the global equity indexed mandates.

FOR INFORMATION

Harrow COUNCIL
LONDON

Section 2 – Report

A. Introduction

1. At their last meeting on 21 June 2016 the Committee received an update on pooling arrangements specifically:
    - Collection of data
    - Completion of DCLG July return
    - Annual service charge

2. By the deadline of 17 July the CIV, on behalf of all its member funds, returned its submission to DCLG (attached as Appendix 1 with one annex attached). Officers have not been advised of the receipt of any substantive reply.

3. Developments of which the Committee have not yet been advised are discussed below as follows:
    - Sub-section B – Membership
    - Sub-section C – Sub-funds open and being considered
    - Sub-section D – Harrow strategy

B. Membership

4. On 4 July the London Borough of Bromley agreed to join the CIV which means that all 33 London local authorities are now members.

C. Sub-funds open and being considered

5. To date, the CIV has been following a three phase strategy as regards the launch of sub-funds as follows:

    - Phase I – the inclusion of mandates for historic reasons including two large providers of global equity indexed funds and a small number of active managers
    - Phase II – mandates allocated by at least three boroughs, with assets under management of over £200m each and a commitment to the managers by the boroughs
    - Phase III – subsequent to the appointment of investment advisers, the appointment of new managers and/or new asset classes

6. The annex attached to Appendix 1 provides an estimated timeline for the appointment of managers over the next four years.

7. Progress to date is as follows:

Sub - Funds currently available (with date of launch)

2 December 2015 – Allianz Global Equity Alpha Fund
15 February 2016 – Baillie Gifford Diversified Growth Fund
11 April 2016 – Baillie Gifford Global Alpha Growth Fund
17 June 2016 - Pyford Global Total Return Sub-fund
21 June 2016 – Ruffer Absolute Return Sub-fund

Sub - Funds being progressed (with estimated date of launch)

Autumn 2016 – Newton Investment Management – multi asset
Autumn 2016 – Majedie Asset Management – active UK equity
Early 2017 – Longview Partners – active global equity
Legal and General Investment Management Ltd – global equity indexed
BlackRock Investment Management Ltd – global equity indexed

8. Two investment advisers, Mercer Ltd and Redington Ltd have been appointed to advise on the further search for active global equity managers.

9. The CIV has advised that, to date, 14 boroughs have invested in the sub funds now open.

D. Harrow strategy

10. At their meeting on 21 June, so far as they were able the Committee considered a strategy for the transfer of assets to the CIV over the next few years. Since there are many uncertainties concerning the future, a fully-developed strategy is impossible to establish. Nevertheless up to now it has appeared feasible to envisage a substantial transfer of funds into the CIV in the next few months as follows:
    - Incorporation of the Longview active global equities mandate into the CIV
    - Availability of a global equity indexed sub-fund

11. Were the Council to make such transfers into these CIV sub-funds this is likely to involve over 45% of the Fund's assets which would represent substantial progress towards meeting the Government's aspirations.

12. At present it seems likely that a Longview sub-fund will become available but, notwithstanding the Phase I aspirations, it has become apparent that no global equity indexed sub-fund is likely to be available in the immediate future. To explain this the CIV has produced a note as follows:

Note to London Boroughs regarding passive management

This is to make boroughs aware that a number of options around the provision of passive management on the CIV are at this time being reconsidered, particularly in the light of the government's recently announced position on the holding of Life Funds (see below).
Every effort has been made over the last six months to work with providers through a complex range of issues associated with converting Life Funds into structures that can be held in our ACS Fund, and we recognise and value the hard work and commitment that the managers have shown. However, some of the issues, in particular the issue of value for money, are likely to take longer to resolve than we had hoped or expected. In addition, it is only right and proper, following the government's announcement, that we evaluate options and look at the best interests of the Borough investors.
As a consequence, Boroughs which were looking to transition their passive assets in the relatively near future should be aware this will not be happening for the moment. We are working through the options as quickly as we can and will be coming out with revised proposals as soon as we can.
At this point we wanted to give you an update and to make you aware of the situation as soon as possible. We are of course very disappointed that developments have led to a delay in our plans, but hope that you will appreciate we have only taken this decision to postpone the launch of these sub-funds after considerable deliberation and with your best interest in mind.
We are confident that whichever option we come forwards with, boroughs will enjoy substantial savings on a net basis. We will walk you through the key issues as soon as is practicable, so that together we can come to an informed decision.

Government's position on holding of life funds

We recognise there are difficulties in moving life policies into a structured fund, including valuation, tax and legal uncertainties. Using a depositary as the insured party may risk the favourable tax treatment for pension funds.
Pools may therefore continue to hold existing life funds in the name of the current insured party but it is expected that the management and reporting regarding these life funds is done within the pool.
It is our understanding that the advantages of life funds within certain asset classes (principally current lower cost due to very large scale of life funds) will be eroded over a reasonably short period of time and therefore pools will be expected not to write any new life fund business after April 2018 without having gone through a detailed VFM process that demonstrates a clear financial case for doing so.

13. The Committee will be advised of further developments.

Financial Implications

14. Whilst the pooling initiatives will have a very significant impact on the costs and performance of the Fund there are no financial implications arising from this report.

Risk Management Implications

15. The risks arising from the management and investment of funds are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

17. The financial health of the Pension Fund 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
Date:	18 August 2016		

Ward Councillors notified: NO

Section 4 - Contact Details

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

Background Papers - None

This page is intentionally left blank

Proposal for asset pooling in the LGPS – 15 July 2016

Name of pool	**London CIV** The London CIV was formed as a voluntary collaborative venture by the London Local Authorities in 2014 and has led the way in pooling of investments in the LGPS. London Local authorities and their pension funds have been working together for over 3 years to bring the benefits of pooling of investments in London. The work done in London has been widely recognised as performing a seminal role in the wider pooling agenda and demonstrating how collaboration can work in practice. This has all been done on a voluntary basis. It is gratifying that all 33 London Local Authorities have now committed to what started as a ground-breaking voluntary project.
Participating authorities	London Borough of Barking and Dagenham London Borough of Barnet London Borough of Bexley London Borough of Brent London Borough of Bromley London Borough of Camden City of London Corporation London Borough of Croydon London Borough of Ealing London Borough of Enfield Royal Borough of Greenwich London Borough of Hackney London Borough of Hammersmith and Fulham London Borough of Haringey London Borough of Harrow London Borough of Havering London Borough of Hillingdon

	London Borough of Hounslow London Borough of Islington Royal Borough of Kensington and Chelsea Royal Borough of Kingston upon Thames London Borough of Lambeth London Borough of Lewisham London Borough of Merton London Borough of Newham London Borough of Redbridge London Borough of Richmond upon Thames London Borough of Southwark London Borough of Sutton London Borough of Tower Hamlets London Borough of Waltham Forest London Borough of Wandsworth Westminster City Council
Individual London Authority Responses **Appendix 9**	The template response has been completed by the London CIV as the pool for London Local Authorities. Where London Funds have wanted to provide a supplementary response and have arranged for a copy of their response to be given to the London CIV, these have been included as appendices. Responses from individual funds are: ➢ London Borough of Barnet ➢ City of London ➢ London Borough of Ealing ➢ London Borough of Hackney ➢ Royal Borough of Kensington & Chelsea ➢ London Borough of Lambeth

	➢ London Borough of Sutton ➢ London Borough of Tower Hamlets

Criterion A: Asset pools that achieve the benefits of scale

1. The size of the pool once fully operational.	
(a) Please state the total value of assets (£b) to be invested via the pool once transition is complete (based on asset values as at 31.3.2015).	**£28.4 bn.** NB – assumes all assets transferred by 2033 with the exception of cash held for operational reasons

2. Assets which are proposed to be held outside the pool and the rationale for doing so.
(a) Please provide a summary of the total amount and type of assets which are proposed to be held outside of the pool (once transition is complete, based on asset values at 31.3.2015).
Up to £700m or 2.4% of total assets under management as at 31.03.15 to be held as individual cash holdings across the London Local Authorities for operational reasons. Rationale for all other assets transferring to the pool – additional fund structures to be established alongside the ACS to hold other investments which either can't be held in ACS or aren't economical to do so. However in the interim, we anticipate that approximately 12.6% of the assets may be in illiquid assets and are therefore likely to remain outside of the pool in the short to medium term. This is comprised of: • Property £2.1bn or 7.2% AUM • Private Equity £0.6bn or 2% AUM • Hedge Funds £0.6bn or 2% AUM • Infrastructure £0.2bn or 0.7% AUM

• Other illiquid assets e.g. partnerships £0.3bn or 0.7% AUM In addition the government's list of exemptions for the immediate future includes life funds. Whilst the CIV has been working to transition these to an ACS structure, in the light of this new exemption and some of the complexities faced in moving to ACS structures from life companies, the CIV is reappraising its approach to this asset class, where possible it will continue with an ACS approach, but will blend with maintaining life policies where appropriate to do so. Within London this represents £7.5bn or 25.9% of AUM as at 31.03.15. Whilst recognising that a proportion of these can continue to be held at a local level as life policies, the CIV at a pool level will provide the management and reporting for these assets as outlined in the asset exemptions paper.	
(b) Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.	Attached as ANNEX number Annex 01 – Illiquid Assets held across London Local Authority Pension Fund Annex 02 – Passive Life Policies across London Local Authority Pension Funds

3. The type of pool including the legal structure.
(a) Please set out the type of pool, including legal structure, and confirm that it has been formally signed off by all participating authorities:
• Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities. London LGPS CIV Limited ("London CIV") is fully authorised by the FCA as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). FCA firm registered as London LGPS CIV Ltd, Reference Number 710618. Approval for the structure has been signed off by the 33 participating London Local

Authorities with each authority formally approving the decision to join the London CIV • Outline of tax treatment and legal position, including legal and beneficial ownership of assets. The London CIV is a UK authorised and regulated tax transparent fund (TTF) structured as an ACS open to qualified investors. The legal ownership of assets is with the depository and beneficial ownership of the assets will remain with each of the investing local authorities; the London CIV is the fund manager. • The composition of the supervisory body. Annex 5 sets out the governance structure for the London CIV. The governance structure of the CIV has been designed to ensure that there are both formal and informal routes to engage with all the Authorities as both shareholders and investors. This is achieved through a combination of the London Councils' Sectoral Joint Committee, comprising nominated Member representatives from the London Local Authorities (in most cases the Pensions Committee Chair), and the Investment Advisory Committee ("IAC") formed from nominated borough officers, which includes both London Local Authority Treasurers and Pension Officers from a number of Authorities. At the company level for London CIV, (second chart), it is the Board of Directors that is responsible for decision making within the company, which will include the decisions to appoint and remove investment managers.

Please confirm that all participating authorities in the pool have signed up to the above. If not, please provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date.	Attached as ANNEX number Annex 3 - Shareholders Agreement Annex 4 - London CIV Articles of Association Annex 5 - London CIV Governance Structure

4. How the pool will operate, the work to be carried out internally and services to be hired from outside.
Please provide a brief description of each service the pool intends to provide and the anticipated timing of provision.
(a) To operate in-house (for example if the pool will have internal investment

management from inception): 1. Selection, appointment and termination of 3rd party fund managers (in-house fund management is an option that will be considered in future) 2. Investment Oversight of external 3rd party fund managers 3. Operations Management and oversight of 3rd party service providers 4. Compliance and Risk Management (fund and company) 5. Client Reporting 6. Website Management 7. Financial Management and Budgeting 8. Fund Oversight, controlled functions support (2018?)
(b) To procure externally (for example audit services): 1. External Fund Managers – to be procured as and when required 2. Audit Services (Deloitte) – Contract in place 3. Legal Services (Eversheds) – Contract in place 4. Asset Service Provider (Northern Trust) – Contract in place 5. Depository (Northern Trust) – Contract in place 6.Fund Oversight, controlled functions support (Capita) – Contract in place – likely to move internal over a period of time 7. Communications support (London Councils) – Contract in place 8. ICT Support Services (London Councils) – Contract in place 9. Payroll and Pension Services (City of London) – Contract in place 10. Bookkeeping Services (PWC) – Contract in place 11. Investment Consultancy – to be procured as and when required 12. Transition Management – to be procured as and when required

5. The timetable for establishing the pool and moving assets into the pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.
(a) Please provide assurance that the structure summarised in 3 above will be in place by

01.04.2018 assuming: x, y and z (add caveats).	
Confirmed YES/NO YES – Structure already in place and operational However, London CIV now dependent on government progress the Investment Regulations as some funds will be at risk of breaching current regulatory limits in the near future.	Anticipated date structure will be in place: Established and operational 2015 with first assets under management December 2015
(b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.	Attached as ANNEX number An indicative timetable for bringing assets under management is attached at Annex 6. However this is heavily dependent on a range of factors including but not limited to: ➢ Ability of FCA to approve opening of London CIV funds in a timely manner ➢ Ability to open additional Fund structures outside of the ACS to facilitate transfer of less liquid assets ➢ The treatment of life funds going forwards ➢ Ability of suppliers to meet timescales for opening sub-funds for the CIV, particularly when other Pools start the process of sub-fund openings ➢ Sufficient resources available both internally, externally and at a Local Authority level to transition assets ➢ It should be recognised that the draft

	timeline is inevitability very high level at this stage. We recognise that this timeline has of necessity to be flexible, because it will depend to a large extent on meeting the needs of the London Local Authority investment strategies particularly as they review their asset allocation following the triennial valuation. Depending on appetite this may also result in earlier moves into property and infrastructure.
(c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)	Attached as ANNEX number See comment above and Annex 6

(d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the pool at the end of each 3 year period starting from 01.4.2018.

Total value of assets estimated to be held in pool as at: -

Please note that of necessity any forecasts have to be heavily caveated due to the fact that it will depend on the timing of assets being transferred, the ability to source and implement sub-funds, the complexity of the requirements for different assets classes including that of infrastructure. It also assumes that AUM will continue to grow steadily but this will be heavily dependent on market movements and also the structures for local government going forwards, how quickly individual funds become cashflow negative and also any future changes to the benefit and cost structure of the LGPS.

31.3.2021: £25.9bn Est

31.3.2024: £28.4bn Est

31.3.2027: £28.4bn Est

31.3.2030: £28.4bn Est

31.3.2033: £28.4bn Est i.e. all AUM held by London Local Authorities with the exception of cash held for operational reasons

Criterion B: Strong governance and decision making

6. The governance structure for their pool, including the accountability between the pool and elected councillors and how external scrutiny will be used.
a) Please briefly describe the mechanisms within the pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights.
The governance structure of the CIV and the role that Authorities play in this is crucial to understanding how decisions are made in the CIV and the interaction that there has to be. All participating London Local Authorities are both shareholders and investors in the London CIV company and as such the CIV is accountable to the Authorities at both levels. The governance structure of the CIV has been designed to ensure that there are formal and informal routes to facilitate engagement with all the Authorities. This is achieved through a combination of the London Councils' Pensions Sectoral Joint Committee (PSJC), comprising nominated elected Member representatives Authorities(in most cases the Pensions Committee Chair), and the Investment Advisory Committee ("IAC") formed from nominated borough officers, which includes both Treasurers and Pension Officers from a representative sample of Authorities. The share structure of London CIV provides for equal voting rights for each authority on a one share one vote basis, this is a key tenet of the decision making process.
b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the pool (including the Pensions Committee and local Pension Board).
➢ As an AIFM London CIV must comply with the Alternative Investment Manager Directive ("**AIFMD**") and falls under the regulatory scrutiny and reporting regime of the Financial Conduct Authority ("**FCA**"). This includes the requirement for robust systems and processes and for these to be documented appropriately in policies and manuals. Risk management is a particular focus for the FCA and London CIV has developed a risk framework and risk register covering all areas of its operations, including fund management. ➢ The Pensions Sectoral Joint Committee ("P**SJC**") has been established under the governing arrangements of London Councils. The PSJC effectively fulfils two roles, one is as a mechanism

for convening elected Member representation from each borough (generally the borough's Pension Committee Chair), and the other is as the route to convening the Authorities as shareholders in London CIV. This Committee will provide scrutiny and oversight of the CIV for the Authorities, with each Borough represented on the Committee with voting rights.

- Borough Pension Committees – In most instances the Chair of the Pensions Committee at a Borough level will be the delegated representative on the PSJC and will be able to provide an overview back to the individual Committee on the work of the London CIV and its effectiveness from attending the PSJC. In addition the London CIV will provide regular updates to Authorities through its written reports and will also attend Committee meetings as and when required and in this way will help to ensure that the individual Pensions Committee are able to provide scrutiny of the London CIV.

- Pensions Boards – The role of Pension Boards is to assist the Administering Authority in ensuring compliance with the regulatory framework which the Fund operates in. Whilst in the first instance the CIV will be accountable to the relevant Pensions Committees of its shareholders and investors, if they are unable to receive the necessary assurance, then the Pensions Board can in turn seek to gain that assurance direct that the Administering Authority is compliant with the regulations.

- External Audit – Deloitte have been appointed to undertake external audit of both the company (London CIV) and the ACS Fund and will provide an annual governance statement which will be publicly available on the website.

- Depositary – The formal structures that the London CIV has put in place including FCA registration and the appointment of a Depositary (Northern Trust) helps to provide additional scrutiny on the CIV in providing monitoring and regulatory oversight of the company and a range of services including:
  - Safe custody of assets
  - Oversight of key systems and processes
  - Due-diligence review of the Operator (London CIV), and the Custodian, Fund Accountant, and Transfer Agent (Northern Trust)

7. The mechanisms by which authorities can hold the pool to account and secure assurance

that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.

(a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, pool and any supervisory body.

- London CIV has gone beyond 'intention' and has formal agreements and arrangement in place and is already in the process of pooling investments for the London Local Authorities.
- As already described above there are three levels of interaction between investing authorities and London CIV as the operating company; the PSJC, the IAC and regular contact through formal and informal interaction at borough level. It is embedded in the culture of London CIV that everything is being done 'for and on behalf of' the investing authorities and, while London CIV must ultimately take decisions independently of investors (for regulatory reasons) those decisions will be taken with appropriate levels of collaboration and the best interest of the investing authorities at heart. Formal agreements and documentation include:
    - The Shareholders Agreement which sets out the terms and conditions of the joint venture and regulates their relationship with each other and certain aspects of the affairs of and dealings with the Company. The Company has agreed with the Shareholders that it will comply with the terms and conditions of the Agreement insofar as it relates to the company and provided it is legal to do so. (See annex)
    - The PSJC is established under London Councils' governance arrangements.
    - The PSJC has specific Terms of Reference which include the following:
      "….to receive and consider reports and information from the ACS Operator particularly performance information and to provide comment and guidance in response (in so far as required and permitted by Companies Act 2006 requirements and FCA regulations).
      In addition, members of the Pensions CIV Joint Committee will meet at least once each year at an Annual General Meeting of the ACS Operator to take decisions on behalf of the participating London local authorities in their capacity as shareholders exercising the shareholder rights in relation to the Pensions CIV Authorised Contractual Scheme operator (as provided in the Companies Act 2006 and the Articles of Association of the ACS Operator company) and to communicate

these decisions to the Board of the ACS Operator company. These include: *the appointment of directors to the ACS Operator board of directors;* *the appointment and removal of auditors of the company;* *agreeing the Articles of Association of the company and consenting to any amendments to these;* *receiving the Accounts and Annual Report of the company;* *exercising rights to require the directors of the ACS Operator company to call a general meeting of the company;"* ➢ As an FCA authorised contractual scheme, the CIV is required to publish a prospectus which details how the CIV will operate including the valuation, pricing and administration of the Scheme. ➢ A service level agreement is also currently being drafted which will set out in more detail agreed service levels between the CIV and the Authorities which will help to further enable the CIV to be held to account for ensuring that borough investment strategies are being implemented and the timescales.	
(b) If available please include a draft of the agreement between any supervisory body and the pool as an ANNEX.	Attached as ANNEX number Annex 3 - Shareholders Agreement Annex 4 - Articles of Association Annex 7 - Terms of reference – PSJC Annex 8 - Prospectus of London LGPS CIV ACS
(c) Please describe briefly how that agreement will ensure that the supervisory body can hold the pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy.	
➢ See comments above and relevant Annexes	

8. Decision making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the pool level.

(a) Please list the decisions that will be made by the authorities and the rationale underpinning this.

The overall control of each individual authority pension fund stays at the local level and Authorities will continue to set their fund investment strategy and decide the most appropriate asset allocation mix in conjunction with advice from their officers, Consultants and Advisors. Therefore, Individual Pension Committees will continue to make all the key decisions as they do now in relation to asset allocation and investment strategy.

Funds will therefore continue to make decisions around:

- Funding
- Asset Allocation
- Investment Strategy
- Appointment of advisers
- Governance structures for the Fund
- Setting their own Responsible investment strategy
- Preparing and ratifying relevant Fund policy statements in accordance with the regulations e.g. Funding Strategy Statement, Investment Strategy Statement, etc.

(b) Please list the decisions to be made at the pool level and the rationale underpinning this.

Decision Making – London CIV Ltd. Level (FCA Authorised & Regulated AIFM)

- Appointment of external 3rd party managers
- Removal of external 3rd party managers
- Implementation and optimisation of investment strategies
- Appointment of other external 3rd party service providers
- Decisions on sub-fund structures and fund launches

- Management Structure
- All FCA Regulated Activities
- The CIV will, where appropriate consider investing in other pools in order to facilitate access to different investment strategies where other pools have capacity and we don't or can't build capacity (generally for reasons of limited demand within the London Pool). Likewise we will be open to accepting investments from other pools where we offer strategies that the other pool doesn't.

(c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

Decision Making – Supervisory Body – London Councils' Sectoral Joint Committee

- Oversight and scrutiny of the pool
- Shareholder representative body
- Recommending strategic overall strategy and sub-fund requirements to meet the needs of Shareholders
- Policy decisions including stewardship and voting at a pool level

9. The shared objectives for the pool and any policies that are to be agreed between participants.

(a) Please set out below the shared objectives for the pool.

Principles:

The shared principles of the London CIV established when the London Local Authorities came together are unchanged despite the government's more mandatory stance, namely:

1. Investment in the ACS should be voluntary, both entry and withdrawal (although it is recognised that the voluntary nature is now more constrained by the forthcoming investment regulations).
2. Authorities choose which asset classes to invest into and how much.
3. Authorities should have sufficient control over the ACS Operator
4. Investing authorities will take a shareholding interest in the operator
5. Shareholders will have membership of the Pensions Sectoral Joint Committee

6. ACS Operator will provide regular information to participating Authorities 7. ACS will not increase the overall investment risk faced by the Authorities.	
(b) Please list and briefly describe any policies that will or have been agreed between the participating authorities.	
Policies: ➢ High level policy on responsible investment to include compliance statement with the Stewardship Code to be developed by end December 2016 ➢ Voting Policy – to vote in accordance with LAPFF recommendations – Agreed by the PSJC – 27th May 2015 ➢ The London CIV is working closely with other Pools to consider approaches to responsible investment and ESG issues can be addressed by the pools to ensure effective stewardship	
(c) If available please attach as an ANNEX any draft or agreed policies already in place.	Attached as ANNEX number

10. The resources allocated to the running of the pool, including the governance budget, the number of staff needed and the skills and expertise required.	
(a) Please provide an estimate of the operating costs of the pool (including governance and regulatory capital), split between implementation and ongoing. Please list any assumptions made to arrive at that estimate. Please include details of where new costs are offset by reduced existing costs.	Implementation costs - Approximately £1.8m to establish core structure and open first sub-funds Ongoing costs - The budget for the financial year ending 2017 has costs of £2.3m growing by 8% for the following year and 2.7% for the year after. At this time the budget for the longer term outlook is

	currently under review.

Assumptions:

Please note that of necessity any forecasts have to be heavily caveated due to the fact that it will depend on the timing of assets being transferred, the ability to source and implement sub-funds, the complexity of the requirements for different assets classes including that of infrastructure. It also assumes that AUM will continue to grow steadily but this will be heavily dependent on market movements and also the structures for local government going forwards, how quickly individual funds become cashflow negative and also any future changes to the benefit and cost structure of the LGPS.

The budget that has been agreed by the Board and the PSJC for 2016/17 and the following 3 years, however, it has become necessary to consider resources in particular in the light of the move to mandatory pooling and the timeframe in which this has to be delivered.

The London CIV is aware of a range of benchmarking exercises which would indicate that for investment management organisations of the size and scope of the London CIV a greater level of resourcing is required and will need to take this into account as it considers its longer term budget.

Capital adequacy is based on either 25% of annual expenditure or 0.02% of AUM subject to a max of £10m whichever is the higher in line with regulatory requirements.

Whilst in theory there may be reduced costs at a Local Authority level to come through in terms of resources allocated to managing investments and the relationships with individual managers, there will still be an ongoing requirement to monitor performance of the London CIV as well as any investments which continue to be held outside of the CIV at least in the short to medium term. Furthermore, in

London, there are very limited numbers of staff dedicated solely to the function of pension investments, it usually forms part of an individual's job role, estimated at 0.35 FTE for most authorities for this exercise, which could lead to 11 FTE's over the course of pooling (approximate saving of £660k p.a. based on a staff cost of £60k p.a.) However, it should be noted that any savings at a local level are highly unlikely to follow through given earlier comments on ongoing monitoring plus additional regulatory requirements elsewhere, for example increased oversight requirements from Pensions Board and the Pensions Regulator, which is likely to mean that resourcing at a local level is not reduced as a result of pooling of investments.

Reduced costs at a Borough level should follow through from a reduction of investment manager searches at individual fund authorities as this will now be conducted at a pool level. It has been assumed that this will give rise to savings at a London-wide level in the region of £825k p.a. (based on a search costing £25k and approximately 33 investment management searches being conducted on behalf of London funds each year based on historic data)

Comments

- The long term budget for the London CIV is subject to strategic review and a revised budget and financial plan are being drafted over the next 2 months for approval by the London CIV Board and PSJC.
- Surplus funds can be used to support additional resource requirements going forwards.
- Reduced costs at a Borough level will include reduced investment management fees, but this will also be dependent on the types of assets that Authorities may choose to allocate to and in some instances could actually increase e.g. moving assets from passive to infrastructure.

(b) Please provide an estimate of the staff numbers and the skills/expertise required, split	

between implementation and ongoing. Please state any assumptions made to arrive at that estimate.	

Assumptions

- The near term business plan currently assumes 12 full time equivalent (FTE) staff to March 2017 and recruitment is underway to take the CIV up to this complement of staff. However, it is recognised that as assets under management grow and the complexity of those assets increases, there will be additional resourcing requirements which could see staffing at least double over the next few years.
- The CIV is aware of the CEM benchmarking work on the level of staffing required for investment management organisations which use external managers. This would indicate a staffing ratio of 0.36 FTE investment and front office staff per £1bn AUM with additional back office/support and governance staff of 1.8 FTE for every front office staff. If this level of staffing were to be reflected for the CIV with £29bn AUM this would indicate staff levels of 10.4 investment front office FTE and 18.8 FTE in supporting and governance roles.
- The CIV will have to consider the level of resources required to manage the growing asset base and complexity of those assets, recognising that it is providing services to 33 underlying clients, but will do so in a measured way recognising the need to deliver pooling in the most cost effective and efficient way.
- Staffs in key roles are required to have the requisite skills and expertise to be able to fulfil FCA regulated functions, e.g. CF1, CF3, CF10, CF11 and CF30.

Comments

- With the London CIV having been established and transition of assets underway, it is more a case of business as usual going forwards, although there will be additional implementation costs in the next 2-3 years.
- However, it is likely that going forwards any release of resource from implementation will transfer to other areas and to ensure that switching of asset

allocation and investment strategy by the London Funds is carried through in a timely efficient manner. ➢ In addition the ongoing monitoring of existing managers and potential new managers and investment opportunities, means that going forwards the addition and removal managers will still require resources to undertake strategic implementation decisions.

8. How any environmental, social and corporate governance policies will be handled by the pool. How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.	
(a) Please confirm there will be a written responsible investment policy at the pool level in place by 01.4.2018.	
Confirmed The London CIV pool is committed to reviewing its approach to being responsible long term investors including becoming signatories to the Stewardship Code. A cross cutting stewardship working group has been formed as a sub group of the PSJC to review this area, in addition to a working group of the IAC officer group to work with the CIV to develop stewardship policies and approaches which can be taken forwards. If no please attach an ANNEX setting out how the pool will handle responsible investment and stewardship obligations, including consideration of environmental, social and corporate governance impacts.	Attached as ANNEX number

9. How the net performance of each asset class will be reported publicly by the pool, to encourage the sharing of data and best practice.
(a) Please confirm that the pool will publish annual net performance in each asset class

on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.	
Confirmed ➢ The London CIV is committed to providing performance information publicly and the website is already operational and reporting of sub-funds available: http://londonciv.org.uk/ ➢ Performance reporting is already taking place on the funds that are operational ➢ Quarterly and Annual report to Sectoral Joint Committee (public papers) on both sub-fund and overall performance at a pool level ➢ Quarterly performance reporting to the company Board ➢ Individual quarterly performance reports to each investor ➢ The CIV is already working on the first interim report and accounts, which will also be put on the website with an annual report and accounts published in spring next year. This will include both the financial information relating to the CIV as a company along with the performance of all the relevant sub-funds. If no please attach an ANNEX setting out how the pool will report publically on its performance.	Attached as ANNEX number

10. The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool.
(a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the pool.
➢ Performance at individual fund level net of fees and relative to relevant benchmark,

quarterly, annual and longer term performance to include since inception and 3 and 5 years.

- Where funds migrate to the same investment strategy with the same underlying manager, longer term performance records to be maintained.
- Full disclosure of fees and investment costs
- Budgeted and Actual costs for the London CIV
- Benchmarking – use of external provider/ collaborate with other pools to review options – looking at options for a National LGPS Framework Procurement exercise to procure providers in this area.
- Scheme Advisory Board reporting requirements both at Fund and Pool levels

LONDON CIV

Criterion C: Reduced costs and excellent value for money

1. A fully transparent assessment of investment costs and fees as at 31 March 2013.	
(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2013.	**£67.6m (**Published costs) **28.16 bps**
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2013 on a fully transparent basis.	**£108.6m (CEM Benchmarking)** **48.34 bps**
(c) Please list below the assumptions made for the purposes of calculating the transparent costs quoted. All London Local Authorities have provided data to CEM Benchmarking to ensure that costs are measured in the same way and to make investment costs fully transparent	

2. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison, and how these will be reduced over time.	
(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2015.	**£107.19m (**Published costs) **36.84 bps**
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2015 on a fully transparent basis.	**£135.6m (CEM Benchmarking)** **48.16 bps**
(c) Please list below any assumptions made for the purposes of calculating the transparent costs quoted that differ from those listed in 1(c) above. All London Local Authorities have provided data to CEM Benchmarking to ensure that costs are measured in the same way and to make investment costs fully transparent.	

The accounting treatment has meant greater transparency for the reporting of costs between 2013 and 2015 and is not necessarily reflective of higher fees paid to external managers, which is probably reflected in the constant level of bps charge shown by the CEM benchmarking.

3. A detailed estimate of savings over the next 15 years.
(a) Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the pool at the end of each 3 year period starting from 01.04.2018.
Total value of savings (per annum) estimated to be achieved by each of the authorities in the pool as at 3 year intervals commencing from 2018 **Please note that of necessity any forecasts have to be heavily caveated due to the fact that it will depend on the timing of assets being transferred, the ability to source and implement sub-funds, the complexity of the requirements for different assets classes across 33 London Local Authorities, along with the changing structures for local government going forwards, how quickly individual funds become cashflow negative and also any future changes to the benefit and cost structure of the LGPS.** **Whilst recognising that fee savings are one aspect of improving the level of return which pension funds achieve, this has to be put into the context of the levels of risk and return delivered. Targeting higher levels of return are inevitably going to increase risk but also the cost of accessing greater returns.** **If, as seems likely Funds require more complex investments to deliver returns and cashflow as they mature including accessing infrastructure assets, then the cost savings may well fall significantly short of the estimated savings being suggested. As funds adjust their asset allocation and investment strategy to meet their funding needs, it may well not be possible to evidence the fee savings set out below.** **Further, if as seems likely, we are entering an environment where both economic growth and market returns are structurally and materially lower, then investment returns will by definition be lower. This will also be impacted by the likely move into more expensive cash-flow generating assets. In sum, the shifting needs and**

requirements of the local authority pension funds, allied to broader shifts in the economic and investing environment, may mean that the CIV overall will report lower growth in capital values and higher fees than has been the case in recent years.

The table below sets out the estimated savings on 3 year basis with both high and low estimates of the savings that might be achieved based on the AUM and asset allocation as at 31/03/15. The average saving per annum is based on the 3 years accumulated saving averaged over 3 years and then assumes each of the 33 authorities achieve the same level of saving.

However, it is recognised that funds start in very different places in terms of the AUM and the asset allocation and the fee levels paid for those investments. It is only possible to calculate savings at a fund level once all relevant information is taken into account at the time of

3 years to	Low Estimate £'000 - 3 years	Avg saving p.a. based on 33 funds £'000	High Estimate £'000 - 3 years	Avg saving p.a. based on 33 funds £'000
2021	27,856	281	63,596	642
2024	33,836	342	80,121	809
2027	34,736	351	83,022	839
2030	34,736	351	83,022	839
2033	34,736	351	83,022	839

transition.

(a) Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it).

Standard assumptions have been made on basis point savings in each asset class – this reflects both experiences from recent negotiations with external managers, but also echoes the work undertaken by Project Pool. A high and low estimate has been provided to reflect the fact that fee savings are likely to vary significantly depending on the investment strategy within individual asset classes and the capacity and demand for products with each external provider.

Assumptions - bps savings on fees paid to external managers	AUM	Low Estimate	High Estimate
Passive Equity	7,537,293	2	4
Active Equity	9,697,638	5	12
Fixed Interest	4,938,727	3	5
Multi-Asset	2,635,633	5	12
Property	2,094,598	5	15
Alternatives	1,566,590	10	30
Cash & Other	626,735	-	-
TOTAL	29,097,214		

- Project Pool – estimated savings in the range £140-185m p.a. by year 10 based on asset values today
- LGPS AUM £217bn at 31/03/15
- London = 13.4% AUM
- Low estimate of savings = 8.3%
- High estimate of savings = 15.0%

(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the savings shown.	Attached as ANNEX number

4. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool, and an explanation of how these costs will be met.

(a) Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).

As noted in a previous response the London CIV has gone beyond 'intention' and has formal agreements and arrangements in place and is already in the process of pooling investments for the London Local authority pension funds and delivering fee savings to funds.

The estimated implementation costs were £1.8m and have already been incurred. At this time the London CIV budget is under review with a revised budget to be presented to the PSJC and the Board at meetings in the autumn. Until such time as the revised budget is available, it will not be feasible to provide break-even point and an update will be provided in the autumn.

(b) Please list below the assumptions made in estimating the implementation costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it).

Total transition costs at this time are estimated at £30.4m (low estimate) up to £103.6m (high estimate), with a mean cost of £53.3m these are based on average transition costs supplied by Russell. A proportion of current AUM has been assumed as being transferred in-specie.

		Mean Estimated Costs			Low Estimated Costs			High Estimated Costs		
ASSET CLASS	AUM £000s	% in-specie	Bps	£000s	% in-specie	Bps	£000s	% in-specie	Bps	£000s
Passive Equity	7,537,293	85%	20	4,522	90%	10	1,507	80%	30	9,045
Active Equity	9,697,638	60%	30	23,274	70%	24	13,965	50%	36	34,911
Fixed Interest	4,938,727	40%	25	14,520	50%	20	9,680	30%	29	20,328
Multi-Asset	2,635,633	60%	15	3,163	70%	12	1,898	50%	18	4,744
Property	2,094,598	85%	100	6,284	90%	80	3,351	80%	300	25,135
Alternatives	780,999	95%	100	781	100%	-	-	90%	300	4,686

Private Equity	589,456	95%	100	589	100%	-	-	90%	300	3,537
Infrastructure	196,135	95%	100	196	100%	-	-	90%	300	1,177
Cash & Other	626,735									
Total £000s	**29,097,214**			**53,330**			**30,401**			**103,563**
Total % (based on total AUM)				**0.18%**			**0.10%**			**0.36%**

***NB Estimated transition cost assumptions provided by Russell based on AUM and estimated turnover**

But transition costs will be heavily dependent on each individual transition taking into account:

- Timing of transition – volatility in markets can have a significant impact on these costs
- Where the assets are being transitioned from and to e.g. passive to passive is relatively low cost and may be largely in-specie, alternatively, emerging market to emerging market with no in-specie will be at the higher cost end
- How much in-specie transition is feasible i.e. where there are common mandates or holdings which can be moved between investment managers.
- Stamp duty costs

(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the implementation costs shown.	Attached as ANNEX number

(d) Please explain how the implementation costs will be met by the participating authorities.

- London Local Authorities provided initial set up capital of £75k per participating authority to establish the London CIV and cover the initial implementation costs including legal and advisers' costs.
- Transition costs will be met by each individual fund as it transitions assets across to the London CIV. Funds are provided with estimated transition costs in advance of transition taking place and then a post trade report showing costs of implementation.

5. A proposal for reporting transparently against forecast transition costs and savings, as well as for reporting fees and net performance.
(a) Please explain the format and forum in which the pool and participating authorities will transparently report actual implementation (including transition) costs compared to the forecasts above. As assets are transferred either in-specie or in cash into a sub-fund, individual authorities will be provided with the costs of transition. The CIV will look to disclose at a pool level the costs of transition and savings to its broader investment and shareholder base on an annual basis as a minimum, but will be reporting to the Board and PSJC on a quarterly basis
(b) Please explain the format and forum in which the pool and participating authorities will transparently report actual investment costs and fees as well as net performance. ➢ Authorities will be provided with quarterly reporting from the London CIV which will encompass both their investment performance and the fees paid by them, including any fund charges ➢ At a pool level, shareholders will be provided with an annual report setting out performance and costs for each individual sub-fund including net performance as well as at a pool level ➢ Quarterly reporting and annual reporting will be provided to individual Authorities in a written report ➢ In addition performance of sub-funds will be covered on the CIV website. ➢ Quarterly and Annual reporting will also be reviewed at the IAC and PSJC meetings as well as at the Company Board meetings and the Company Investment Oversight Committee.
(c) Please explain the format and forum in which the pool and participating authorities will transparently report actual savings compared to the forecasts above. ➢ As above

Criterion D: An improved capacity to invest in infrastructure

1. The proportion of the total pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or "funds of funds"	
(a) Please state the pool's committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	0.7%
(b) Please state the pool's target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	1%
Please use the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.	

2. How the pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined pool, rather than existing fund, or "fund of funds" arrangements.	
(a) Please confirm that the pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively. Aim of the Cross Pool Collaboration Infrastructure Group:- To develop a collaborative infrastructure framework that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer Funds (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.	
(b) Please confirm that the pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.	Confirmed Yes The CIO of the London CIV sits on the Cross Pool Infrastructure Group and will continue to play an active role as this group develops options for infrastructure investments

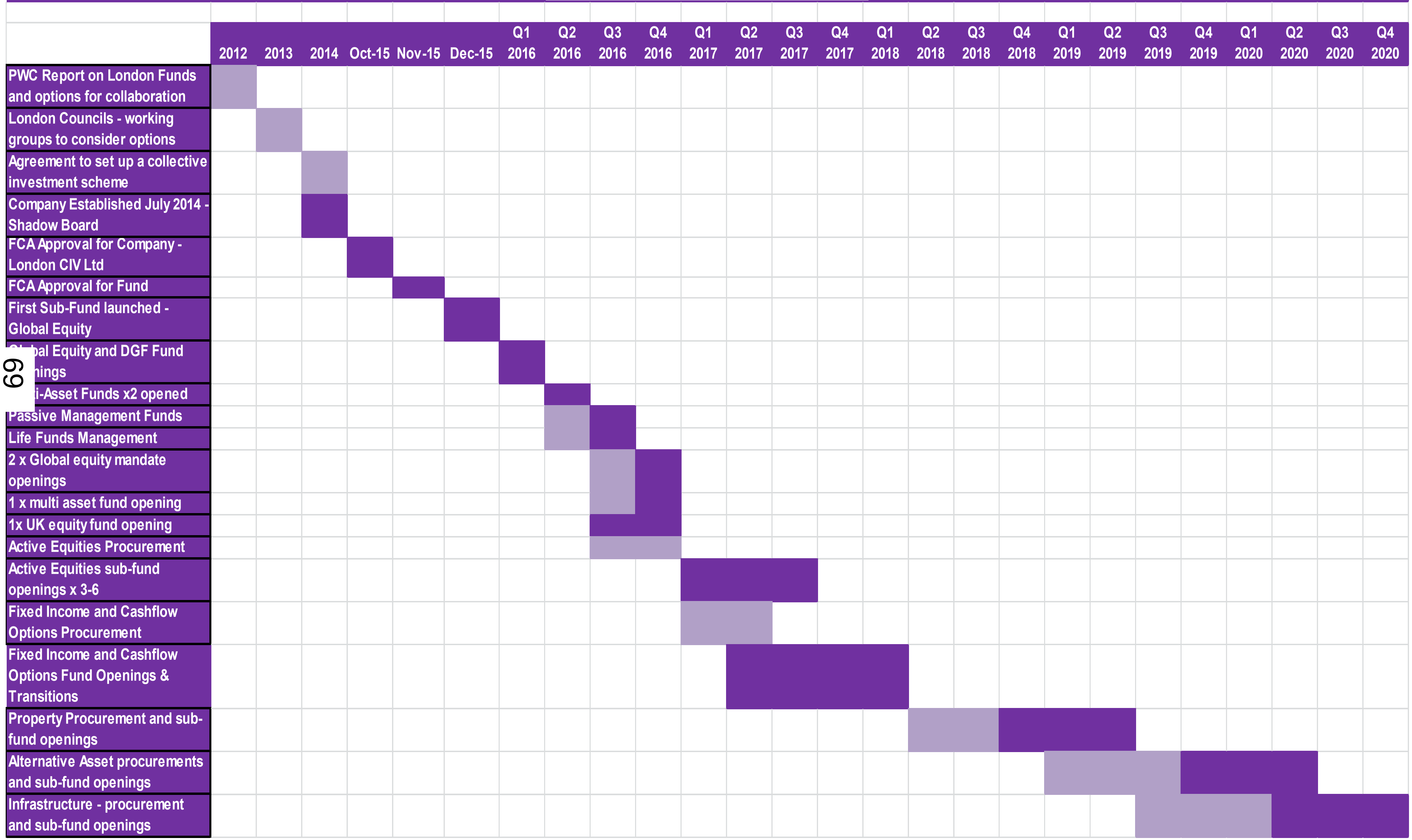
	Details attached as ANNEX number
(c) [If different to above] Please attach an ANNEX setting out how the pool might develop the capability and capacity in this asset class, through developing its own resources and / or accessing shared resources of other Pools and include a timescale for implementation of the initiative.	Attached as ANNEX number In addition to the Cross Pool group, consideration is also being given to a range of ways to access infrastructure including co-investment, direct funds and working closely with other investors in this area.

3. The proportion the pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.	
(a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature.	3-10% Where funds have indicated to the Pool an interest in allocating to infrastructure, the range is between 3-10%, but this remains a local asset allocation decision
(b) Please describe the conditions in which this allocation could be realised. The allocation to infrastructure will be a decision which is made at the London Local Authority level when determining overall asset allocation; however the CIV will ensure that it has the mechanisms in place and the opportunities for the relevant Funds to meet their asset allocation requirements when deciding to invest in infrastructure. The CIV will target infrastructure opportunities that offer the appropriate levels of risk/return for the London Local Authorities to be able to make informed decisions about their asset allocation to this asset class. The CIV will ensure that it works closely with other pools and with individual funds and their advisors to ensure that the requisite knowledge and skills are available to make informed decisions.	

This page is intentionally left blank

ANNEX 6

LONDON CIV - HIGH LEVEL TIMELINE




Assets Under Management Y/E March
30,000
25,000
20,000
15,000
10,000
5,000
-
Mar 2016
Mar-17
Mar-18
Mar-19
Mar-20
Mar-21
Mar-22
Mar-23
Alternatives & Real Assets
Infrastructure
Property
Fixed Income
Multi-Asset
Passive Equity
Active Equity

REPORT FOR: Pension Fund Committee

Date of Meeting:	6 September 2016
Subject:	Currency Hedging
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Currency Hedging (Aon Hewitt)

Section 1 – Summary and Recommendation

Summary

The Committee is requested to receive and consider a report from the Fund's investment advisers Aon Hewitt on currency hedging in line with its function to administer all matters concerning the Council's Pension investments in accordance with law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

Recommendation

That no changes are made to the Fund's current currency hedging arrangements.

Harrow COUNCIL
LONDON

Section 2 – Report

1. As part of its investment strategy the Fund has in place a passive currency hedging mandate with Record Currency Management whereby, taking into account that the Longview equity holdings are entirely hedged to sterling, 50% of all developed market overseas investments are similarly hedged.

2. Since the EU referendum on 23 June 2016 sterling has fallen in value substantially, most significantly for the Fund against the Dollar, Yen and Euro. The impact of this can be seen in the values of the Fund's overseas equities holdings and the consequent commitment to the currency hedging manager.

3. In view of these developments Aon Hewitt have been asked to provide a report on the Council's current strategy with a recommendation as to whether it should be varied.

4. The Committee are invited to receive the attached report and presentation from Aon Hewitt and to accept the conclusion that "the Fund should not amend its current currency hedging arrangements."

Financial Implications

5. The consideration of strategy changes is an important part of the management of the Pension Fund investments and the performance of the Fund's investments plays an extremely important part in the financial standing of the Fund. The only financial implications arising from this report are those associated with not making any strategic changes and continuing to accept the current levels of risk.

Risk Management Implications

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

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: Dawn Calvert Date: 18 August 2016	✓	Director of Finance
Name: Noopur Talwar Date: 23 August 2016	✓	on behalf of the Monitoring Officer

Ward Councillors notified:	**NO**

Section 4 - Contact Details

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

Background Papers – None

This page is intentionally left blank

London Borough of Harrow Pension Fund ('the Fund')

Date: 28 July 2016
Prepared for: Pension Fund Committee
Prepared by: Colin Cartwright
Gayathri Varatharajan

Currency hedging

Background

Since the EU referendum on 23 June 2016, Sterling has fallen by 11% against the US dollar (US$1.48 to US$1.31 currently) and a little less against the euro, with a 10% drop (€1.3050 to €1.18 currently).

The Fund has a 62% strategic allocation to global equities invested across four managers. The purpose of this paper is to examine the impact of Sterling weakness on the Fund's equity holdings and whether the current currency hedging arrangements remain appropriate in the current economic environment.

Equity holdings and currency exposure

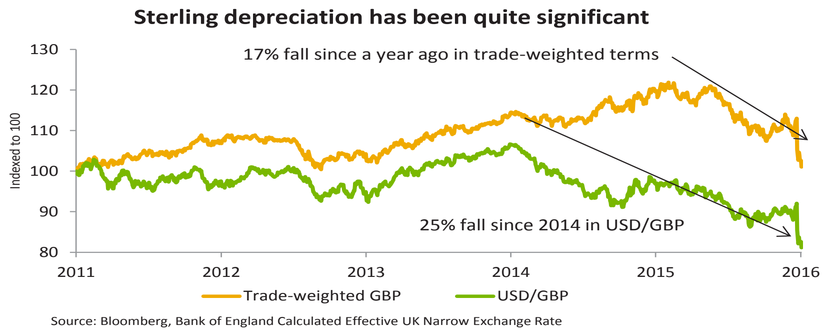
The table below summarises the Fund's currency exposure within the equity portfolio as at 30 June 2016.

	Longview	State Street	GMO	Oldfield	Total Fund Exposure
Strategic weighting	*11%*	*31%*	*10%*	*10%*	*62%*
US Dollar		53.2%	5.2%	24.8%	19.5%
GBP	100.0%	6.6%	3.2%	18.3%	15.2%
Japanese Yen		8.1%		33.0%	5.8%
Euro		9.5%	1.2%	13.0%	4.4%
Indian Rupee		1.1%	22.3%		2.6%
Thai Baht		0.2%	14.6%		1.5%
Canadian Dollar		2.8%		5.4%	1.4%
South Korean Won		1.5%	2.7%	5.4%	1.3%
Chinese Yuan			11.0%		1.1%
Philippine Peso		0.2%	10.3%		1.1%
Hong Kong Dollar		3.4%			1.0%
Swiss Franc		3.1%			1.0%
Brazilian Real		0.8%	5.6%		0.8%
Australian Dollar		2.4%			0.8%
New Taiwan Dollar		1.3%	3.2%		0.7%
Russian Ruble			7.1%		0.7%
Mexican Pesos		0.5%	3.7%		0.5%
South African Rand		0.8%	1.6%		0.4%
Turkish Lira		0.1%	2.6%		0.3%
Swedish Krone		0.9%			0.3%
Indonesian Rupiah		0.2%	2.0%		0.3%
Malaysian Ringgit		0.4%	0.9%		0.2%
Danish Krone		0.7%			0.2%
Vietnamese Dong			1.6%		0.2%
Singapore Dollar		0.5%			0.1%
Qatari Rial			1.2%		0.1%
Israeli New Sheqel		0.2%			0.1%
Norwegian Krone		0.2%			0.1%
Polish Zloty		0.1%			0.0%
UAE Dirham		0.1%			0.0%
Chilean Peso		0.1%			0.0%
New Zealand Dollar		0.1%			0.0%
Colombian Peso		0.1%			0.0%
Hungarian Forint		0.0%			0.0%
Czech Republic Koruna		0.0%			0.0%
Egyptian Pound		0.0%			0.0%
	100%	**100%**	**100%**	**100%**	**62%**

Source: managers, data as at 30 June 2016, developed market countries marked in bold

- The Fund's equity holding with Longview is 100% hedged to Sterling.
- Additionally, the Fund has a passive currency hedging mandate with Record Currency Management whereby the manager hedges 50% of all developed market overseas equity currency exposure across all four managers.
- This therefore implies that approximately 45% of the Fund's global equity holdings are hedged back to Sterling based on 30 April 2016 asset values. Emerging Market currency is left unhedged.

What has happened to Sterling?



Sterling's weakness pre-dates the EU referendum. The pound has now depreciated by 25% against the US dollar since 2014, due to a tighter US monetary stance, concern over a widening UK current account deficit and, in the past year, by Brexit worries. In broad trade-weighted terms, the fall is smaller but still a sizeable 17% since its 2015 peak (see chart).

How much further can Sterling fall?

- Sterling will remain at the mercy of uncertain economic and political developments for several years which obscures the outlook.
- Even though sterling has fallen significantly already on the back of a negative outlook for UK growth and inflation under a Brexit scenario, we expect that sterling could continue to weaken in the wake of the decision by the UK to leave the European Union (EU). Negative news flow and reduced capital inflows will keep sterling weak.
- However, limited monetary easing implications and some valuation support indicate that the greater part of sterling's depreciation has now occurred.

How does Sterling weakness / strength impact the Fund's holding?

- When Sterling weakens, the value of an unhedged overseas holding increases (as the amount of foreign currency equivalent to one British pound falls).
  - Since the EU referendum, Sterling weakness has pushed up the value of overseas equity portfolios so investors with unhedged exposures have benefited.
  - Investors with hedged overseas exposure (like the Fund) will not have participated in this value increase however, it should be noted that the Fund's equity exposure is not 100% currency

hedged and therefore it would have experienced a proportion of this upside from its unhedged exposure.

- By contrast, when Sterling strengthens, the value of an unhedged overseas holding falls (as the amount of foreign currency equivalent to one British pound increases).
  - Therefore, investors with unhedged overseas exposures will suffer a loss.
  - If Sterling were to strengthen from its current position and revert back to its pre referendum levels (c. 11% higher versus the USD), the Fund's currency hedged position would offer protection against some of the potential losses.

Recommendation

- Strategic currency hedging (which the Fund has in place) is typically implemented to reduce portfolio volatility and remove the impact of negative currency movements from manager performance. Similarly, a strategic hedge also removes any upside participation in currency movements as it is not intended to facilitate tactical positions.
- Given the size of Sterling's fall to date, we believe the majority of Sterling weakness has already come through. High levels of uncertainty around the Brexit process makes the extent of further sterling weakness also highly uncertain.
- Whilst we think that there is more risk of further sterling weakness than strength, we are in fact recommending that clients without hedging arrangements in place start to prepare to hedge their overseas exposure.
- Should Sterling weaken further, the Fund would not participate in the full extent of this however some upside is expected to come through due its underhedged position in global equities. Similarly, should Sterling experience an appreciation in its value, only the unhedged portion of the Fund's global equity holdings would be expected to fall in value.
- Based on the above, we believe the Fund's slightly less than 50% hedged position within global equities is likely to allow some upside participation whilst also offering a sufficient level of protection.
- **We therefore believe that the Fund should not amend its current currency hedging arrangements.**

Disclaimer

This document and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document.

Notwithstanding the level of skill and care used in conducting due diligence into any organisation that is the subject of a rating in this document, it is not always possible to detect the negligence, fraud, or other misconduct of the organisation being assessed or any weaknesses in that organisation's systems and controls or operations.

This document and any due diligence conducted is based upon information available to us at the date of this document and takes no account of subsequent developments. In preparing this document we may have relied upon data supplied to us by third parties (including those that are the subject of due diligence) and therefore no warranty or guarantee of accuracy or completeness is provided. We cannot be held accountable for any error, omission or misrepresentation of any data provided to us by third parties (including those that are the subject of due diligence). This document is not intended by us to form a basis of any decision by any third party to do or omit to do anything.

Any opinions or assumptions in this document have been derived by us through a blend of economic theory, historical analysis and/or other sources. Any opinion or assumption may contain elements of subjective judgement and are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of any future performance. Views are derived from our research process and it should be noted in particular that we cannot research legal, regulatory, administrative or accounting procedures and accordingly make no warranty and accept no responsibility for consequences arising from relying on this document in this regard.

Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.

REPORT FOR: Pension Fund Committee

Date of Meeting:	6 September 2016
Subject:	Quarterly Trigger Monitoring Q2 2016
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Quarterly Trigger Monitoring Q2 2016 (Aon Hewitt)

Section 1 – Summary and Recommendation

Summary

The Committee is requested to receive and consider a report from the Fund's investment advisers Aon Hewitt on Quarterly Trigger Monitoring in line with its function to administer all matters concerning the Council's Pension investments in accordance with law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

Recommendation

That no de-risking actions are taken at this stage.

Harrow COUNCIL
LONDON

Section 2 – Report

1. At their meeting on 8 September 2015 the Committee considered a report entitled "Options for Liability Driven Investments (LDI) Strategy. After discussion they resolved:

   That the status quo, a 13% Bond allocation invested in a combination of corporate bonds and index-linked gilts, be retained in relation to the Fund's Bond portfolio and that Aon Hewitt be requested to provide guidance on the catalysts that would trigger a move to an LDI Strategy with Option 2 being the preferred Option.

2. On 25 November 2015 the Committee considered a further report from Aon Hewitt which set out options for taking forward the consideration of an LDI Strategy. They resolved:

   That they should receive a short report on funding levels at the next meeting of the Committee and thereafter on a quarterly basis.

3. At their meeting on 9 March 2016 the Committee reiterated their request for quarterly reports and attached is the second of these for the period up to 30 June 2016. The Committee are invited to receive this report and presentation from Aon Hewitt and to accept the conclusion that "No de-risking actions are recommended at the current time."

Financial Implications

4. The consideration of strategy changes is an important part of the management of the Pension Fund investments and the performance of the Fund's investments plays an extremely important part in the financial standing of the Fund. The only financial implications arising from this report are those associated with not making any strategic changes and continuing to accept the current levels of risk.

Risk Management Implications

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

Equalities implications

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

Council Priorities

7. 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 Date: 18 August 2016	✓	Director of Finance
Name: Noopur Talwar Date: 23 August 2016	✓	on behalf of the Monitoring Officer

Ward Councillors notified:	**NO**

Section 4 - Contact Details

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

Background Papers – None

This page is intentionally left blank

London Borough of Harrow Pension Fund ('the Fund')
Date: 16 August 2016
Prepared for: Pension Fund Committee ('the Committee')
Prepared by: Colin Cartwright
Gayathri Varatharajan

Quarterly Trigger Monitoring - Q2 2016

Introduction

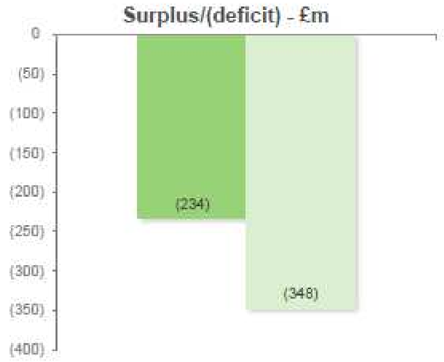
The purpose of this short report is to provide an update on the status of three de-risking triggers which the Committee have agreed to monitor on a quarterly basis. The three triggers are related to:

- The Fund's funding level
- Yield triggers based on the 20 year spot yield
- Aon Hewitt's view of bond yields

Funding level

The chart below shows the Fund's funding level at the end of the quarter compared with the level at the last actuarial valuation as at 31 March 2013.

The funding level as at 30 June 2016 was 66.2% (68.0% at the end of March 2016).

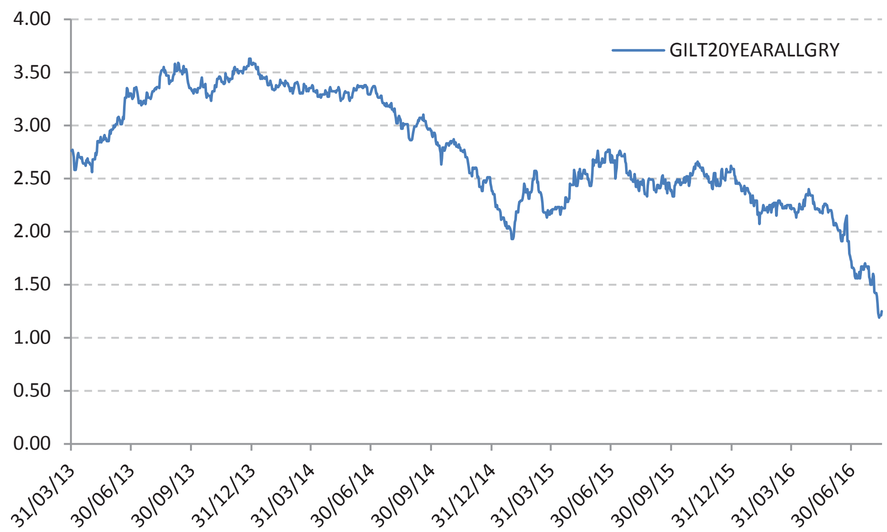


Source: Hymans Robertson

20 year spot yield

The chart below shows the movement of the 20 year spot yield since 31 March 2013 to mid-August. Yields ended the second quarter of 2016 at 1.7% and finished mid-August even lower at around 1.3%.

20 year gilt spot yield



Aon Hewitt views on bond yields

The table below sets out Aon Hewitt's views versus the market in terms of spot and forward rates as at 5 August 2016.

Summary of market spot and forward rates versus Aon Hewitt's views

	5 August 2016	In 3 years			In 5 years		
	20 year Spot Rate	Market Pricing	AH View	Diff	Market Pricing	AH View	Diff
Real	-1.5%	-1.3%	-0.8%	+0.6%	-1.3%	-0.6%	+0.7%
Nominal	+1.5%	+1.8%	+2.5%	+0.7%	+2.0%	+2.8%	+0.8%
Breakeven*	+3.1%	+3.2%	+3.3%	+0.1%	+3.3%	+3.4%	+0.1%

* AH view on breakeven inflation includes an allowance for an inflation risk premium above expected inflation
Totals may not sum exactly due to rounding

As shown by these figures, we believe that rates will rise faster than what the market is indicating.

Conclusion

There is no material improvement in funding level and long term bond yields remain at historically low levels. Aon Hewitt believe that yields will rise faster than indicated by the market over the next three and five year period. No de-risking actions are recommended at the current time.

Disclaimer

This document and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document.

Notwithstanding the level of skill and care used in conducting due diligence into any organisation that is the subject of a rating in this document, it is not always possible to detect the negligence, fraud, or other misconduct of the organisation being assessed or any weaknesses in that organisation's systems and controls or operations.

This document and any due diligence conducted is based upon information available to us at the date of this document and takes no account of subsequent developments. In preparing this document we may have relied upon data supplied to us by third parties (including those that are the subject of due diligence) and therefore no warranty or guarantee of accuracy or completeness is provided. We cannot be held accountable for any error, omission or misrepresentation of any data provided to us by third parties (including those that are the subject of due diligence). This document is not intended by us to form a basis of any decision by any third party to do or omit to do anything.

Any opinions or assumptions in this document have been derived by us through a blend of economic theory, historical analysis and/or other sources. Any opinion or assumption may contain elements of subjective judgement and are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of any future performance. Views are derived from our research process and it should be noted in particular that we cannot research legal, regulatory, administrative or accounting procedures and accordingly make no warranty and accept no responsibility for consequences arising from relying on this document in this regard.

Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.

This page is intentionally left blank

REPORT FOR: **Pension Fund Committee**

Date of Meeting:	6 September 2016
Subject:	Pension Fund Committee - Update on Regular Items
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No.
Wards affected:	All
Enclosures:	Appendix 1 – Fund Valuation and performance

Section 1 – Summary and Recommendations

Summary

This report updates the Committee on regular items as follows:

- Draft work programme on which the Committee's comments and agreement are requested.
- Performance of fund managers for previous periods
- Issues raised by Pension Board

Recommendation

That, subject to any comments the Committee wish to make, the work programme for the period up to March 2017 be agreed.

Section 2 – Report

A Introduction

1. This report updates the Committee on regular items as follows:
    - Draft work programme for 2016-17 (Sub-section B)
    - Performance of fund managers for periods ended 30 June 2016 and valuation at 31 July 2016 (Sub-section C)
    - Issues raised by Pension Board (Sub-section D)

B Draft Work Programme 2016-17

2. Below is a draft for the Committee to consider as its programme of work for the remainder of the financial year.

13 October (14.00- 19.00) – "Meet the Managers"

14.15 – 15.00 Aviva Investors Global Services
15.15 – 16.00 Insight Investment
16.15 – 17.00 BlackRock Investment Management (UK) Ltd
17.15 – 18.00 Oldfield Partners
18.15 – 19.00 GMO LLC

22 November 2016

Update on Regular Items:

- Draft work programme for 2016-17 and 2017-18
- Performance of fund managers for periods ended 30 September 2016
- Issues raised by Pension Board

Investment manager monitoring
Statement of Investment Principles / Investment Strategy Statement
Pooling and London Collective Investment Vehicle
Update on triennial valuation
Medium term cashflow
Audited Annual Report and Financial Statements 2015-16 including Auditors' Report
Quarterly Trigger Monitoring
Environmental, Social and Governance Issues
Lead Member roles
Training session at 5.30 – tbc

7 March 2017

Update on Regular Items:

- Draft work programme for 2016-17 and 2017-18
- Performance of fund managers for periods ended 31 December 2016
- Issues raised by Pension Board

Investment manager monitoring
Pooling and London Collective Investment Vehicle
Results of triennial valuation
Funding Strategy Statement
Monitoring of operational controls at managers
External audit plan
Training programme 2017-18
Quarterly Trigger Monitoring
Environmental, Social and Governance Issues
Training session at 5.30 – tbc

3. The Committee will have the opportunity to update this programme at every meeting but are invited to comment on the draft above and agree it at this stage.

4. In addition to the Committee's work programme training opportunities will be offered for an hour prior to each meeting.

C Performance of Fund Managers for Periods Ended 30 June 2016 and Valuation at 31 July 2016.

5. Attached is a table summarising the Fund valuation at 30 June 2016 and 31 July 2016 and estimated fund performance for the year to date.

6. The Committee are aware that for periods up to 31 March 2016 performance data was provided by State Street Global Services but that this service is no longer available to the Fund. Over coming months, the ability of the Council to calculate its own performance data will increase but, for this report, the simple relationship of the valuations of the various investments compared to the baselines of 30 June 2015 and 31 March 2016 has been used.

7. The value of the Fund at the end of June 2016 had increased over the quarter from £661m to £695m (5.1%) and by the end of July 2016 had increased further to £724m (9.6%). These increases have been due almost entirely to the large increases in the values of the equities portfolios with their global bias and substantial valuations in dollars, euros and yen all of which have appreciated in value against sterling. The Fund's hedging strategy has, of course, mitigated some of the gains.

8. The one year return of -1.9% was below the benchmark of -0.4% due mainly to the disappointing performance of the Insight (-10.7%), Standard Life (-9.4%) and Oldfields (-8.3%) mandates partly offset by the good relative performance of Pantheon (19.1%) and Longview (4.5%).

D Meeting of Pension Board on 28 June 2016

9. The Pension Board met on 28 June. The agenda they considered is detailed below together with the most significant points raised by them.

Actuarial Valuation 2016

The Board received a presentation from the Actuary, Hymans Robertson and raised queries with the Actuary and officers. They noted the report.

Draft Annual Report and Financial Statements for the Year Ended 31 March 2016

The Board received a report which presented the Draft Annual Report and Financial Statements for the Year Ended 31 March 2016. Points made by the Board included:

- They noted the improved commentary as they had previously requested
- They noted the reduction in the net assets of the Fund over the year
- They were advised of the Fund deficit at the time of the last triennial valuation in March 2013 (£234m) and the deficits at 31 March 2015 (£357m) and 31 March 2016 (£300m) calculated on the IAS19 basis.
- They expressed concern over the length of time it takes for the Fund to change managers and of the fact that 34% of the Fund's investments are placed with a single manager (State Street Global Advisers)
- They requested information as to whether any of the scheduled or admitted bodies had payments outstanding at the end of the year and, if so, that reference should be made to this in the Accounts.

The Board noted the report

Management and Investment Expenses Benchmarking

The Board noted the report

Pension Fund Committee Meeting 9 March 2016

Members of the Board who had attended the meeting of the Committee expressed concern over the suggestion that the Fund should invest locally and in the building of houses. They agreed that there should be independent advice on the governance of the Fund before going ahead with such investments.

The Board noted the report

Draft Annual Report to Council 2016

They Board considered the content of the report they need to present to Council on 22 September 2016. Having considered factual information provided by officers they commented:

- The report needed to include a flavour of the work done;
- The membership was for three years and if it changed at that point there was concern that work would have to be started again;
- There were a number of new Members on the Pension Fund Committee who would therefore need to develop their knowledge of the subject matter;
- The Pension Fund Committee needed to value the Board and its work and development of a relationship would be beneficial. Joint training or presentations outside the formal meeting process may assist in this;
- The Chair of the Pension Fund Committee was welcome to attend the Board

Work Programme 2016-17

The Board received the report. Points considered included:

- Monitoring information on the administration of the Fund would be included for future meetings
- The Chair suggested that a joint meeting with the Pension Fund Committee be convened in September for consideration of the actuarial valuation

Annual Review of Internal Controls at Longview Partners

The Board noted the report

Financial Implications

10. There are several matters mentioned in this report, particularly asset allocation and manager performance which have significant financial implications but there are no direct financial implications arising from the report as the main purpose of the report is to provide an update on regular items.

Risk Management Implications

11. The Pension Fund has a risk register which includes all the risks identified which could affect the management of the Pension Fund.

Equalities implications

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

Council Priorities

13. 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 Date: 18 August 2016	✓	Director of Finance
Name: Noopur Talwar Date: 24 August 2016	✓	on behalf of the Monitoring Officer

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

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

Background Papers - None

Appendix 1

Fund Valuation and Performance

30 June and 31st July 2016

Asset Class	Value 31.03.2016 £'000	Value 30.06.2016 £'000	Movement in Qtr 1 - 2016	Value 31.07.2016 £'000	Movement YTD (Mar to Jul16)	Allocation 31.07.2016 %	Strategic Allocation %	Strategic Range %
Global Equities								
Longview	75,499	75,623	**0.16%**	78,256	**3.65%**	11	11	
State Street	219,424	238,557	**8.72%**	250,613	**14.21%**	35	31	
GMO	71,463	80,016	**11.97%**	84,059	**17.63%**	11	10	
Oldfields	70,701	78,431	**10.93%**	83,562	**18.19%**	11	10	
Total Global Equities	437,087	472,627		496,489				
Total Equities	**437,087**	**472,627**	8.13%	**496,489**	13.59%	**68**	**62**	**58-68**
Private Equity								
Pantheon	20,571	20,669	**0.48%**	20,669	**0.48%**			
Total Private Equity	20,571	20,669		20,669		3	5	4-6
Property								
Aviva	53,481	53,392	**-0.17%**	53,247	**-0.44%**			
Total - property	53,481	53,392		53,247		7	10	8-12
Bonds								
Blackrock - FI	69,401	74,456	**7.28%**	78,692	**13.39%**	11	10	10
Blackrock - IL	17,577	18,663	**6.18%**	18,647	**6.09%**	3	3	3
Total Bonds	86,978	93,119	**7.06%**	97,339	**11.91%**	14	13	11-15
Alternatives								
Insight	27,071	27,590	**1.92%**	28,182	**4.11%**	4	5	5
Standard Life	29,216	28,837	**-1.30%**	29,068	**-0.51%**	4	5	5
Total Alternatives	56,287	56,427	**0.25%**	57,250	**1.71%**	8	10	8-12
Cash & NCA								
Cash Managers	44	44		828				
Cash NatWest	10,048	7,552		5,770				
Record passive currency hedge	-6,388	-11,426		-9,705				
Cash Custodian (JP Morgan)	1,437	32		21				
Debtors and Creditors	1,306	2,574		2,361				
CIV Investment	150	150		150				
Total Net Current Assets	6,597	-1,074		-575		0	0	
Total Assets	661,001	695,161	**5.17%**	724,420	**9.59%**	100	100	

This page is intentionally left blank

REPORT FOR: Pension Fund Committee

Date of Meeting:	6 September 2016
Subject:	**Information Report** – Annual Review of Internal Controls at Insight Investment
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix - Review of Internal Controls at Fund Managers – Insight Investment

Section 1 – Summary

The report sets out in summary the contents of the latest internal controls report from Insight Investment.

FOR INFORMATION

Section 2 – Report

1. The Report of the Auditor on the Pension Fund's 2009-10 Accounts recommended that due diligence be carried out on the strength of the operational controls at investment managers both through a review of internal controls reports and visits to key investment managers. At the November 2010 meeting of the, then, Pension Fund Investment Panel a template was introduced as a basis for measuring the level of assurance provided by the operational structure supporting each mandate.

2. Operational controls of investment managers relate to the procedures in place to safeguard the Fund's assets against loss through error or fraud and to ensure that client reporting is accurate. Poor operational controls can also hamper the management of the assets leading to reduced returns or increased costs. Should there be a lack of evidence that controls operated by investment managers are robust, the continued appointment of the manager would be questionable.

3. Operational control reviews focus on the key environmental, business and process issues.

4. At their meeting on 9 March the Committee received reports in respect of all its managers.

5. For eight of the Fund's managers the latest reports received were for periods of 12 months ended during 2015 but for two of them, Insight Investment and Longview Partners LLP, they were in respect of the year ended 31 December 2014. At their meeting on 21 June 2016 the Committee received a report in respect of Longview for the year ended 31 December 2015 and this report relates to Insight Investment for the same period.

Insight Investment

The report carried out by KPMG LLP entitled "ISAE 3402 AAF 01/06 Statement of Internal Controls over Investment Management Services" included the following:

In our opinion, in all material respects, based on the criteria including specified control objectives described in the directors' assertion on page 3:

a) the description on pages 10 to 54 fairly presents the investment management activities that were designed and implemented throughout the period from 1 January 2015 to 31 December 2015;

b) the controls related to the control objectives stated in the description on pages 10 to 54 were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period from 1 January 2015 to 312 December 2015; and

c) the controls that we tested were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives stated in the description were achieved throughout the period 1 January 2015 to 31 December 2015.

Of the 182 controls tested by the auditor, 8 exceptions (all of which appear to relate to the same issue) were identified. Further detail is provided in the attached Appendix.

Financial Implications

6. Whilst the performance and effective controls of the fund managers is of paramount importance in the performance of the Pension Fund, there are no financial implications arising from this report.

Risk Management Implications

7. The risks arising from the controls exercised by the Fund's investment managers are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

9. 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
Date: 18 August 2016		

Ward Councillors notified: **NO**

Section 4 - Contact Details

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

Background Papers - None

Appendix

Review of Internal Controls at Fund Managers
Insight Investment

Of the 182 controls tested by the auditor, 8 exceptions (all of which appear to relate to the same issue) were identified:

1. The MI [Management Information] is reviewed by Market Operations at the fortnightly Functional Service Meeting (FSM). The MI and minutes of the meetings are retained by Insight Middle Office. Any significant issues are escalated to the SMC and OMG on a monthly basis.

   Exception noted : For a selection of fortnights, inspected the Market Operations FSM minutes and noted that the MI had been reviewed.
   For one of 5 fortnights it was noted that no Market Operations FSMs had been held.

   Management response:

   Insight Management took the decision to cancel a number of the fortnightly Functional Service Meetings between Insight and Northern Trust (NT) in 2015 due to temporary re-location of Insight Middle Office staff to New York to support the migration of Cutwater (a BNYM Group subsidiary) onto the Insight/NT operating model and platforms. For those meetings that were not held, NT continued to produce standard Management Information which was circulated and reviewed internally and reported to relevant governance committees. The oversight of the investment functions outsourced to NT is continually monitored via Insight's existing governance arrangements including the monthly Service Management Meetings, Joint Operating Committee, Operational Management Group and through the daily interactions between Insight's Investment Operations teams and NT.

2. Weekly issues logs are maintained by NT. The issues logs are reviewed by Market Operations at the fortnightly FSM. Any significant issues are escalated to the SMC and OMG on a monthly basis. The issues logs and the minutes are retained by Insight's middle office.

Exception noted: For a selection of fortnights, inspected the Market Operations FSM minutes and noted that the weekly issues logs had been reviewed.
For one of 5 fortnights it was noted that no Market Operations FSM had been held.

Management Response:

Insight Management took the decision to cancel a number of the fortnightly Functional Service Meetings between Insight and Northern Trust (NT) in 2015 due to temporary re-location of Insight Middle Office staff to New York to support the migration of Cutwater (a BNYM Group subsidiary) onto the Insight/NT operating model and platforms. For those meetings that were not held, NT continued to produce standard Management Information which was circulated and reviewed internally and reported to relevant governance committees. The oversight of the investment functions outsourced to NT is continually monitored via Insight's existing governance arrangements including the monthly Service Management Meetings, Joint Operating Committee, Operational Management Group and through the daily interactions between Insight's Investment Operations teams and NT.

3. Weekly MI and Monthly KPIs on contracted outsourced operational services are sent to Insight Middle Office by NT. The weekly MI is at the fortnightly Market Operations FSM. The MI and minutes are retained by the Insight Middle Office. Monthly KPIs are received from NT and are reviewed against targets at the monthly SMCs. The minutes of the SMCs are retained.
   A summary on NT's performance is also provided as part of the OMG reporting packs on a monthly basis.

Exception noted: FSM minutes and noted that KPIs had been reviewed.
For one of 5 fortnights it was noted that no Market Operations FSM had been held.

Management Response:

Insight Management took the decision to cancel a number of the fortnightly Functional Service Meetings between Insight and Northern Trust (NT) in 2015 due to temporary re-location of Insight Middle Office staff to New York to support the migration of Cutwater (a BNYM Group subsidiary) onto the Insight/NT operating model and platforms. For those meetings that were not held, NT continued to produce standard Management Information which was circulated and reviewed internally and reported to relevant governance committees. The oversight of the investment functions outsourced to NT is continually monitored via Insight's existing governance arrangements including the monthly Service Management Meetings, Joint Operating Committee, Operational Management Group and through the daily interactions between Insight's Investment Operations teams and NT.

4. NT provides weekly MI detailing the processing of Corporate Actions. The MI is reviewed at the fortnightly Market Operations FSM. The MI and minutes of the FSM are retained by Insight Middle Office. Any significant issues are escalated to the SMC and OMG on a monthly basis.

   Exception noted: For a selection of fortnights, inspected the Market Operations FSM minutes and noted that the MI on Corporate Actions had been reviewed.
   For one of 5 fortnights it was noted that no Market Operations FSM had been held.

   Management Response:

   Insight Management took the decision to cancel a number of the fortnightly Functional Service Meetings between Insight and Northern Trust (NT) in 2015 due to temporary re-location of Insight Middle Office staff to New York to support the migration of Cutwater (a BNYM Group subsidiary) onto the Insight/NT operating model and platforms. For those meetings that were not held, NT continued to produce standard Management Information which was circulated and reviewed internally and reported to relevant governance committees. The oversight of the investment functions outsourced to NT is continually monitored via Insight's existing governance arrangements including the monthly Service Management Meetings, Joint Operating Committee, Operational Management Group and through the daily interactions between Insight's Investment Operations teams and NT.

5. Weekly MI and monthly KPIs on timeliness and accuracy of Corporate Actions processing are sent to Insight Middle Office. The MI is reviewed at the fortnightly FSMs. The KPIs are reviewed against targets at the monthly SMC and OMG meetings. The MI and minutes of the meetings are retained by Insight Middle Office.

   Exception noted: For a selection of fortnights, inspected the Market Operations FSM minutes and noted that the MI on Corporate Actions had been reviewed.
   For one of 5 fortnights it was noted that no Market Operations FSM had been held.

Management Response

Insight Management took the decision to cancel a number of the fortnightly Functional Service Meetings between Insight and Northern Trust (NT) in 2015 due to temporary re-location of Insight Middle Office staff to New York to support the migration of Cutwater (a BNYM Group subsidiary) onto the Insight/NT operating model and platforms. For those meetings that were not held, NT continued to produce standard Management Information which was circulated and reviewed internally and reported to relevant governance committees. The oversight of the investment functions outsourced to NT is continually monitored via Insight's existing governance arrangements including the monthly Service Management Meetings, Joint Operating Committee, Operational Management Group and through the daily interactions between Insight's Investment Operations teams and NT.

6. The timely and accurate processing of income and related tax is completed by NT in line with the SLA. Weekly MI and monthly KPIs on income processing, including income accrued but not received, are reviewed and discussed by Insight's Middle Office and NT at the fortnightly Market Operations FSM. The results of the review are documented in meeting minutes, which are retained. Any significant issues are escalated to the SMC and OMG on a monthly basis.

Exception noted:

For a selection of fortnights, inspected minutes of the Market Operations FSM and noted that the weekly MI on income processing had been reviewed.
For 3 out of 8 fortnights no Market Operations FSMs had been held.

Management Response:

Insight Management took the decision to cancel a number of the fortnightly Functional Service Meetings between Insight and Northern Trust (NT) in 2015 due to temporary re-location of Insight Middle Office staff to New York to support the migration of Cutwater (a BNYM Group subsidiary) onto the Insight/NT operating model and platforms. For those meetings that were not held, NT continued to produce standard Management Information which was circulated and reviewed internally and reported to relevant governance committees. The oversight of the investment functions outsourced to NT is continually monitored via Insight's existing governance arrangements including the monthly Service Management Meetings, Joint Operating Committee, Operational Management Group and through the daily interactions between Insight's Investment Operations teams and NT.

7. Daily and weekly MI on cash and stock reconciliation breaks are reported to Insight Middle Office by NT. The MI is reviewed at the fortnightly Market Operations FSM. Monthly KPIs are received from NT and are reviewed against targets at the monthly SMCs and OMGs. The results of the FSMs , SMCs and OMGs reviews are documented in meeting minutes, which are retained.

   Exception noted: For a selection of fortnights, inspected minutes of the MarketOperations FSM and noted that the daily and weekly MI on incomeprocessing had been reviewed.

   For one out of 5 fortnights no Market Operations FSMs had been held.

   Management Response:

   Insight Management took the decision to cancel a number of the fortnightly Functional Service Meetings between Insight and Northern Trust (NT) in 2015 due to temporary re-location of Insight Middle Office staff to New York to support the migration of Cutwater (a BNYM Group subsidiary) onto the Insight/NT operating model and platforms. For those meetings that were not held, NT continued to produce standard Management Information which was circulated and reviewed internally and reported to relevant governance committees. The oversight of the investment functions outsourced to NT is continually monitored via Insight's existing governance arrangements including the monthly Service Management Meetings, Joint Operating Committee, Operational Management Group and through the daily interactions between Insight's Investment Operations teams and NT.

8. Weekly issues logs are maintained by NT. The issues logs are reviewed at the fortnightly Market Operations FSM. Any outstanding issues or actions are escalated to the monthly SMC and OMG.
   The minutes are retained by Insight Middle Office.

   Exception noted: For a selection of fortnights, inspected the minutes of the Market Operations FSM and noted that issues had been monitored. For one of 5 fortnights it was noted that no Market Operations FSM had been held.

Management Response:

Insight Management took the decision to cancel a number of the fortnightly Functional Service Meetings between Insight and Northern Trust (NT) in 2015 due to temporary re-location of Insight Middle Office staff to New York to support the migration of Cutwater (a BNYM Group subsidiary) onto the Insight/NT operating model and platforms. For those meetings that were not held, NT continued to produce standard Management Information which was circulated and reviewed internally and reported to relevant governance committees. The oversight of the investment functions outsourced to NT is continually monitored via Insight's existing governance arrangements including the monthly Service Management Meetings, Joint Operating Committee, Operational Management Group and through the daily interactions between Insight's Investment Operations teams and NT.

REPORT FOR: Pension Fund Committee

Date of Meeting:	6 September 2016
Subject:	**Information Report -** Property Opportunities
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Property Opportunities (Aon Hewitt)

Section 1 – Summary and Recommendation

Summary

The Committee is requested to receive and consider a report from the Fund's investment advisers Aon Hewitt on property opportunities in line with its function to administer all matters concerning the Council's Pension investments in accordance with law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution..

FOR INFORMATION

Harrow COUNCIL
LONDON

Section 2 – Report

1. Since the EU referendum on 23 June 2016 there has been heightened economic uncertainty and volatility across most asset classes.

2. In view of these developments Aon Hewitt have been asked to provide a report on the impact of Brexit on the UK property market and to identify tactical opportunities that may be available for the Fund within this asset class.

3. The Committee are invited to receive the attached report and presentation from Aon Hewitt and to consider the recommendations and suggested next steps.

Financial Implications

4. The consideration of strategy changes is an important part of the management of the Pension Fund investments and the performance of the Fund's investments plays an extremely important part in the financial standing of the Fund. However, there are no financial implications arising directly from this report. Should strategic changes to the Fund's investment mandates be made the financial implications are likely to be significant.

Risk Management Implications

5. The risks arising from investment strategy are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

7. 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
Date: 24 August 2016		

Ward Councillors notified: **NO**

Section 4 - Contact Details

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

Background Papers – None

This page is intentionally left blank

London Borough of Harrow Pension Fund ('the Fund')

Date:	24 August 2016
Prepared for:	Pension Fund Committee
Prepared by:	Colin Cartwright Gayathri Varatharajan

Property Opportunities

Introduction

Following the EU referendum held on 23 June 2016, there has been heightened economic uncertainty and volatility across most asset classes. The purpose of this paper is to consider the impact of Brexit on the UK property market and identify tactical opportunities for the Fund within this asset class.

Impact of Brexit on UK property market

We do not believe that the UK commercial real estate market will suffer the same magnitude of capital value losses that followed the last downturn (mid-2007 to mid-2009) when values fell by 44% and net initial yields increased by 330 bps (source: MSCI IPD UK Monthly Index).

However valuations are likely to be put under pressure over the short term as the uncertainty around Brexit continues (indeed independent valuers are now caveating their valuations with a market uncertainty clause), occupier demand wanes and foreign investment is reduced. The Central London office market is likely to be hardest hit given that a fully-fledged Brexit could see some employment falls in the financial sector and lower occupational demand generally.

We also expect to see some pressure on more secondary assets in non-core locations across the UK, reflecting weaker economic conditions in the UK as a whole. We would, however, expect core commercial funds with a focus on primer assets to outperform their peers. Whilst we expect capital values to fall in the short term, the income producing nature of property means that it is still an attractive asset class for long-term investors and we would still expect positive returns over a five year period, all else being equal. In addition, we are not in a period of oversupply as was the case in 2007, a weak pound should help to cushion the fall in overseas investment into the UK and there will now be a period of continued low gilt yields. All these factors will provide some protection against significant rises in UK property yields.

Although it is early days following the referendum result, fund managers are seeing price reductions of up to 10% on individual assets compared to pre-Brexit valuations, although a 5% reduction appears to be the general result. A number of the primer core commercial funds returned around minus 2% over July. Leasing activity remains strong with managers reporting that the leases they have agreed are in most cases being signed at pre-Brexit expectations.

As a result of the referendum a number of retail funds took steps to stop

Risk. Reinsurance. Human Resources.
The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN
t +44 (0) 20 7086 8000 | f +44 (0) 20 7621 1511 | aon.com

outflows, including closing to redemptions and increasing the dilution levies. However, other than one retail fund, they are disposing of assets in a disciplined manner and not offering assets at “fire-sale” prices.

Institutional property funds in general have not experienced large outflows, although a number of funds have taken actions to protect remaining investors and to deter redemptions. This has included a small number of funds taking the unprecedented step of implementing a fair valuation adjustment where the managers (independent of the fund management team) have marked down the independent valuations. These actions led to large distortions in the benchmark return last quarter.

Property opportunities

We believe there are three key ways in which the Fund could exploit opportunities within property at the current time:

- Through core property funds which may be accessed at discounted pricing via the secondary market at the current time.
  - Secondary market pricing for a number of funds is at a level which will offset all of the usual entry spread to reflect notional purchaser's costs, including stamp duty land tax. We have seen entry costs come down from NAV plus 6% to around NAV minus 2-6% depending on the fund.
- Through managers which specialise in distressed and undermanaged properties ('value-add / opportunistic' property funds).
  - Short term pricing corrections may also create buying opportunities for higher return seeking value-add/opportunistic funds. If assets are sold at values well below their intrinsic value, value-add/opportunistic funds will undoubtedly be able to take advantage of market uncertainty (coupled with the usual investor flight to safe haven, higher quality assets).
- Real estate debt whole loan funds offer unleveraged returns in excess of core commercial property with the added attractiveness of an equity cushion of around 35% of the value of the underlying properties and a higher distribution yield. In addition, in the immediate aftermath of Brexit managers are seeing Loan to Values (LTV) falling and margins widening as traditional lenders become more risk averse. Given the fall in gilt yields, real estate debt now seems more attractive on a relative value basis compared to government and corporate bonds post Brexit.

  The focus of the discussions around property at the meeting on 7 July was predominantly around value-add and opportunistic property and therefore we have not delved into the details of real estate debt. We would be happy to provide further information should the Pension Fund Committee require this.

Opportunistic / Value add Property

Value-add and opportunistic funds target returns in excess of traditional core, diversified funds. In the context of the UK market, leveraged returns would be in the region of 10 to 15% net IRRs depending on the strategy. This compares to our current long term return assumption for UK core, diversified property of just over 5% per annum (unleveraged).

Investments would be made via a close ended fund (a limited partnership-style structure) typically for a term of around 10 years, which can usually be extended at the manager's discretion by up to two years.

Value-add funds look to achieve their returns from investing in assets which have been under-managed and which usually require capital expenditure and/or significant lease re-positioning. This provides an opportunity to substantially improve an asset's rental cash flow and to benefit from capital value growth via cap-rate compression. Target returns will be around 10% per annum net of fees and fund level gearing will typically be 40-50%.

Opportunistic funds seek higher returns still (c. 15% p.a. net of fees) and will invest in distressed assets, more complex ownership structures (such as joint ventures), direct lending (usually with profit participation) and speculative developments amongst other strategies. Fund level gearing will typically be in the range of 50%-65%.

We believe that the uncertainty is likely to create opportunities for more value-add and opportunistic focussed funds. Managers who are able to purchase properties with strong fundamentals below fair value will be in a very good position to benefit from Brexit.

Our buy-rated managers will invest alongside other investors and participate in the upside performance (over a performance hurdle). This helps creates an alignment of interest between manager and investors.

The closed ended structure allows the manager to implement their business plans without distraction and with certainty over funding and enables them to choose the exit timing/strategy of the assets they purchase (within the bounds of the fund life and any permitted extensions.)

How to access these asset class

Given that these property opportunities are niche asset classes, we suggest that the most appropriate way for the Fund to gain exposure to this is via an agreed framework with us whereby we bring to your attention any suitable fund opportunities as and when they arise.

- As an example, for a c. £60m mandate we believe that 2-3 managers should provide the minimum appropriate level of diversification. Governance issues will need to be balanced against the need to diversify risk.
- We have one UK opportunistic property manager who is looking to launch a new fund later this year, targeting a first close by year-end. We buy rated their previous fund which followed a similar strategy.
- We are also in due diligence with a European opportunistic property manager who is currently raising capital, targeting a first close by the end of 2016 / early 2017.

Although Asia and the USA is within our opportunity set, our preferred exposure would have a UK-bias. We also think there is merit in considering Pan-European funds which focus on the UK and Northern Europe.

Value-add and opportunistic funds are undoubtedly higher up the risk curve than core property funds and there is clearly a greater risk of equity loss due to the impact of gearing. Timing is therefore critical. These investments are also highly illiquid given that the likely investment holding structure will inevitably be closed ended.

Implementation considerations

Below we set out the implementation issues that should be considered:

- Investing in this asset class would add to the governance burden of the Pension Fund Committee. This particular area of property investment has a very specialist focus and the Committee would need further training on the subject and, of course, careful ongoing monitoring of the manager would also be required.
- Manager fees for value add and opportunistic funds would be in the order of 1 to 1.5% per annum on committed and invested capital. There will also be a performance fee of around 20% over an 8% preferred return. It is important to note that, like private equity investment, capital commitments are drawn down over time so it is unlikely that you will not be 100% invested from day one.
- As previously noted, selecting a manager for this asset class requires careful due diligence and expertise, more so than other traditional asset classes. If you opt to make an investment in this asset class, we have a highly capable team in house who can carry out the required research and bring forward the most appropriate opportunities for your approval. In order to do this, our proposed one-off fee for a £60m mandate (approximately 10% of the Fund) would be in the order of 0.10% of commitments (c. £60,000 excluding VAT).
- This approach would minimise the governance burden of the Pensions Committee as Aon Hewitt would put forward the recommended funds for investment. However, the Trustees would still be required to sign fund documentation and to authorise cash movements when drawdown notices are made. We would suggest that, once an investment opportunity has been identified and the necessary due diligence carried out by us, we put forward a section 36 letter to the Pensions Committee setting out our advice prior to investment.

Recommendation and next steps

- If the Fund wishes to increase its exposure to property, it could consider purchasing units in core funds at potentially discounted prices via the secondary market. Alternatively, the Fund could consider investing in distressed property via closed ended opportunistic funds.
- We suggest that a 10% allocation (c. £60m) to closed ended funds would offer a suitable level of exposure.
- Given the specialist nature of opportunistic and value add property funds, and to minimise the governance burden we would recommend that Aon Hewitt is given the mandate to identify suitable fund opportunities within this asset class for your approval.

Disclaimer

This document and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document.

Notwithstanding the level of skill and care used in conducting due diligence into any organisation that is the subject of a rating in this document, it is not always possible to detect the negligence, fraud, or other misconduct of the organisation being assessed or any weaknesses in that organisation's systems and controls or operations.

This document and any due diligence conducted is based upon information available to us at the date of this document and takes no account of subsequent developments. In preparing this document we may have relied upon data supplied to us by third parties (including those that are the subject of due diligence) and therefore no warranty or guarantee of accuracy or completeness is provided. We cannot be held accountable for any error, omission or misrepresentation of any data provided to us by third parties (including those that are the subject of due diligence). This document is not intended by us to form a basis of any decision by any third party to do or omit to do anything.

Any opinions or assumptions in this document have been derived by us through a blend of economic theory, historical analysis and/or other sources. Any opinion or assumption may contain elements of subjective judgement and are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of any future performance. Views are derived from our research process and it should be noted in particular that we cannot research legal, regulatory, administrative or accounting procedures and accordingly make no warranty and accept no responsibility for consequences arising from relying on this document in this regard.

Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank