Pension Fund Committee AGENDA

DATE: Wednesday 28 June 2017

TIME: 6.30 pm

VENUE: Committee Room 5, Harrow Civic Centre, Station Road, Harrow, HA1 2XY

MEMBERSHIP (Quorum 3 Councillors)

Chair: Councillor Nitin Parekh

Councillors:

Kairul Kareema Marikar
Norman Stevenson
Bharat Thakker

Trade Union Observer(s):
Mr J Royle – UNISON
Ms P Belgrave – GMB

Independent Advisers
Mr C Robertson
Honorary Alderman R Romain

Reserve Members:

1. Adam Swersky
2. Antonio Weiss

1. Kanti Rabadia
2. Barry Macleod-Cullinane

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

Harrow COUNCIL
LONDON

Useful Information

Meeting details:

This meeting is open to the press and public.

Directions to the Civic Centre can be found at:
http://www.harrow.gov.uk/site/scripts/location.php.

Filming / recording of meetings

The Council will audio record Public and Councillor Questions. The audio recording will be placed on the Council's website.

Please note that proceedings at this meeting may be photographed, recorded or filmed. If you choose to attend, you will be deemed to have consented to being photographed, recorded and/or filmed.

When present in the meeting room, silent mode should be enabled for all mobile devices.

Meeting access / special requirements.

The Civic Centre is accessible to people with special needs. There are accessible toilets and lifts to meeting rooms. If you have special requirements, please contact the officer listed on the front page of this agenda.

An induction loop system for people with hearing difficulties is available. Please ask at the Security Desk on the Middlesex Floor.

Agenda publication date: Tuesday 20 June 2017

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

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

Reserve Members may attend meetings:-

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

2. DECLARATIONS OF INTEREST

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

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

3. APPOINTMENT OF VICE-CHAIR

To appoint a Vice-Chair of the Committee for the Municipal Year 2017/18.

4. MINUTES (Pages 7 - 24)

That the minutes of the meeting held on 7 March 2017 and the special meeting held on 10 May 2017 be taken as read and signed as a correct record.

5. PUBLIC QUESTIONS *

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

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

[The deadline for receipt of public questions is 3.00 pm, 23 June 2017. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

6. PETITIONS

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

7. DEPUTATIONS

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

8. INFORMATION REPORT - LOCAL GOVERNMENT PENSION SCHEME POOLING ARRANGEMENTS (Pages 25 - 40)

Report of the Director of Finance.

9. INVESTMENT STRATEGY REVIEW (Pages 41 - 58)

Report of the Director of Finance.

10. PROPERTY INVESTMENT STRATEGY (Pages 59 - 74)

Report of the Director of Finance.

11. INFORMATION REPORT - LONDON BOROUGH OF HARROW PENSION FUND: DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (Pages 75 - 126)

Report of the Director of Finance.

12. ACTUARIAL AND BENEFITS SERVICES CONSULTANCY CONTRACT (Pages 127 - 158)

Report of the Director of Finance.

13. INFORMATION REPORT - INVESTMENT CONSULTANCY SERVICES CONTRACTS (Pages 159 - 162)

Report of the Director of Finance.

14. PERFORMANCE MEASUREMENT SERVICES (Pages 163 - 166)

Report of the Director of Finance.

15. PENSION FUND COMMITTEE - UPDATE ON REGULAR ITEMS (Pages 167 - 172)

Report of the Director of Finance.

16. ROLE OF CO-OPTEE (Pages 173 - 176)

Report of the Director of Finance.

17. QUARTERLY TRIGGER MONITORING Q1 2017 (Pages 177 - 184)

Report of the Director of Finance.

18. LOCAL PENSION BOARD SURVEY (Pages 185 - 196)

Report of the Director of Finance.

19. INFORMATION REPORT - PENSION FUND RISK REGISTER (Pages 197 - 208)

Report of the Director of Finance.

20. INFORMATION REPORT - ANNUAL REVIEW OF INTERNAL CONTROLS AT LONGVIEW PARTNERS (Pages 209 - 214)

Report of the Director of Finance.

21. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

22. EXCLUSION OF THE PRESS 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
23.	Information Report - Investment Manager Monitoring	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

AGENDA - PART II

23. INFORMATION REPORT - INVESTMENT MANAGER MONITORING (Pages 215 - 286)

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.]

This page is intentionally left blank

Y

PENSION FUND COMMITTEE

MINUTES

7 MARCH 2017

Chair:	* Councillor Nitin Parekh		
Councillors:	* Jo Dooley * Norman Stevenson		* Bharat Thakker
Co-optee (Non-voting):	* Howard Bluston		
Trade Union Observers:	John Royle		Pamela Belgrave
Independent Advisers:	* Mr C Robertson	Independent Adviser	
	* Honorary Alderman R Romain	Independent Adviser	
Others:	* Dave Lyons	Council's Investment Adviser	Aon Hewitt
	* Joe Peach	Council's Investment Adviser	Aon Hewitt
	* Gemma Sefton	Council's Actuary	Hymans Robertson
	Laura Molloy	Council's Actuary	Hymans Robertson
	* Richard Harbord	Chair of Pension Board	

* Denotes Member present

176. Attendance by Reserve Members

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

177. Declarations of Interest

RESOLVED: To note that the following interests were declared:

<u>Agenda Item 20 - Independent Advisers and Co-optee</u>

Councillors Nitin Parekh and Josephine Dooley declared non-pecuniary interests in that they were members of the Labour Party, the same as Howard Bluston, a co-optee of the Pension Fund Committee. They would remain in the room whilst the matter was considered and voted upon.

Prior to the consideration of this item, Howard Bluston, a non-voting co-optee, and Honorary Alderman Richard Romain and Colin Robertson, Independent Advisers, declared pecuniary interests in that their roles were referenced to in the report. They left the room during discussion and decision-making on this item.

<u>All Agenda Items</u>

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 he had clients who were past and present members of the Harrow Pension Scheme. His wife was a member of Harrow Council's Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

<u>All Agenda Items except Item 20</u>

Howard Bluston, a non-voting co-optee on the Committee, declared a non-pecuniary interest in that he was Chair of Edward Harvist Charity, which was managed by BlackRock Investment Management. He also attended the PLSA North London Branch meetings held at the offices of Aon Hewitt, the Committee's Investment Adviser. He added that he knew representatives of Standard Life who had given a presentation prior to the meeting through his association with an Independent Advisory Group. He would remain in the room whilst the items, except item 20, were discussed and make contributions as a non-voting co-optee on the Committee.

178. Minutes

RESOLVED: That the minutes of the meeting held on 22 November 2016, be taken as read and signed as a correct record.

179. Public Questions. Petitions and Deputations

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

RESOLVED ITEMS

180. Information Report - Actuarial Valuation

The Director of Finance reported that this was the last of the triennial valuation reports which incorporated the professional opinion of the Council's Actuary, Hymans Robertson. The Director added that the intention was to achieve a 20-year funding strategy and the Council would be contributing an additional £1m each year over the next three years into the Pension Fund.

The Committee received a presentation from Gemma Sefton, the Actuary, Hymans Robertson LLP, on the Actuarial Valuation Report and the Council's employer's Valuation Results and Contribution Strategy. She referred to her presentation slides and drew attention to the Executive Summary in the Valuation report which set out the funding and contribution levels. She explained that some items remained outstanding, including corrections, and would be incorporated as part of the signing-off process of the London Borough of Harrow Pension Fund 2016 Actuarial Valuation Report.

Gemma Sefton responded to questions from the Committee, as follows:

- a majority of Councils were facing pressures within their Pension Schemes due to increases in costs which could not necessarily be offset by increasing the employer's contribution;

- various scenarios had been conducted in assessing the impact on the Fund due to an increase in rates in the past three years;

- the Council would make an extra contribution of £1m each year and she agreed that the wording in the report needed amending to help clarify the levels of contribution, including when these payments would be made. She explained that the first payment would be made in the financial year 2017/18 and that the cumulative effect of the increased contributions over the three year period would be £6m;

- in relation to the life expectancy, a statistical analysis on Harrow Council's membership was carried out and assumptions made. She agreed that the report needed to make this aspect clearer.

RESOLVED: That the presentation be received and noted and that it be also noted that corrections to the 2016 Actuarial Valuation Report would be made as set out in the preamble above.

181. Funding Strategy Statement

The Committee received a report of the Director of Finance seeking approval of the draft Funding Strategy Statement. It was noted that the Funding Strategy Statement was required under Regulation 58 of the Local Government Pension Scheme Regulations 2013 and that it set out how the Administering Authority (the Council) carried out it responsibilities in respect of:

- affordability of employer contributions;
- transparency of processes;
- stability of employer's contributions;
- prudence in the funding basis.

An officer reported that in drafting the Funding Strategy Statement, advice had been received from the Council's Actuary, Hymans Robertson. He added and that the reference to 'dependents' rather than 'heirs', as suggested by the Chair, was used due to the requirements of the Regulations.

Gemma Sefton, Hymans Robertson, responded to a question from Colin Robertson, Independent Adviser, on the set of assumptions used, which also involved the use of sophisticated modelling. A prudent target was intended at all times. Colin Robertson was of the view that correlation was critical and that asset classes could be added even though they did not provide high returns as they were considered to be less risky. Richard Romain, Independent Adviser, suggested that paragraph 4.5 be amended and it was

RESOLVED: That the draft Funding Strategy Statement be approved, subject to paragraph 4.5 being amend to read:

Does the Fund monitor its overall funding position?
The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the Pension Fund Committee meeting by exception.

182. Investment Strategy Statement

The Committee received a report of the Director of Finance seeking approval of the draft Investment Strategy Statement required under the Local Government Scheme (Management of Funds) Regulations 2016.

Members were invited to make comments in relation to the Investment Strategy Statement and it was noted that Colin Robertson, Independent Adviser, had made suggestions in that paragraphs 7.13 and 7.14 be deleted. An officer added that the Pension Board had made the following comments which would be passed to Aon Hewitt, Council's Investment Adviser, in their upcoming strategy work:

- the investment strategy is expected to secure the recent gains for the Fund;

- ensure that expected gains and rewards were commensurate with the risks taken;

- re-balancing strategy;

- the Fund's approach to investment in infrastructure.

The Committee agreed that the table at paragraph 7.11 be amended by officers should any technical issues be identified. An officer informed the Committee that he was reviewing the performance targets of Pantheon's investments and would inform the Committee of his assessment in due course.

Dave Lyons, Aon Hewitt, referred to paragraph 7.14 of the report which set out the volatility/variability in the value of assets and liabilities and suggested their consideration in terms of both absolute capital loss and also the volatility of assets versus the Fund's liabilities. He explained that during crises in the financial markets, and under the actuarial valuation approach utilised, it was possible that assets could decrease in value whilst liabilities could increase in value. This flight to quality and the resulting fall in government bond yields would potentially increase the funding shortfall in the Fund. Paragraph 7.13 was less intuitive and changes in the value of the Fund's overseas investments would also be affected if sterling weakened or strengthened relative to the other major global currencies. In order to protect against this it is possible to passively currency hedge overseas investment exposure which would largely remove the currency element in the overseas investment and reduce this risk. He added that expected returns would also reduce due to the intricacies of the currency hedging market and that rolling the currency hedging program would be a better option. Colin Robertson noted that the Fund has a partial currency hedging program in place and Dave Lyons observed that this will have somewhat held back the investment performance of the overseas investments given the recent fall in sterling relative to the other major global currencies, but that this situation could be expected to reverse if and when sterling strengthened.

In response to questions, Dave Lyons stated that the level of currency hedging employed currently was appropriate and that it would be difficult to pre-empt how currency markets would react to international events moving forward. A reference to asset/liability modelling would be included in the Investment Strategy Statement following the investment strategy review to be submitted to the June 2017 meeting of the Committee.

Richard Romain, Independent Adviser, suggested that an Executive Summary would be helpful and it was

RESOLVED: That the draft Investment Strategy Statement be approved, subject to:

(1) the inclusion of an Executive Summary;

(2) the table at paragraph 7.11 being amended by officers should any technical issues be identified;

(3) paragraphs 7.13 and 7.14 being deleted.

183. Local Government Pension Scheme Pooling Arrangements

The Committee received a report of the Director of Finance on the development of the pooling arrangements and the London CIV (Collective Investment vehicle) seeking approval of a payment to the CIV in 2017-18 of £100,000 to cover the service charge of £25,000 and the development funding charge of £75,000.

An officer introduced the report and referred to the view of the Minister for Local Government that progress envisaged by the CIV “will be unacceptably slow”. He outlined Harrow’s strategy as set out in paragraphs 8 and 9 of the report and referred to a communication from the London CIV (Collective Investment Vehicle) regarding the launch of the Longview mandate in June 2017 which would be the subject of a report to the Committee in June 2017 prior to any response being sent to the CIV. The officer added that further advice from Aon Hewitt, the Council’s Investment Adviser, would be sought in relation to the further transitions of the equities mandates. He advised that approval of the payment to the London CIV of £100k rather than the £25k expected was due to the inability of the CIV to earn the expected fees from the letting of the passive mandates.

Richard Romain, Independent Adviser, stated that he was not a supporter of the CIV which was expected to deliver savings but costings had gone up instead. An officer informed the Committee that the London CIV had negotiated a reduction in fees with Legal & General and he expected the savings to be realised by its members.

Dave Lyons, Aon Hewitt, referred to the long standing debate as to how to get life funds onto the CIV platform. He explained that the structure of life funds was such that the drawbacks to transferring them to alternative structures were so considerable that the government had agreed that they be exempt from full transition to the CIV.

Colin Robertson, Independent Adviser, also expressed concern about the London CIV due to its slow progress and suggested that it would be appropriate for the Chair of the Committee to communicate the Committee’s disappointment to the London CIV. Howard Bluston, co-optee, referred to the structural issues within the London CIV.

RESOLVED: That

(1) the developments outlined in the report be noted and that the payment of £100,000 to the London CIV in 2017-18 as the Fund’s contribution to the running costs of the CIV be agreed;

(2) the Chair write to the London CIV expressing the Pension Fund Committee’s disappointment with the progress made.

184. Communications Policy Statement

The Committee received a report of the Director of Finance seeking approval of the draft revised Communications Policy Statement, as required under provision 61 of the Local Government Pension Scheme Regulations 2013.

An officer referred to the Policy Statements that had been redrafted and that the list of the employers who are members of the Fund had been updated. He added that the Pension Board, at their meeting that afternoon, had discussed this report in detail and had suggested the need to improve the Pension Fund website and for contact details of member of the Board to be included.

RESOLVED: That the Communications Policy Statement be approved.

185. Governance Compliance Statement

The Committee received a report of the Director of Finance seeking approval of the draft revised Governance Compliance Statement, as required under provision 55 of the Local Government Pension Scheme Regulations 2013.

An officer outlined the content of the report and that the Pension Board, at their meeting that afternoon, had made reference to the good working relationship between the Committee and the Board.

RESOLVED: That the revised Governance Compliance Statement be approved.

186. Policy for Reporting Breaches of the Law

The Committee received a report of the Director of Finance seeking approval of the draft Policy for Reporting Breaches of the Law.

An officer introduced the report and responded to questions. He informed the Committee that officers dealt with the issue of compliance with the law with appropriate diligence. He referred to the “Pension Regulator’s Code of Practice No. 14” and the Council’s self-assessment of its compliance with it.

RESOLVED: That the Policy for Reporting Breaches of the Law be approved and that the Council’s self-assessment of its compliance with the “Pension Regulator’s Code of Practice No. 14” be circulated to the Committee.

187. Information Report - Performance Measurement Services

The Committee received a report of the Director of Finance setting out the latest position in respect of the performance measurement services provided by Pension and Investment Consultants Limited.

An officer introduced the report and informed the Committee that 456 LGPS funds had signed up to the service. Currently, all that had been received from the company had been three general quarterly reports. He acknowledged that the reports provided were basic and this was reflected in the charge levied. He added that efforts had been made to persuade the company to provide customised reports.

Members were informed that Pension and Investment Consultants Limited had queried the data provided by the Council and that officers were in the process of responding to the queries.

The Independent Advisers were of the view that the reports provided by Pension and Investment Consultants Limited were devoid of meaningful information but that the service provided should be continued with in the interim. The officer referred to the contract with the company which stipulated the service to be provided, as follows:

- participation in the Local Authority Universe – fund and portfolio data reviewed, standardised and incorporated in the aggregate;
- provision of quarterly and annual Universe results and analysis;
- provision of annual league tables and analysis;
- provision of Universe research.

RESOLVED: That the report be noted.

188. Pension Fund Committee - Update on Regular Items

The Committee received a report of the Director of Finance updating members on:

- the draft work programme on which the Committee's comments and agreement were requested;
- performance of fund managers for previous periods;
- issues raised by the Pension Board.

An officer introduced the report and informed the Committee that a 'Review of the Actuarial and Investment Adviser Contracts' would be added to the work programme for both June and September 2017. He added that a suitable date needed to be identified for a 'Meet the Managers' half day and he would contact members of the Committee in this regard.

Members were informed of the improved performance of the Pension Fund and that the figures were based on the difference in value between respective dates. The officer undertook to include benchmark information in the next report.

RESOLVED: That the Work Programme for the period up to March 2018 be agreed, subject to the following additions:

- a 'Review of Contracts' in June and September 2017
- a session on 'Meet the Manager' on a date to be identified.

189. Quarterly Trigger Monitoring Q4 2016

The Committee considered 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.

Dave Lyons, Aon Hewitt, outlined the purpose of the report which was to provide an update on the status of three de-risking triggers which the Committee had agreed to monitor and which related to:

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

Aon Hewitt did not recommend de-risking actions at the current time. In response to a question on the implications of de-risking, Dave Lyons, Aon Hewitt, explained that this would entail a switch from more risky assets to bonds but that this was not necessarily a straight forward process. The criteria were subjective and further discussions would be required. A comprehensive report exploring the implications of de-risking would be submitted as part of the Investment Strategy review to the next meeting. Howard Bluston, co-optee, commented that such a report may be too late in the context of the post-Trump euphoria.

Some members of the Committee remarked that the Council's existing decision-making structures did not allow for decisions to be made quickly which matters such as diversifying would require. The Chair stated that meetings of the Pension Fund Committee could be called at short notice, particularly if there was a requirement to make urgent decisions.

The Independent Advisers referred to the equity allocation and the increase in value of the mandates beyond their strategic allocation. It was therefore essential that mechanisms were in place to allow decisions, for example on re-balancing, to be taken at short notice so that proposals/instructions were actioned.

The Chair invited their suggestions and referred to a previous such suggestion in relation to property investments which would be reported to the next meeting.

The Independent Advisers referred in particular to the Oldfields allocation which, at the end of February 2017, appeared to be 3% above its strategic allocation.

Members of the Committee discussed the suggestions for re-balancing put forward and commented on the need to take a structured view. They explored the benefits of the suggestions and were advised by Aon Hewitt that any re-setting of risk in certain elements of the overall fund was entirely proper and it would be reasonable to retain cash which would make it easier for the Committee to move the money into another fund such as property, should it take such a view at its June 2017 meeting. The Committee considered if adhoc decision-making was appropriate in this instance and upon further advice that, in light of their previous concerns over Oldfields, it would be prudent to hold cash, it was

RESOLVED: (unanimously) That

(1) Oldfields' global equity allocation be reduced by approximately 2% to their strategic asset allocation and that the sum realised be held in cash;

(2) Aon Hewitt be requested to submit a report setting out proposals on how the cash could be re-invested both in the short term and strategically.

190. Information Report - External Audit Plan 2016-17

The Committee considered a report of the Director of Finance, which set out the external audit plan for 2016-17 as presented by KPMG to the Council's Governance, Audit, Risk Management and Standards Committee on 31 January 2017.

RESOLVED: That the report be noted.

191. Information Report - Annual Review of Internal Controls at Investment Managers

The Committee received a report of the Director of Finance, which summarised the contents of the latest internal controls reports for eight of the Fund's ten investment managers.

An officer introduced the report and made the following minor amendment:

Section 2, page 303 of the agenda, paragraphs relating to Insight Investment and Longview Partners LLP - to amend the year from 2016 to 2017;

The officer added that he considered that the data included in the table titled 'Number of controls tested by each manager and the number of exceptions reported' on page 328 of the agenda was not a major cause for concern that required reporting to the Committee. He responded to questions and confirmed that he was satisfied with the exception report for Standard Life which indicated that there were 11 exceptions noted out of 326 control objectives tested.

RESOLVED: That the report be noted.

192. Information Report - Actuarial and Benefits Services Consultancy and Pension Fund Investment Consultancy - contracts

The Committee received a report of the Director of Finance advising the Committee of the current position of the Council's current contracts in respect of actuarial and investment consultancy services.

An officer introduced the report and informed the Committee that the duration of the Framework Contract was six years and that it would terminate in April 2017. As a result, officers would be extending the contract for a period of five months and report back to the June 2017 meeting of the Committee with a view to a decision on the contract being requested at its September 2017 meeting.

RESOLVED: That the report be noted.

193. Independent Advisers and Co-optee

The Committee received a report of the Director of Finance, which proposed the extension of contracts of the Committee's two independent advisers and that the appointment of a co-optee to the Committee not be continued.

In introducing the report, the Director of Finance stated that the Committee had two established independent advisers and she was recommending that their contracts be renewed. The Committee also received 'professional' advice from the investment adviser, Aon Hewitt, and, as the Committee was well-served for advice, the need for further advice from a co-optee was no longer as great.

The Director of Finance advised that, in order to ensure consistency of advice over the next couple of years, it seemed an appropriate time to review the position of a co-optee to the Committee on the basis that there was a limit to the number of 'advisory' viewpoints which the Committee could be expected to consider.

In response to questions from Members, the Director advised that:

- the allowance for a co-optee, as agreed by full Council, was set at £445 per annum for all co-optees to Committees;

- the current co-optee had requested additional remuneration and had stated that he represented the Council at conferences and other similar events, a role which ought to be performed only by Councillors and officers;

- co-optees on other Council Committees did not receive any additional remuneration and any additional payment to the co-optee on the Committee would be a cost to the Pension Fund, which she considered to be inappropriate.

Members discussed the merits or otherwise of having a co-optee, including the strengths the role brought. Several of them commented that they appreciated the advice and viewpoints provided by the co-optee. They referred to the request made by the co-optee for additional remuneration and asked if this could be negotiated. Members were reminded that the Council's Members' Allowance Scheme, which had been approved by full Council, precluded this. Members discussed issues of the management and role of co-optees and requested further information prior to reaching a decision and it was

RESOLVED: That

(1) in accordance with their current contracts, Honorary Alderman Richard Romain and Mr Colin Robertson be offered an extension of their contracts as independent advisers to the Committee by two years up to 28 July 2019;

(2) the consideration of the cessation of a co-optee to the Committee be deferred to the next meeting following the receipt of a report outlining the exact role.

194. Exclusion of Press and Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following items for the reason set out below:

Item	Title	Reason
23/24.	Pension Death Grant Payment/ Information Report - Investment Manager Monitoring	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

195. Pension Death Grant Payment

The Committee received a confidential report of the Director of Finance, which set out a request from the deceased's parents on the arrangements for the payment of a death grant.

The Chair reported that this case had been deferred from the last meeting to allow further discussion to take place. He added that it would be useful if Members were kept abreast of the progress on this case.

RESOLVED: That recommendations 1-3 set out in the report be approved and Members be informed of the progress made.

196. Information Report - Investment Manager Monitoring

The Committee received a confidential report setting out Aon Hewitt's quarterly report on Harrow's investment managers. All Fund Managers, other than Pantheon, had been rated as either "Buy" or "Qualified". The Pantheon private equity funds had been rated by different criteria and had received a range of ratings.

Dave Lyons, Aon Hewitt, introduced the report and informed the Committee that, essentially, there had been no change in the overall ratings and that the only change was in relation to the component ratings for the managers. In response to a question, he commented that the Fund's fees of 28bps for bonds mandate was not considered high as it was being actively managed.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 6.00 pm, closed at 9.15 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair

This page is intentionally left blank

PENSION FUND COMMITTEE (SPECIAL)
MINUTES

10 MAY 2017

Chair:	*	Councillor Nitin Parekh		
Councillors:	*	Jo Dooley	*	Bharat Thakker
	*	Norman Stevenson		
Co-optee (Non-voting):	†	Howard Bluston		
Trade Union Observers:	*	John Royle		Pamela Belgrave
Independent Advisers:	†	Mr C Robertson		Independent Adviser
	*	Honorary Alderman R Romain		Independent Adviser

* Denotes Member present
† Denotes apologies received

197. Attendance by Reserve Members

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

198. Declarations of Interest

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 he had clients who were past and present members of the Harrow Pension Scheme. His wife was a member of Harrow

Council's Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

199. Deputations

RESOLVED: To note that no deputations were received at this meeting.

RESOLVED ITEMS

200. Local Government Pension Scheme Pooling Arrangements - Proposed Transition of Longview Partners' Mandate

The Committee received a report of the Director of Finance concerning an agreement reached between the London CIV and Longview Partners to make available within the CIV, a sub-fund managed by Longview Partners on the lines of the current mandate awarded to them by the Harrow Fund. The Treasury and Pensions Manager explained the implications of the proposed fees as set out in paragraphs 8 and 9 of the supplemental report; it was estimated that the saving to the Fund would amount to about £200,000 pa. He also outlined the proposed transitional arrangements whereby Russell Investments would provide transition management services at nil cost.

John Royle reiterated concerns expressed by union members about the performance of the Harrow Fund against benchmarks and against the average performance of local government pensions funds; he suggested that recent performance was so poor that there was even a case to invest the funds as cash deposits. Richard Romain, Independent Adviser, explained that there was a duty on those managing the Fund to seek to cover the pension liabilities into the future and this could only be achieved by active investment strategies. He underlined that performance over any short-term period did not undermine the strong case over the long-term for market investment.

Colin Cartwright, Adviser (AON Investments) added that the risk was, in any event, borne by the employers. If the greater returns from active investment were not achieved, then there would be increased pressure on public service budgets through the need to increase employer contributions. In 2015-16, there had been a fall in the markets, but this type of investment was more productive over the long-term period particularly relevant to pension funds. Fund members were paying fixed percentage contributions for defined and guaranteed benefits.

Colin Cartwright explained that the transition project relating to the Harrow Fund's investment in the SICAV carried certain risks and it therefore needed to be managed appropriately. Russells were offering to waive the usual fee for this specialist service because they were keen to win business among LGPS employers and funds.

The Committee debated the tax element of the costs of this transition which would apply. Colin Cartwright advised that this would be due to the change of ownership involved and the reregistration of the relevant stocks. Mr

Romain questioned whether there would, in fact, be a change of legal ownership; he considered that the appropriate test would be whether the “primary beneficial ownership” would alter and he doubted that this would be the case since the local authority employers would remain the *beneficial* owners. Colin Cartwright suggested that the staff at CIV and Longview would have investigated, and taken advice on, this issue in any event. It was agreed that officers should seek clarification of this from Russells and inform Committee members of the outcome.

Colin Cartwright reported that if it was intended to maintain the currency hedge after the transfer to the CIV, then it would be necessary to amend the mandate with Record. This would be addressed in the strategy review to be reported to the Committee on 28 June 2017; it was agreed that the question of the beneficial ownership and tax implications would also be covered.

A Member asked about the Fund’s exposure in terms of currency fluctuations during a period between the transfer of the mandate and the re-establishment of the currency hedge. The Treasury and Pensions Manager advised that any new policy could be implemented within a matter of two or three days. Colin Cartwright added that preparatory work would be undertaken to ensure changes could be expedited. He would explain by email to Committee members how the percentage movements across currencies might impact on the Fund. The Member asked that a risk assessment of this be carried out and Richard Romain suggested that the CIV be asked to produce their risk register.

Richard Romain, Independent Adviser, cautioned the Committee to make a careful judgement of the risks and benefits of the proposals before them in the report. In particular, he sought clarification of the likely costs involved in the currency hedging element of the work. The Committee briefly adjourned between 7.05 pm and 7.08 pm so that officers could check records. When the Committee reconvened at 7.08 pm, the Treasury and Pensions Manager advised that the hedging costs charged for the Record mandate in the previous year had totalled £28,000 at a rate of 0.03%. Richard Romain said that he would therefore recommend that the Committee should agree to maintain contemporaneously the same proportion of currency hedge as at present, namely 50%. Colin Cartwright concurred with this recommendation.

A Member asked about any additional risks to the Fund from political factors such as Brexit. Colin Cartwright advised that until the framework of any agreement with the EU on the terms of the UK’s departure from the union became clearer, it was likely that markets would fluctuate. In terms of currency movements, the Fund could choose to continue the hedging arrangement.

The Chair reported that Howard Bluston, Coopted Member, who had been unable to attend this meeting, had emailed him with his views on the proposals in the report. Mr Bluston had been supportive of the recommendations, agreeing with the proposed appointment of Russells to manage the transition.

The Chair asked whether the saving identified in the report would still accrue to the Fund should other boroughs, particularly Wandsworth and Westminster, decide not to proceed. Colin Cartwright considered their withdrawal was very unlikely given that they had been prime movers in setting up the new CIV arrangements.

RESOLVED: That

(1) the Fund's current mandate with Longview Partners be transferred to the sub-fund of the London CIV in accordance with the fees and other arrangements as agreed between Longview and the CIV;

(2) the Fund enter into a one-off transition management agreement with Russell Investments to carry out the transition at nil cost; and

(3) the same proportion of currency hedge as at present, namely 50%, be maintained contemporaneously.

(Note: The meeting, having commenced at 6.30 pm, closed at 7.17 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair

REPORT FOR:	**Pension Fund Committee**
Date of Meeting:	28 June 2017
Subject:	**Information report -** Local Government Pension Scheme Pooling Arrangements
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1 – Letter from Minister for Local Government dated 15 March 2017 Appendix 2 – Progress report from CIV dated April 2017

Section 1 – Summary

Summary

The report updates the Committee on the development of the pooling arrangements and, in particular, on progress in the Global Equities sub-funds procurement.

Harrow COUNCIL LONDON

Section 2 – Report

1. At their last scheduled meeting on 7 March 2017 the Committee received an update on pooling arrangements. They considered a report entitled "Pensions CIV Sectoral Committee: London CIV 2017/18 Budget and MTFS" presented to the Sectoral Committee on 8 February 2017. Matters specifically covered included:

   - Update on funds "in the pipeline"
   - Global equities procurement process
   - Passive mandates
   - CIV business plan and revenue streams
   - Proposed launch in May 2017of a Global Equities mandate to be managed by Longview Partners

2. During April 2017 officers were advised that final agreement had been reached between the CIV and Longview Partners and that an indicative launch date of 28 June was proposed.

3. To meet the tight transition timetable for the Longview mandate a Special Meeting of the Committee was held on 10 May 2017 at which it was resolved that:
   (1) the Fund's current mandate with Longview Partners be transferred to the sub-fund of the London CIV in accordance with the fees and other arrangements as agreed between Longview and the CIV;
   (2) the Fund enter into a one-off transition management agreement with Russell Investments to carry out the transition at nil cost; and
   (3) the same proportion of currency hedge as at present, namely 50%, be maintained contemporaneously.

4. It subsequently transpired that Longview would be able to manage the transition themselves and that the launch date would be in mid-July. Officers are working with the CIV, Longview and Record Currency to ensure that all arrangements are in place by the launch date.

5. On 15 March 2017 the Minister for Local Government wrote to the Chair of each of the pools requesting a progress report under the following headings:

   - Scale
   - Governance
   - Reduced costs and value for money
   - Infrastructure

6. A copy of the Minister's letter and the CIV's response are attached as appendices 1 and 2.

7. On the first page of their response the CIV discuss the launch of the next three sub-funds which are the first to be selected independently of existing London mandates namely:

    - Global Equity Income – EPOCH Investment Partners
    - Global Sustainable Equities – RBC Global Asset Management
    - Emerging Markets Equities – Henderson Global Investors

    On 11 May the CIV organised an Information Day at which each of these three managers and Longview made presentations. This was attended by the Chair and an officer.

8. On 22 May 2017 the CIV issued a prospectus including details of all sub-funds launched up to May 2017. Copies of this have been sent separately to all members and "advisers."

9 Elsewhere on the agenda the Committee are being asked to consider their future investment strategy and, when this is agreed, they will be invited to consider whether any of the sub-funds, other than Longview, so far launched would be a suitable vehicle for an investment.

Financial Implications

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

Risk Management Implications

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

Equalities implications

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

Council Priorities

15. 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: 15 June 2017		
Ward Councillors notified:		**NO**

Section 4 - Contact Details

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

Background Papers - None

Department for
Communities and
Local Government

Marcus Jones MP
Minister for Local Government

Department for Communities and Local Government
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Tel: 0303 444 3460
Fax: 020 7828 4903
E-Mail: marcus.jones@communities.gsi.gov.uk

www.gov.uk/dclg

Chairs of LGPS pension funds
Chairs of LGPS investment pools

15 MAR 2017

Dear Chairs,

LOCAL GOVERNMENT PENSION SCHEME (LGPS) INVESTMENT POOLING: SPRING 2017 PROGRESS REVIEW

As you know I will be reviewing the progress of all the pools in spring and autumn 2017. For pools which are not yet operational I will need to see your plans for becoming operational by the deadline of April 2018, including your progress in establishing a core team and securing Financial Conduct Authority authorisation. For all pools I will expect to see details of your current progress and plans for delivering savings, for increasing your infrastructure investment in line with your ambition, and for reporting, including on fees and net performance by asset class.

As part of this process I will expect you to submit a short report on progress up to Friday 31 March, using the template attached. This should include an update on your progress in meeting my specific expectations for your pool as set out in my letter responding to your final proposals. The deadline for submission is Friday 21 April. My officials will follow up with individual pools as necessary with any further questions or concerns. A further report on progress to 30 September will be required in October.

I am grateful for your continuing commitment to delivering this vital and challenging reform programme and welcome your engagement with my officials.

Yours Sincerely,

Marcus Jones

MARCUS JONES MP

Local Government Pension Scheme pooling: progress report

Please report against each of the areas outlined below as at 31 March 2017, highlighting significant changes since your final proposal.

The deadline for submission is Friday 21 April 2017. We will follow up any questions or concerns with individual pools as necessary.

Pool:__London CIV____________________________

Date:___April 2017___________________________

Criterion A: Scale

For pools in development

- Scale – please state the estimated total value of assets included in your transition plan for investment through the pool structure, with date of estimate
- Assets outside the pool - please state the estimated total value of assets to be invested outside of the pool structure by participating funds
- Progress towards go live by April 2018
  - please provide an updated high level project plan to achieve delivery by April 2018 including progress with operator procurement/build, design of sub funds, recruitment of core team, appointment of depository and FCA authorisation
  - please identify risks or issues which may delay delivery by April 2018, and any plans to mitigate risks and/or manage issues

For operational pools

- Structure and scale - please state the total value of assets to be invested via the pool together with the value of assets to be invested outside of the pool by participating funds
- Progress with transition - please state the value of assets within the pool and provide an updated high level transition plan

LCIV Response

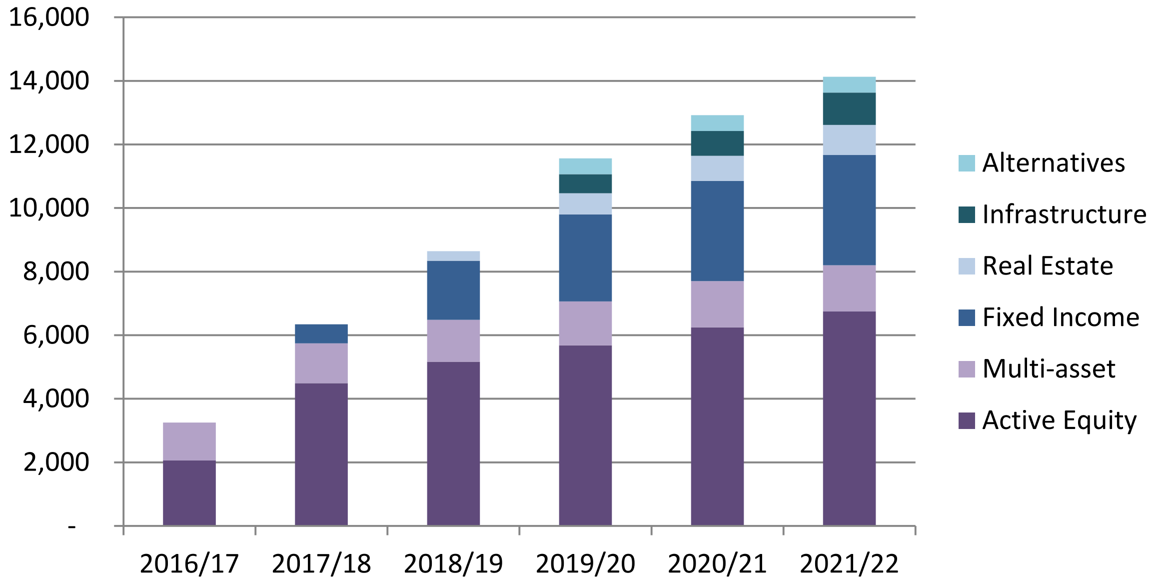
- As at 31/03/17 assets under management within London CIV were £3.5bn with 18 London Local Authorities (LLA) invested. LLA refers to the 32 London Boroughs and the City of London Corporation. Following the merger of the London Borough of Wandsworth and London Borough of Richmond Pension Funds, there are now a total of 32 LLA Pension Funds. Annex A shows the current sub-funds available to LLA's and the number of funds invested in each.
- An additional 3 sub-funds based on a commonality, quantum and conviction approach (i.e. existing LLA mandates) are in the process of being opened which will see the transition of a further estimated £1.6bn-£1.8bn AUM and will bring on board another 2-3 LLAs.
- Following a global equity procurement exercise undertaken in 2016, an initial 3 global equity managers have been selected for the next 3 sub-funds to be opened in July and September. The 3 investment strategy sub-funds comprise Emerging Markets (July), Global Equity Income and Sustainable

Equities (September), these have been selected as a first stage following an assessment of LLA requirements for additional global equity options. A global equity information day is being held on 11th May following which, LCIV anticipates being able to update with further specific investment levels for each fund from the LLA's although it is recognised that it may take some time for assets to be transitioned as LLA's continue with their strategic asset allocation evaluations.

- Over the summer, additional work will be undertaken with the LLAs to determine the level of demand for additional global equity investment strategies. Additional managers have been shortlisted to fulfil a range of investment strategies to make them available for sub-fund launches in December.
- In addition London CIV has successfully negotiated London wide CIV rate lower fee scales with 2 passive life fund providers which covers an additional £7.2bn AUM. At this time, life funds will remain outside the LCIV pool as per the government's asset exemptions:

  > "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."
- LCIV is working closely with the passive life fund providers to fulfil the expectation that the pool will manage and monitor the life funds and is now receiving quarterly reporting from one of the managers where agreement on fees was reached in mid-2016. In addition, in recognition of the savings delivered and the additional monitoring required by LCIV, the Pensions Sectoral Joint Committee agreed at it's meeting in February proposals that LCIV could apply an asset under management based fee on passive assets where LCIV had negotiated and agreed London wide fee rates with passive life fund providers.
- At the time of the July 2016 submission, based on 31 March 2015 data, approximately 26% of LLA's assets were in passive life funds, whilst data to end March 2017 is not yet available for comparative purposes, LCIV believes that as a percentage of assets across London Funds, this is unlikely to have significantly changed and therefore will continue to remain outside of the Pool for the foreseeable future.
- Further, at the time of July 2016 submission assets to be held outside the pool in the medium term included assets such as private equity , property and Fund cash and amount to £4.5bn. This was in addition to the £7.5bn held in passive life funds. Consequently, approximately £12bn was likely to remain outside of the LCIV pool or just over 40% of the assets across the LLAs. At the time of writing, LCIV is currently working closely with the LLAs to assess their strategic asset allocations following the triennial actuarial valuation to better understand how asset allocations might change over the next 1-3 years in order to assess the potential impact on the level of assets to be held outside of LCIV.
- The February meeting of the Pensions Sectoral Joint Committee considered LCIV's updated business plan and medium term financial strategy http://www.londoncouncils.gov.uk/node/31261 The business plan and MTFS set out the programme for launch of sub-funds and an estimate of the timeframe over which assets would transition across to LCIV. Based on the transition plans within the business plan, LCIV forecast £14.2bn

assets under management by March 2022, and that under more optimistic assumptions assets under management by LCIV could increase to £19.4bn if LLA's transition at a faster pace than currently forecast in the base case. The table below shows the progression of asset transfer into LCIV:



- Based on the 2015 assets under management held across LLAs on which LCIV were required to submit proposals on, the table below provides the level of assets transferred in each asset class on the base scenario.

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Share of LLA Assets	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**March 21**	**March 22**
Active Equities	21%	46%	53%	59%	64%	70%
Passive Equities	0%	0%	0%	0%	0%	0%
Multi Asset	45%	48%	50%	52%	55%	55%
Fixed Income	0%	12%	38%	55%	64%	70%
Property	0%	0%	14%	32%	38%	45%
Infrastructure	0%	0%	0%	306%	398%	517%
Alternative Assets	0%	0%	0%	36%	36%	36%
Total share of LLA Assets transferred	11%	22%	30%	40%	44%	49%

Criterion B: Governance

For pools in development

- Progress with governance arrangements - please provide an updated high level project plan for the implementation of governance arrangements.

For operational pools

- Changes to governance since final proposal - briefly describe any changes to the governance structure, in particular please set out your plans for ensuring the pool can effectively implement the asset allocation and responsible investment strategy of each fund

LCIV Response

- There have at the time of responding to this progress report been no changes to the governance structure. London CIV is currently commissioning a governance review to ensure that the structures and decision making processes in place are robust and effective. Government will recognise that London CIV pool has been operational for some time and was established in advance of the Government's Criteria and Guidance requirements.
- An update on the progress of the governance review will be provided in the October report
- Government will be aware that the LCIV Pool is in some ways more complex than the other pools, despite commencing pooling at an earlier stage; due to the larger number of participating local authorities, at over 2½x the next largest pool for authorities and having started very much on a voluntary basis. Collating and understanding the 32 strategic investment plans is and will continue to be a resource intensive process, particularly given the typically lower level of resources internally at the local authorities dedicated to managing the pension funds.
- LCIV is currently working closely with the participating authorities to develop a fuller picture of the changes which are likely to be effective following the 2016 actuarial valuation as this is likely to impact on future requirements and it may be necessary to adopt a more flexile approach to the business plan if LCIV is going to be able to more effectively offer solutions for LLA Pension Funds to be able to implement their updated asset allocations.
- It should also be recognised that the strategic asset allocation requirements across London Funds, by the very nature of the number of Funds are also in very different places from a funding and cashflow perspective giving rise to significant variations in requirements from the perspective of strategy. Of all the Pools, London undoubtedly has the widest dispersion in terms of funding levels and cashflow requirements. As can be seen from the published results from the actuarial valuations, funding levels vary between less than 60% to over 100% and cashflows before investment income vary considerably, with an increasing proportion of Funds being cashflow negative, but with others remaining strongly cashflow positive. This leads to very different strategic investment requirements and asset allocations.
- Given the regulated structure under which LCIV currently operates as an AIFMD and in particular the ACS structure, it has to be recognised that implementation takes time to achieve once decisions on sub-funds have been agreed. Legal, regulatory and operational clearance takes time and LCIV are cognoscente of the fact that as other pools become operational and pressures on external suppliers intensify to meet deadlines for other pools this could further slowdown the ability of LCIV to potentially meet the deadlines set out in its business plan and MTFS.
- Like a number of other Pools, LCIV has signed up to be a founder member of the National LGPS Transition Manager Frameworks, this will enable competitive pricing and swifter access to transition managers as and when required for LLAs looking to move assets across to LCIV.
- With regards to the responsible investment strategy of LLA's, the regulations make it clear that it is for the Fund to determine it's individual approach to ESG matters and voting and is required to set out their policy in the

Investment Strategy Statement for the Fund. LCIV are currently reviewing all the ISS across the LLA's to assess requirements. However, working groups at both Member and officer level have been established to look at the whole area of Stewardship and how this can best be approached by LCIV. LCIV worked closely with these groups to agree an approach for LCIV to meet the requirements of the FRC Stewardship Code and the LCIV Compliance Statement and the FRC has confirmed that the Statement meets the requirements of a Tier One as an asset owner, the Statement can be found: https://www.frc.org.uk/FRC-Documents/Corporate-Governance/Stewardship-Code/London-CIV.pdf

- LCIV recognises that across the 32 LLAs Pension Funds, very different views and policies on ESG and voting are in place and that it is unlikely to be able to meet all these requirements, but is keen to work closely with authorities to reach some areas of common ground hence the importance of the Stewardship working groups.

Criterion C: Reduced costs and value for money

For all pools

- Update on costs/savings estimates – please state current high level estimates for implementation costs and eventual annual savings
- Plans for delivering savings – please set out your high level plan and timescales for delivering the annual savings above
- Plans for reporting including on fees and net performance in each listed asset class against an index – In particular please set out how the pool will report fees to participating funds on a fully transparent basis and using comparative performance and/or cost data.

LCIV Response

- Estimated annualised savings from the sub-funds which are already open amount to £1.38m, with further estimated annualised savings of £2.16m to come through from the additional 3 sub-funds being opened on the basis of existing funds being transitioned to the LCIV platform.
- Estimated annualised net savings from passive fees negotiations and implemented amount to £1.76m. Further annualised fee savings from passive life funds are expected as a second mainstream provider has now agreed terms for London CIV funds which will deliver further annualised savings of just under £1m on the basis of current assets under management.
- Increasingly as the CIV moves forwards, direct comparisons on fee savings will become more difficult as new managers are procured rather than directly transitioned from existing mandates. However, as part of the global equity procurement exercise, managers were asked to evidence in their tender submissions the fee scales for standard institutional mandates versus the fees that would be charged on the new CIV mandates should the provider be successful in their tender submission. Whilst potential fees savings did vary considerably across the different strategies and structures, significant discounts on standard fees were offered across the board. As assets transfer to the new sub-funds, the notional savings on investments will be calculated

as assets move across on to the CIV platform to provide evidence on the benefits of scale moving forwards.

- Taking into account the assets under management on the CIV platform and those due to transition across in the next 3 months along with life funds where fee negotiations have been agreed, assets under management or in passive on the CIV platform amount to around £12bn or just over 42% of assets that were reflected in the July submission relating to AUM at 31/03/15. Annualised fee savings including those due to transition shortly and in passive life funds amount to an annualised savings of around £6.3m. At the time of the July submission fee savings were estimated to be in a range of £11.58m (low) to £27.68m (high). Estimated annualised fee savings based on current plans amount to between 54% (low estimate) or 22% (high estimate) of those projected in the July submission, i.e. within the range indicated at the time of submission reflecting the current AUM.
- As noted earlier in this document, LCIV business plan and MTFS sets out the plans for fund launches over the next 3 years and will continue to target fee savings as part of that plan, but as noted earlier strict comparisons become more difficult to evidence as we move away from transitioning existing mandates and procure new strategies. Further as we commented on in our July submission, we want to reinforce the message that as Funds for strategic asset allocation reasons target more complex investment structures, including infrastructure, then actual savings may not be feasible when set against the current investment strategies, although it may be possible to evidence savings versus what might have been paid by Funds without having the benefits that come from scale of assets.
- We would also like to highlight some of the risks surrounding the delivery plans for pooling, particularly given the experience to date that the CIV has had in establishing and transitioning assets:
    - Experience in transitioning common mandates – whilst on the surface Funds may appear to be investing with the same manager and mandate, below the surface the mandates can be very different and it can take considerable time and skill to reach a truly common position.
    - Local Authority Pension Investment strategies are not static and this can have an impact on implementation as Authorities adapt asset allocation for strategic reasons, this is particularly the case in pools with larger numbers of moving parts such as the LCIV.
    - Operating in a highly regulated structure with FCA, whilst adding protection for investors can also result in longer timeframes for implementation given the necessary legal and regulatory steps before funds can be launched in the new ACS structures, compared to standard Pension Fund investments or procurement exercises. The impact of MIFID II has yet to be fully understood as the details are still at consultation stage,
    - LCIV has to date been transitioning existing assets largely in-specie on a 'lift and shift' basis for common mandates. Increasingly as LLAs make decisions to transition from existing mandates and into completely new strategies, transition risks come into play. Whilst undoubtedly there are a range of very experienced transition managers available to call on, transitioning large quantities of assets will pose additional risks and could result in significant additional costs

if the transitions are not managed very carefully and will need to be monitored closely when undertaken.

- As a Pool already operational, LCIV is already reporting to investors providing net of fee performance data. Investors are also provided with a fee schedule on a quarterly basis with a full breakdown of all charges that are applied to the management of the assets. We have established a reporting and transparency working group to help deliver further enhancements to reporting and to ensure that Funds have access to the data that they need for reporting purposes.
- Information on all sub-funds including pricing is available to all Funds within the LCIV Pool, not just those invested in particular strategies. LCIV are currently working on a secure client portal to facilitate easier access to all LCIV information and data for shareholders and investors.

Criterion D: Infrastructure

For all pools

- Progress on infrastructure investment – please state your target allocation for infrastructure and committed funds at the pool level and/or across pools. Please also set out your plans for the platform/product/and/or external manager arrangements to achieve that target
- Timetable to achieve stated ambition.- please provide a high level project plan for the implementation of the platform/product/and/or external manager arrangements described above

LCIV Response

- We refer to our July 2016 response to Government, as noted the allocations to infrastructure across London remain relatively low at less than 1%. Where funds had indicated an interest in allocating to infrastructure then their target allocations were between 3-10%, but as government is aware this is a local asset allocation decision. As noted earlier in this response, we are working closely with our 32 London Pension Funds to better understand their future strategic asset allocation, anecdotally it would seem that a number are now including infrastructure as part of their allocation requirements going forwards, but until a full assessment of requirements has been completed, we are unable to provide further detail on target allocations going forwards. LCIV however, are very focused on looking to meet local strategic asset allocation decisions and where there is increased demand for investment opportunities in infrastructure, we will aim to provide these in a timely manner.
- LCIV continues to have discussions with a range of external infrastructure managers to ensure that essential background research has been completed and is available for investment at such time as the London Funds are ready to invest in infrastructure platforms.
- Where demand for specific asset classes is relatively low or in early stages of development on the CIV platform, LCIV will work with individual funds or small groups of funds to facilitate work and procurement exercises to look for outcomes which could be 'CIVable' at a future date when resources or

increased demand for specific products is identified, this is particularly the case in assets such as infrastructure and private markets.

- As part of a broader training and events schedule, LCIV are arranging an infrastructure seminar in the autumn open to Pension Committee Members and Local Authority officers. The agenda for this event is currently under consideration but will include both a training element and the opportunity to meet with a wide range of providers of infrastructure investments.
- LCIV CIO continues to be an active member of the Cross Pools Infrastructure Group and exploring opportunities for collaborative working in this area.
- The business plan agreed with the Pensions Sectoral Joint Committee and the Board of LCIV includes the opening of 2 infrastructure specific funds in the summer of 2019, (business plan and medium term financial strategy agreed February 2017: http://www.londoncouncils.gov.uk/node/31261). However it is recognised that the business plan needs to remain flexible and that investment options are subject to changes in the underlying London Local Authority investment needs to fulfil their strategic asset allocations.

Annex A

SUB-FUNDS OVERVIEW

LCIV started the financial year 2016/17 with two sub-funds opened and assets under management (AUM) of £842.6m and ended the year to 31st March 2017 with 6 sub-funds and AUM of £3,573m. The growth in AUM was attributable to a combination of sub-fund openings, market moves and subscriptions. The table below provides an overview of the sub-funds and performance over the year.

FUND (Underlying Manager)	PRICE (Pence)	FUND SIZE £M	Q1 2017	1 YEAR 01/04/16 – 31/03/17	SINCE INCEPTION	INCEPTION DATE	LONDON LOCAL AUTHORITIES INVESTED 31/03/17
LCIV Global Equity Alpha (Allianz Global Investors) ***Benchmark: MSCI World Net GBP Index***	128.7	£667	6.79% *5.12%*	30.21% *31.92%*	30.86% *34.11%*	02/12/15	3
LCIV BG Global Alpha Growth (Baillie Gifford) ***Benchmark: MSCI All Countries World Gross Index***	134.3	£1,602	7.60% *5.37%*	N/A *N/A*	35.00% *32.59%*	11/04/16	9
LCIV PY Total Return (Pyrford)	109.1	£204	1.68%	N/A	9.10%	17/06/16	3
LCIV Diversified Growth (Baillie Gifford)	114.2	£355	2.83%	10.35%	14.76%	15/02/16	6
LCIV RF Absolute Return (Ruffer)	111.2	£413	0.00%	N/A	11.50%	21/06/16	5
LCIV NW Real Return (Newton)	103.4	£332	1.97%	N/A	3.40%	16/12/16	3
Total LCIV Assets Under Management		**£3,573**					**18**

*Data Source: Bloomberg as at 31/03/17 – Net of all fees and charges with income reinvested

This page is intentionally left blank

REPORT FOR: Pension Fund Committee

Date of Meeting:	28 June 2017
Subject:	Investment Strategy Review
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Investment Strategy Recommendation (Aon Hewitt)

Section 1 – Summary and Recommendation

Summary

The Committee are asked to review the attached report produced by Aon Hewitt and consider the recommendations on a future investment strategy for the Fund included in the report and copied in paragraph 5 of this report. According to Part 3A of the Council's Constitution, Terms of Reference the Pension Fund Committee is under a duty to administer all matters concerning the Council's Pension investments in accordance with the law and Council Policy and it is under a duty to establish a strategy for the pension investment portfolio.

Recommendation

The Committee are recommended to consider the attached report from Aon Hewitt and, subject to any amendments they may wish to make, agree a revised investment strategy.

Section 2 – Report

1. Over recent months the Committee have been advised of the development of the triennial actuarial valuation for the Fund and, at their meeting on 7 March 2017, they agreed the Fund's Funding Strategy Statement.

2. Also at their meeting on 7 March the Committee agreed the Fund's Investment Strategy Statement.

3. The Investment Strategy Statement includes the current asset allocation strategy which has evolved over the last 3-4 years. However, the Statement recognises that, in the light of the actuarial valuation and the Funding Strategy Statement it would be appropriate to ask the Funds Investment Adviser, Aon Hewitt, to carry out a thorough review of the strategy. They have specifically been asked to carry out an in depth asset / liability modelling exercise to allow the Committee to understand the risks inherent in the current investment strategy and to identify other potentially suitable strategies for the Fund in the future.

4. On 6 June 2017 Aon Hewitt facilitated a workshop for the Committee during which they presented their initial analysis of the Fund's current strategy and suggested some alternative strategies for the Committee to consider.

5. A combination of the results of Aon Hewitt's analysis and the views expressed at the workshop are incorporated within the attached report which recommends as follows:

   On the basis of the analysis conducted, and the feedback for the Investment Strategy workshop, the recommendations from Aon Hewitt in relation to the Fund's investment strategy are as follows:
   1) Reduce the allocation to Equities by adopting the investment strategy outlined below in the short term. The allocations to the Equities funds and Diversified Growth Funds should be pro-rated and the currency hedging within the Equity allocation should remain at 50%

Asset Class	Allocation (%)	Desired Movement in Medium-Term
Global Equities*	42.0	
Emerging Market Equities	8.0	
Private Equity	5.0	Reduce as current funds wind down
Diversified Growth Funds	22.0	Decrease as proceeds required to fund Property and Infrastructure opportunities
Property	10.0	Increase as opportunities arise
Infrastructure	0.0	Increase as opportunities arise
Index-Linked Gilts	2.6	
UK Corporate Bonds	10.4	

*includes a 50% currency hedge of overseas equity market exposure within developed markets

Before any change is implemented, the Fund's Actuary should be consulted.
2) Allow the allocation to Private Equity to wind down, with no additional strategic allocation being made to the asset class.
3) Over the longer term use the proceeds from Private Equity and the increased allocation in Diversified Growth Funds to allocate further to growth-oriented Property opportunities and also to Infrastructure.
4) In the first instance, the Committee should receive training on both growth-oriented Property opportunities and Infrastructure.
5) In relation to the current level of Cash available to invest, whilst the training on Property is undertaken, we recommend that the amount be invested in the Fund's Diversified Growth Funds on a pro-rated basis.

6. The Committee are invited to consider the attached report from Aon Hewitt and, subject to any amendments they may wish to make, agree a revised investment strategy.

Financial Implications

7. Whilst the agreement to a new investment strategy has major financial implications for the Pension Fund there are none arising directly from this report.

Risk Management Implications

8. Risks arising from the investment strategy are included in the Fund’s Risk Register and are considered in detail in the attached report.

Equalities implications

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

Council Priorities

10. 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: 19 June 2017	✓	Director of Finance
Name: Noopur Talwar Date: 19 June 2017	✓	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

Aon Hewitt
Retirement & Investment

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

Date: 28 June 2017
Prepared for: Pension Fund Committee ('the Committee')
Prepared by: Colin Cartwright
Joseph Peach

Investment Strategy Recommendation

Introduction

The purpose of this report is to provide a recommendation for the Committee in respect of the Fund's investment strategy.

On 6 June 2017, the Committee held an Investment Strategy workshop, where Aon Hewitt provided our initial analysis on the Fund's current investment strategy and tabled some suggested alternative investment strategies for the Committee to consider.

Based on the discussions that occurred at the workshop, we have incorporated feedback and provide a recommendation to be considered at the 28 June 2017 Committee meeting.

As part of this recommendation we also consider some more specific issues with certain of the Fund's assets classes.

Analysis Background

For the investment strategy review, Aon Hewitt undertook an Asset Liability Study, providing a tool to analyse the Fund's current investment strategy and alternative options. The modelling undertaken utilised liability data provided by Hyman's Robertson as used in the 31 March 2016 Actuarial Valuation, as well as Aon Hewitt capital market assumptions as at 31 March 2017.

When analysing the current investment strategy and other suggested alternatives, we have looked at a number of different metrics to compare the outcomes, including risk, expected return and expected funding in 10 years.

In our modelling we have considered 2 types of risk:

- Absolute risk – the risk that the value of the Fund's assets decreases. This is measured through the absolute volatility of the assets.
- Relative risk – the risk associated with the volatility of the value of the Fund's assets relative to the value of its liabilities. This reflects the fact that the assets and liabilities do not necessarily react to market conditions in the same way.

We also show return expectations in both absolute and relative terms.

When considering relative risk, we have also looked at a short-term measure known as the Value at Risk ("VaR"). This indicates the amount that the Fund's surplus/deficit stands to deteriorate by in a 1 in 20 event.

When we refer to stochastic projections in this report we are referring to having run the investment strategy through our asset liability model, which includes 5,000 different economic scenarios.

The results of the 31 March 2016 Actuarial Valuation indicated that the Fund was c. 74% funded, with assets of c.£661m and liabilities of c.£889m. As at 31 March 2017, the Fund's assets were valued at c.£807m, with an estimated funding level of c.78%, based on Aon Hewitt calculations.

The discount rate used in our analysis is long-dated gilts + 1.6% p.a., consistent with that in the Fund's Actuarial Valuation.

Details of further assumptions used can be found in Appendices 1 and 2.

Current Investment Strategy

The Fund's current investment strategy is outlined in the table below, including the central strategic allocation and ranges. We also show the Fund's actual asset allocation as at 31 March 2017.

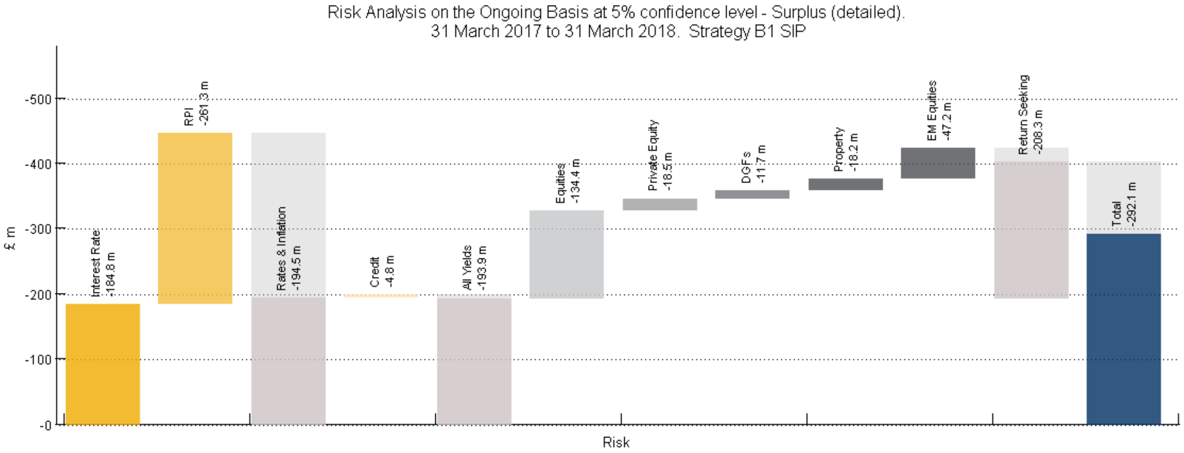
Asset Class	31 March 2017 Allocation (%)	Strategic Allocation (%)	Strategic Range (%)
Global Equities*	54.2	51.7	58.0 – 68.0
Emerging Market Equities	11.7	10.3	
Private Equity	2.4	5.0	4.0 – 6.0
Diversified Growth Funds	7.2	10.0	8.0 – 12.0
Property	8.0	10.0	8.0 – 12.0
Index-Linked Gilts	2.5	2.6	11.0 – 15.0
UK Corporate Bonds	10.0	10.4	
Cash & NCA	4.0	0.0	N/A

*includes a 50% currency hedge of overseas equity market exposure within developed markets

The 10 year risk and return statistics for the Fund's current investment strategy, as shown below, indicate that the Fund currently has a high level of absolute (14.1%) and relative (17.4%) volatility, which is driven by the high allocation to equities within the portfolio.

Current Strategy	Key Statistics
10 year volatility (absolute)	14.1%
10 year volatility (relative)	17.4%
10 year return (absolute)	6.9%
10 year return (relative)	4.2%
Return/Risk (absolute)	0.49
Return/Risk (relative)	0.24

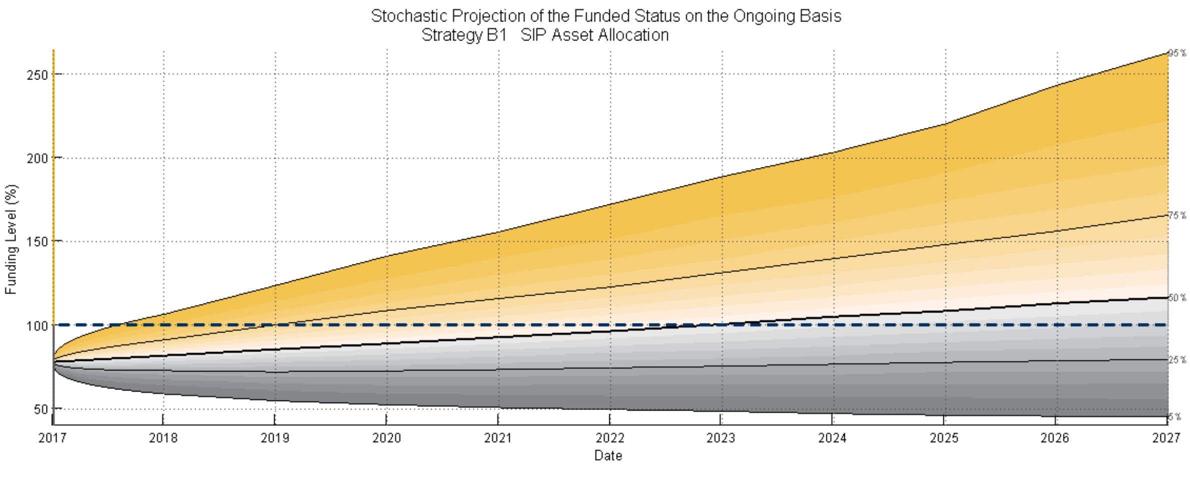
Looking at the current investment strategy in terms of more short-term risk, the following chart provides a breakdown of the Fund's one year VaR, as at 31 March 2017:



This analysis shows that the Fund has a one year VaR of c. £292m, which is equivalent to almost one third of the Fund's overall liabilities.

Breaking the VaR down into its constituent parts shows that the majority of the risk is being taken within the Fund's equity portfolio, as mentioned earlier, but also that inflation is a key risk to the Fund. The inflation risk arises as a result of the Fund's inflation linked liabilities and the relatively small allocation to inflation linked assets, such as Index-Linked Gilts, that the Fund has.

Turning to analysis of the Fund's funding level, the chart below shows the stochastic projection of the Fund's funding level over time, showing the range of potential future outcomes for the Fund's funding level based on the current investment strategy.



This analysis shows a median funding level in 10 years of 117%, with a wide range of outcomes for the funding level when projected forward. The wide range of potential outcomes is representative of the level of risk associated with the current investment strategy, given the high allocation to growth assets, in particular equities.

The rest of this report focusses on a potential alternative investment strategy and also looks to address some specific considerations in relation to certain on the Fund's assets.

Alternative Investment Strategies

At the Investment Strategy workshop on 6 June 2017, Aon Hewitt presented a number of different possible investment strategies for the Committee to consider in order to reduce the level of risk in the portfolio. These can be broadly categorised as follows:

- Reducing the allocation to Equities and investing the proceeds into other of the Fund's current growth assets (Diversified Growth Funds and Property)
- Reducing the allocation to Equities and investing the proceeds into other of the Fund current growth assets (Diversified Growth Funds and Property) and Infrastructure
- Reducing the allocation to equities and investing the proceeds into matching assets such as Index-Linked Gilts (i.e. de-risking)

Details of all of the allocations modelled are included in Appendix 3.

Reducing the Equity allocation and investing the proceeds into other of the Fund's current growth assets maintains an expected return well above the discount rate, with lower risk than the current investment strategy.

Adding Infrastructure into the mix of asset classes for the proceeds of an Equity reduction provides a very marginal increase in returns, with a small increase in the median funding level in 10 years. We discuss the merits of investing in Infrastructure later in this report.

De-risking the Fund's investment strategy by reducing the allocation to Equities in favour of Index-Linked Gilts has the impact of reducing both the absolute and relative levels of risk and expected returns. As a consequence, the expected time to full funding increases.

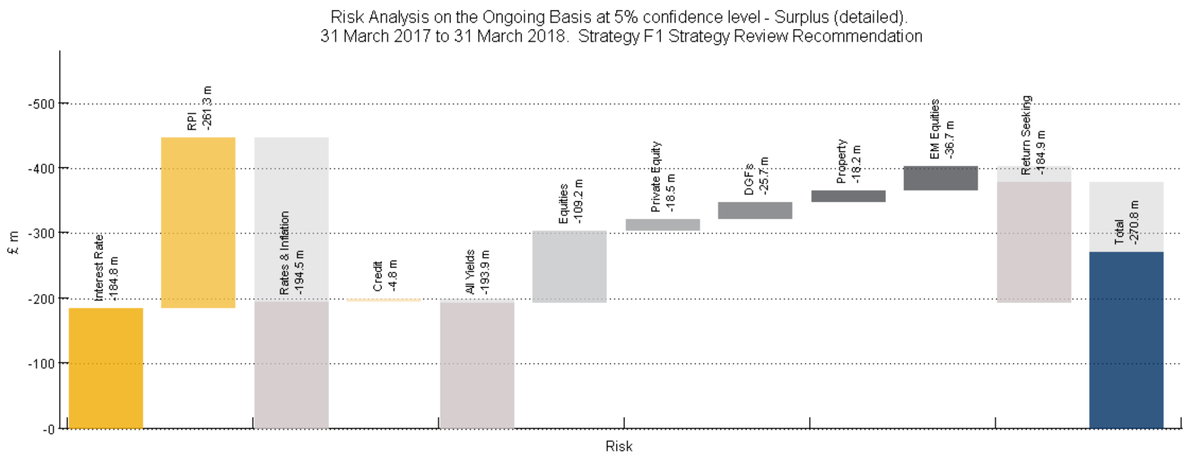
The discussions at the Investment Strategy workshop centred around the strategies of reducing the allocation to Equities, with the proceeds being invested into growth assets to reduce risk by providing more diversification, rather than reducing risk by investing in matching assets.

Incorporating feedback from the discussions, we have proposed the asset allocation in the following table for the Fund's revised investment strategy. This represents a short-term strategy, with the proceeds from the reduction in the allocation to Equities being invested into Diversified Growth Funds. The Fund's medium-term strategy sees some of the short-term allocation to Diversified Growth Funds, and a reduction in the allocation to Private Equity, being used to fund an increase in the allocation to Property and also to introduce an allocation to Infrastructure, as opportunities arise. This is discussed in more detail later in the report.

Asset Class	Allocation (%)	Desired Movement in Medium-Term
Global Equities*	42.0	
Emerging Market Equities	8.0	
Private Equity	5.0	Reduce as current funds wind down
Diversified Growth Funds	22.0	Decrease as proceeds required to fund Property and Infrastructure opportunities
Property	10.0	Increase as opportunities arise
Infrastructure	0.0	Increase as opportunities arise
Index-Linked Gilts	2.6	
UK Corporate Bonds	10.4	

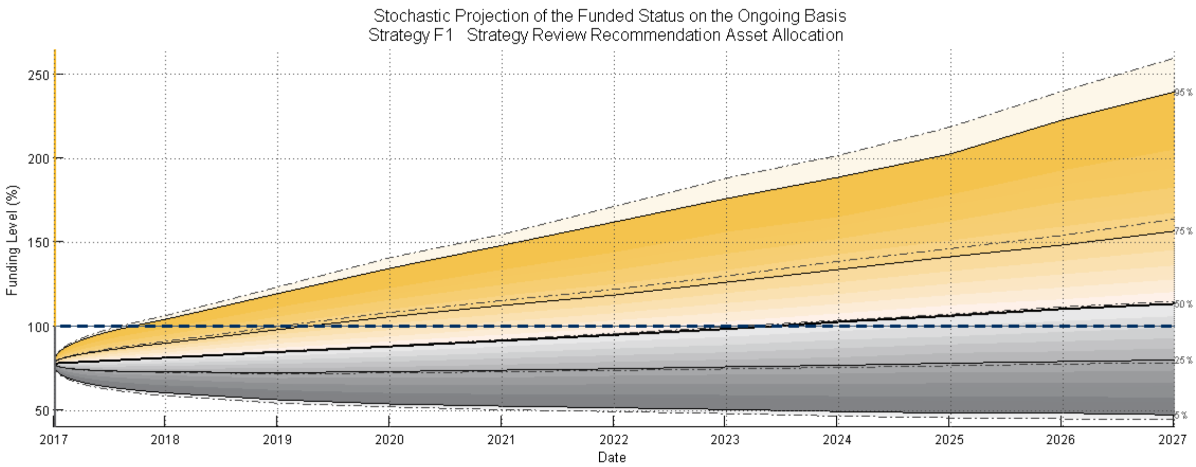
*includes a 50% currency hedge of overseas equity market exposure within developed markets

The VaR breakdown analysis of this strategy is shown in the following chart:



The overall VaR for this revised investment strategy is £271m, which represents a reduction of £21.3m from the current investment strategy. The reduction in VaR is driven by the reduced allocation to Equities and the diversification benefits that investing the proceeds into Diversified Growth Funds provide.

The stochastic funding level projection chart for this investment strategy is shown below, overlaid on top of the same chart for the current investment strategy.



The funding level projection chart shows a median funding level of 113% in 10 years time, with a narrower range of potential funding level outcomes.

This strategy shows a fall in the expected returns compared to the current strategy, from 6.9% p.a. to 6.5%p.a. on an absolute basis and from 4.2% p.a. to 4.0% p.a. on a relative basis. However, this is coupled with a reduction in the risk associated with the strategy, with the annualised absolute volatility reducing from 14.1% to 12.7% and the annualised relative volatility falling from 17.4% to 16.1%.

We believe that this investment strategy is appropriate for the Fund in the short term. Even though the expected returns of the revised strategy remain above the Fund's discount rate, before any change in strategy is agreed the Fund's Actuary should be consulted to check that it does not invalidate any of the assumptions used in the Actuarial Valuation.

The rest of this report discusses some specific issues in relation to some of the asset classes that the Fund invests in.

London Collective Investment Vehicle (" CIV")

The Fund is soon to have its first assets in the London CIV, with the Global Equity allocation with Longview scheduled to be transferred in July 2017. The Fund's Passive Equity assets held with StateStreet are permitted to remain outside of the CIV, but still deemed to be 'pooled' in the desired way. The allocations to these two managers make up c.42% of the Fund's current investment strategy.

Neither of the Fund's other two Equity managers (GMO or Oldfield) are currently on the CIV nor, to our knowledge, are scheduled to join the CIV. Similarly, neither of the Fund's two current Diversified Growth Managers, Insight or Standard Life, are currently on the CIV.

With this in mind, we ask the Committee to acknowledge that the time will arrive in the future whereby a decision has to be made on whether to transfer the investments held in these asset classes to the alternatives available on the CIV. Another potential option would be to hold the assets passively outside of the CIV.

Other asset classes are to become available through the CIV in the future, although this will take time. For any new allocations that the Committee is considering making for the Fund, the CIV should be considered if the asset class is available.

Accordingly, we recommend that the Committee engage with the London CIV on their future plans, both for the on-boarding of new managers and future asset classes that are to be added.

Illiquid Assets

The Fund currently has a strategic allocation to both Private Equity and Property, whilst LGPS funds are also being encouraged to consider allocations to another illiquid asset class, Infrastructure.

We briefly discuss each of these below.

Private Equity

The Fund has a strategic allocation of 5.0% to Private Equity, invested in three funds with Pantheon. As at 31 March 2017 the allocation was closer to c.2.5% in total across the three funds.

The Private Equity portfolio is now in the stage where distributions are regularly being paid out.

Given there is typically a high correlation between Private Equity and listed Equity, the fact that the Fund has not committed to the asset class for some time meaning it has vintage year gaps, plus the considerations of investing in other illiquid asset classes such as Infrastructure, we recommend that no further allocation is made to Private Equity and the allocation be allowed to wind down as distributions come back to the Fund.

Property

A separate review of the Property asset class has been undertaken by Aon Hewitt, with the results included in the report *Property Allocation Options.*

In this report we recommend that the Fund consider investing any further allocation to the Property asset class in growth focussed strategies such as Private Rented Sector, Value-Add and Opportunistic Property funds.

Given the high transaction costs involved and the fact that we believe UK pension schemes should have a sizeable allocation to Core UK Commercial Property , we do not recommend that the Fund disinvest from its current allocation in the Aviva UK Real Estate Fund of Funds.

At this stage we recommend that the Committee undertake training on the Alternative Property allocation options mentioned.

Infrastructure

The Fund currently has no strategic allocation to Infrastructure. We believe that this is an asset class that the Committee should consider investing in for two reasons:

1) To provide further diversification within the Fund's growth assets and provide an element of exposure to inflation linked assets;
2) The directive from central government is for LGPS Funds to invest into Infrastructure, with there being reference to this in the Local Government Pension Scheme: Investment Reform Criteria issued by the Department for Communities and Local Government in November 2015.

For the avoidance of any doubt, where we refer to Infrastructure throughout this report we are referring to investing in Infrastructure Equity rather than Infrastructure Debt.

In the first instance we recommend that the Committee undertake training on Infrastructure Equity as an asset class.

Cash & NCA

At their 7 March 2017 meeting, the Committee agreed to reduce the allocation to Oldfield Global Equity to its strategic allocation and the sum realised be held in Cash.

We note that this amount was retained as Cash to make it easier for the Committee to move the money into another fund such as Property, should it take such a view at its June 2017 meeting.

We understand that there is currently c. £20m of Cash available to invest into the Fund's invested assets.

Whilst training is undertaken on both Property and Infrastructure, we recommend that the amount be invested into the Fund's Diversified Growth Funds rather than being held as Cash

---

Recommendations

On the basis of the analysis conducted, and the feedback for the Investment Strategy workshop, the recommendations from Aon Hewitt in relation to the Fund's investment strategy are as follows:

1) Reduce the allocation to Equities by adopting the investment strategy outlined below in the short term. The allocations to the Equities funds and Diversified Growth Funds should be pro-rated and the currency hedging within the Equity allocation should remain at 50%

Asset Class	Allocation (%)	Desired Movement in Medium-Term
Global Equities*	42.0	
Emerging Market Equities	8.0	
Private Equity	5.0	Reduce as current funds wind down
Diversified Growth Funds	22.0	Decrease as proceeds required to fund Property and Infrastructure opportunities
Property	10.0	Increase as opportunities arise
Infrastructure	0.0	Increase as opportunities arise
Index-Linked Gilts	2.6	
UK Corporate Bonds	10.4	

*includes a 50% currency hedge of overseas equity market exposure within developed markets

Before any change is implemented, the Fund's Actuary should be consulted.

2) Allow the allocation to Private Equity to wind down, with no additional strategic allocation being made to the asset class.

3) Over the longer term use the proceeds from Private Equity and the increased allocation in Diversified Growth Funds to allocate further to growth-oriented Property opportunities and also to Infrastructure.

4) In the first instance, the Committee should receive training on both growth-oriented Property opportunities and Infrastructure.

5) In relation to the current level of Cash available to invest, whilst the training on Property is undertaken, we recommend that the amount be invested in the Fund's Diversified Growth Funds on a pro-rated basis.

We look forward to discussing this report with the Committee at their meeting on 28 June 2017.

Appendix 1 - Asset Returns, Volatilities & Correlations

The table below shows the 10 year expected returns, volatilities and correlations for the asset classes modelled as part of the investment strategy review.

Additional assumptions used when modelling specific asset classes are:

- Corporate bonds have been modelled as passive over 15 year AA non-gilts
- Index-linked gilts have been modelled as passive over 5 year ILGs
- Overseas equities have been modelled as 50% overseas GBP currency hedge. This is excluding the emerging market equity allocation, which is GBP currency unhedged.
- Infrastructure modelled as USD Infrastructure Total Return Hedged. This is Infrastructure equity.

DGFs modelled as 50% GARS style, 50% Capital Preservation style DGFs

	10y Return (%p.a.)	10y Risk (%p.a.)	Correlation									
	Median (GeoM)	Annual Volatility	Private Equity	Index Linked Gilts	UK Corporate Bonds	DGFs	Property	Infrastructure	Global Equities	EM Equities
Private Equity	8.2	27.5	1.00							
Index Linked Gilts	0.5	10.2	-0.05	1.00						
UK Corporate Bonds	1.5	9.9	0.00	0.48	1.00					
DGFs	5.2	9.0	0.60	0.10	0.40	1.00				
Property	5.5	12.6	0.31	-0.04	0.01	0.28	1.00			
Infrastructure	5.1	14.6	0.31	-0.01	0.02	0.27	0.21	1.00		
Global Equities	7.0	17.7	0.73	-0.08	0.00	0.72	0.41	0.39	1.00	
EM Equities	8.9	31.8	0.61	-0.07	0.02	0.67	0.35	0.30	0.82	1.00

Appendix 2 – Starting Position as at 31 March 2017 & Other Assumptions

Starting Position

The starting position for the analysis of the Fund is outlined below:

As at 31 March 2017:

- *Assets = 806.6m*
- *Liabilities* = 1,033.9m*
- *Funding level = c. 78%*

**Estimated value of the liabilities based on Aon Hewitt roll forward calculations*

Other Assumptions

- We have carried out the modelling on the technical provisions but assuming that the discount rate is based on an appropriate point on the yield curve. The basis uses best estimate inflation volatilities.
- All strategies assume that the future service accrual contributions for all employers in the Fund are spread over the years (i.e. no allowance has been made for pre-payment of accrual contributions). We have therefore used an accrual contribution rate of 20.2% in respect of Employer contributions for the entire projection period. Additionally, we have assumed the DRC payments continue to the end of the projection period, at the rate payable over 2019/20, as this was the last year for which the DRCs were provided. The DRCs provided totalled £12m, however the deficit as at the valuation date was £248m.

Appendix 3 – Asset Allocations & Key Statistics

The tables below show the asset allocations and the key statistics for the Fund's current investment strategy and the alternative strategies discussed in his report

	Current investment strategy	Reducing the equity allocation and investing proceeds into other of current growth assets		Reducing the equity allocation and investing proceeds into other of current growth assets and infrastructure			Reducing the equity allocation and investing the proceeds into matching assets (i.e. de-risking)		Recommend-ation
	B1	50% Eq C1	40% Eq C2	50% Eq D1	40% Eq D2	40% Eq D3	50% Eq E1	40% Eq E2	50% Eq F1
Global Equities (50% Developed OS GBP Hedge)	51.7%	42.0%	34.0%	42.0%	34.0%	34.0%	42.0%	34.0%	42.0%
Emerging Market Equities	10.3%	8.0%	6.0%	8.0%	6.0%	6.0%	8.0%	6.0%	8.0%
Private Equity	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
DGFs	10.0%	16.0%	21.0%	12.0%	12.0%	22.0%	10.0%	10.0%	22.0%
Property	10.0%	16.0%	21.0%	12.0%	22.0%	12.0%	10.0%	10.0%	10.0%
Infrastructure				8.0%	8.0%	8.0%			
Index Linked Gilts	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	14.6%	24.6%	2.6%
UK Corporate Bonds	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%

-%	Decreased allocation
+%	Increased allocation

	Current investment strategy	Reducing the equity allocation and investing proceeds into other of current growth assets		Reducing the equity allocation and investing proceeds into other of current growth assets and infrastructure			Reducing the equity allocation and investing the proceeds into matching assets (i.e. de-risking)		Recommend-ation
	B1	50% Eq C1	40% Eq C2	50% Eq D1	40% Eq D2	40% Eq D3	50% Eq E1	40% Eq E2	50% Eq F1
Returns Relative to Liabilities (annualised)									
10 year median relative return	4.2%	4.0%	3.8%	4.0%	3.8%	3.8%	3.5%	2.8%	4.0%
10 year median relative volatility	17.4%	16.1%	15.1%	16.1%	15.1%	15.1%	14.7%	12.5%	16.1%
Efficiency	0.24	0.25	0.25	0.25	0.25	0.25	0.24	0.23	0.25
Absolute Returns (annualised)									
10 year median absolute return	6.9%	6.6%	6.3%	6.6%	6.4%	6.3%	6.1%	5.4%	6.5%
10 year median absolute volatility	14.1%	12.6%	11.5%	12.6%	11.4%	11.4%	11.9%	10.2%	12.7%
Efficiency	0.49	0.52	0.55	0.53	0.56	0.56	0.51	0.53	0.51
Short Term Risk									
Value at Risk (VaR) over 1 year (£m)	292.1	273.4	259.0	278.9	262.1	258.4	253.9	220.7	270.8
Expected Funding in 10 years									
Median funding level in 10 years	117%	114%	112%	115%	112%	112%	108%	102%	113%
Probability of being fully funded in 10 years	60%	60%	59%	60%	59%	59%	56%	51%	59%
Years until median fully funded	5.9	6.3	6.7	6.3	6.5	6.7	7.3	9.3	6.4

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:	28 June 2017
Subject:	Property Investment Strategy
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Property Allocation Options (Aon Hewitt)

Section 1 – Summary and Recommendation

Summary

The Committee are requested to receive and consider a report from the Fund's investment advisers Aon Hewitt on Property Allocation Options 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 consider the attached report from Aon Hewitt and agree the distribution of the property allocation included in the Fund's Investment Strategy as discussed in paragraphs 3 and 4.

Section 2 – Report

1. At several of their recent meetings, specifically on 7 March 2017 when they agreed the new Investment Strategy Statement, the Committee have requested that they receive a report on Property Allocation Options. Such a report has therefore been commissioned from Aon Hewitt and is attached.

2. The Fund's current strategy includes an allocation of 10% (range 8-12%) in property and the whole of this allocation (approximately £64m) is invested in the Aviva Investors UK Real Estate Fund of Funds.

3. Earlier on the agenda the Committee are being asked to consider a review of the whole of the Investment Strategy. Most of the options being put forward for consideration include an increased allocation to property and the Committee are asked to consider the proposals in this report in the light of their earlier decision.

4. In summary, if the Committee do agree to an increased allocation to property, the Aon Hewitt recommendations are that the existing holding in the Aviva fund be retained but that any further investment in the asset class be in growth focussed strategies such as Private Rented Sector, and Value–Add and Opportunistic funds.

5. The Committee are invited to consider the attached report from Aon Hewitt and give their views on its recommendations.

Financial Implications

6. 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 financial implications arising from this report are those associated with making any strategic decisions and accepting the level of risk involved.

Risk Management Implications

7. The risks arising from investment performance 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 Date: 12 June 2017	✓	Director of Finance
Name: Noopur Talwar Date: 12 June 2017	✓	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

Aon Hewitt
Retirement & Investment

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

Date: 6 June 2017
Prepared for: Pension Fund Committee ('the Committee')
Prepared by: Aon Hewitt

Property Allocation Options

Executive Summary

We believe that a key element of a UK pension scheme's property allocation should be to core commercial property; it is a well-established asset class where our clients typically invest in funds with little or no leverage and which invest in properties that are well let in strong locations and have returns driven by income over the long term plus potential for capital growth through active asset management.

Despite being Qualified rated, we would not recommend significant divestment from the Aviva Investors UK Real Estate Fund of Funds. This investment provides the Pension Fund with a good platform to expand its property allocation into alternative property opportunities if it so wishes.

In addition, trading in and out of property results in high transaction costs (round trip costs of circa 8%) that will need to be taken into account and a Qualified rating means we believe that the manager, although not best in class, is still competent.

However, a fund of fund approach has its limitations, most notability a lack of control for an investor to set the property strategy and restricting the opportunity set or not being able to take higher conviction positions where felt to be appropriate.

We would therefore recommend that if the Committee decide to increase the allocation to property that they consider investing directly into specific funds rather than increasing their allocation to the Aviva fund of funds product.

This paper explores a number of different opportunities beyond UK core commercial property for the Committee to consider. These should be selected based on the wider investment requirements of the Pension Fund since they have very different characteristics and can offer inflation linkage, more fixed income like returns, or high returns from intensive active management and leverage.

Should our understanding of the appetite within the Committee to invest in higher return seeking property opportunities be correct, strategies such as Private Rented Sector, Value-Add and Opportunistic property funds, could be considered appropriate for increasing the Pension Fund's allocation to the asset class. These strategies, whilst having the potential for higher return, are also higher risk. Similarly, higher yield property debt could also be considered.

There is also merit in considering allocating to more income-return generating opportunities, if the Committee prefers a lower-risk approach to diversifying the Pension Fund's property allocation.

Risk. Reinsurance. Human Resources.
Verulam Point | Station Way | St. Albans | AL1 5HE
t +44 (0) 1727 888 200 | f +44 (0) 1727 888 333 | aon.com

Introduction

The investible property universe open to UK pension schemes has grown rapidly over the past few decades and increasingly schemes are allocating beyond core UK commercial property.

Today UK pension schemes can allocate to strategies which have a focus on security of income with bond-like qualities or to growth strategies which have a much greater emphasis on value creation and use leverage. In addition, it is more common and increasingly easy to invest in property outside of the UK into mainland Europe, the US and even Asia.

The breadth of opportunities means that more than ever pension schemes can tailor their property portfolios to fit their wider investment and funding objectives as well as diversifying away from being overly reliant on UK core commercial property.

This purpose of this paper is to comment on the Fund's existing property investments and introduce a number of alternative opportunities that the Committee may wish to consider if they were to expand their property allocation.

When discussing these alternative property asset classes, we have split them broadly into two categories: income focused and growth focused.

Comment on the current portfolio and fund of funds investing

The Fund's current property allocation is invested in the Aviva UK Real Estate Fund of Funds product.

This product is rated Qualified by Aon Hewitt, which means that although we have managers which we rate with higher conviction, we believe the product is fit for purpose.

The product invests across a number of specialist sector funds (industrials, retail and student housing) and diversified core property funds. This portfolio would be considered core to core plus and is UK focused.

The benefits of using a fund of funds is that an investor gains exposure to more funds and underlying properties than would be possible if they invested in funds directly; drastically reducing the governance requirement and scale needed to increase diversification. As at the 31 March 2017, the product was invested across 21 underlying funds with a combined Gross Asset Value of c. £20 billion across 915 assets.

However, the product has not had significant traction with investors and is small with a net asset value of only £167.7 million as at 31 March 2017.

There are notable downsides to using a fund of funds manager. In particular products like this one which broadly matches its benchmark in terms of sector exposure and invests across many underlying funds rather than fewer high conviction funds will, on balance, find it difficult to consistently outperform the benchmark. This is especially true given the additional layer of fees (0.2% per annum) that Aviva charges on top of the underlying fund manager fees.

As a case in point for this specific product, the manager has outperformed its benchmark by 0.3% net of all fees over the year to 31 March 2017, but underperformed by 0.7% per annum over 3 years and 0.4% per annum over 5 years.

Additionally, investors do not have any control over the product's strategy and therefore cannot easily allocate to other opportunities such as the private rental/build to rent (residential) sector, long lease funds, property debt and higher return seeking opportunistic funds, all of which we introduce later.

Investors are therefore reliant on the allocation skills of the manager where the investment focus will typically exclude (or not take material positions in) a number of opportunities where we see a strong investment case. Additionally, in many cases, the fund manager will not have the resources, mandate or skillset to consider certain strategies.

The Aviva fund has allocated to debt funds in the past, although they have been small allocations and unlikely to make a meaningful impact on overall performance. One of these debt managers was ICG-Longbow which we rate highly, although their Fund II which Aviva invested in has now returned its capital to investors.

Aon Hewitt does not directly rate and monitor all of the underlying funds that the product invests in, but we do rate all of the core funds where it has a material exposure. These are managed by BlackRock, Lothbury, Schroders, CBRE Global Investors and Aviva. The first three of these funds are buy-rated, while CBRE and Aviva are both qualified.

With the exception of the Aviva Pooled Pensions Property Fund, which we are monitoring closely following the departure of the fund manager Richard Peacock in 2016 and continued underperformance, we have no major concerns with the other core managers.

The table below summarises the key differences between investing directly in pooled funds versus via a fund of funds approach.

Key differences between investing in property via Fund of funds and directly via pooled funds

Characteristic	Fund of funds	Direct fund investments
Control over strategy	None	Total
Diversification (number of funds)	More	Less
Governance burden	Less	More
Allocation to alternative opportunities	Unlikely (where they are made, unlikely to be material position for investor which wishes to have meaningful exposure)	Possible
Liquidity*	Lower	Higher
Fees*	Higher (given overlay fee)	Lower

*on a like for like basis

Alternative property asset classes:

In this section of the report we introduce a number of alternative property-related opportunities. We categorise them between those that derive most of their return from capital appreciation, where income is less certain, and those which derive most of their inherent value and returns from their income stream. The security and nature of any income can vary greatly.

Capital Appreciation strategies that the Committee can consider include:

- **Private Rented Sector**
- **Value-add / Opportunistic Fund**

Income producing strategies that the Committee can consider include:

- **Ground rents**
- **Senior property debt**
- **Long lease property**
- **High yield property debt**

Further information on each of these, including their level of security, is included in Appendices 1 and 2, respectively.

The table below summarises the characteristics of each strategy.

Characteristics of alternative property-related opportunities

	Returns from:	Net returns (manager targets)	Explicit Inflation linkage	Closed / open ended	Leverage	Annual management charge	Time to fully invest
Core	Balanced	5%	No – some implicitly	Open	No to little (<30%)	c. 80bps	< 1 year
Ground rents	Income	4-4.5%	Yes if commercial	Open	No	20-50bps	1-2 years
Senior property debt	Income	3-8%	None	Closed	No	40-100bps+ performance fee (higher return funds only)	1-2 years
Long lease property	Income	5-6%	Yes	Open	No to little (<30%)	25 – 50bps	< 18 months
High yield property debt	Income, potential capital gain	8-10%	None	Closed	No to moderate (<50%)	125bps + performance fee	1-2 years
PRS	Balanced	6-8%	No – some implicitly	Open	No to little (<30%)	70 – 100bps	1-2 years
Value add	Mostly capital gains	9-12%	None	Closed	Low (30%) to moderate (50%)	100-150bps + performance fee	2-4 years
Opportunistic	Nearly all capital gains	14-15%	None	Closed	High (50% - 65%)	150bps + performance fee	2-4 years

Going global

Historically UK pension schemes have tended to invest in Europe if looking to invest overseas, either in core property or in opportunistic funds. Until recently it was not tax efficient to invest in the US and the wider Asian market was not sufficiently developed.

UK pension schemes can now invest across all the asset classes discussed in this paper in the UK and also overseas. DTZ estimates that only 28% of the global $29 trillion commercial real estate market is European, with North America at 45% and Asia at 22%.

Investing globally significantly increases diversification within a property portfolio. For example, the established US core funds tend to be around $20 billion in size, dwarfing any UK or European fund. They also tend to have a much greater allocation to alternative sectors such as residential and self-storage.

Although US tax rules are changing, making overseas investment in US real estate more attractive, there continues to be significant tax issues and other restrictions when considering US property. Investing in US core funds should result in minimal tax leakage though. In general, given these points and the current market cycle in the US, we would recommend that our UK clients only consider exceptional opportunities at this time. We would also add that the US and UK markets have been quite closely correlated historically.

In Asia, we prefer gateway cities in established, developed nations. On balance, however, we do not believe there is a compelling reason to invest in this region because you will need to take greater country, currency, property and political risks for little or no return gain relative to the UK or mainland Europe.

A number of international fund managers now have global direct core offerings and historically global exposure was limited to investing in listed real estate.

A major hurdle for investors investing in overseas property is the impact of currency swings which can weaken or strengthen returns.

Given the potential issues around the effects of currency and tax leakage, we tend to recommend that smaller-medium sized UK clients look to invest in the UK and Europe.

Implementation Considerations

Property is an expensive asset class to invest in with significant round trip costs. In addition there can be a substantial opportunity cost since it takes time, sometimes years, to fully invest in or exit a fund. This means that changes to an investment strategy will need to take into account these costs and weigh up if, on balance, it is the right decision to take.

Many of the opportunities we have highlighted in this paper will take time to get full exposure to, in some cases a number of years. During this period the assets allocated to the funds will have to be invested somewhere. In addition, these funds are likely to call capital at different times, rather than in one go. Managers will provide a least 10 working days' notice, but there needs to be a governance structure in place to deal with capital calls and also distributions once invested.

Property debt and value-add/opportunistic property can only be accessed via closed-ended fund structures. Closed-ended funds exist because they give the manager certainty over the amount of cash they have to invest and also allow the manager to get on with the execution of business plans without the worry of redeeming investors.

This is a benefit to investors; however, the drawback is that liquidity is very low, although investors will have ability to sell their interest in the fund on the secondary market or to other investors in the fund. However this might not be possible and the price an investor would achieve is uncertain at the outset.

The life of these funds will vary, but will typically be 7 years from the final close. Many of these funds will also have higher fees compared to core real estate funds, albeit while targeting much higher returns.

Closed-ended funds will also have minimum investment sizes, typically around £10 million, although managers might waiver this and we have seen managers accept £5 million.

Recommendation

In our opinion, UK pension schemes should have a sizeable allocation to core UK commercial property, before they consider alternative asset classes.

For this reason and because of the high transaction costs associated with moving property allocations we would not recommend that the Fund divests entirely from the Aviva UK fund of funds product and that a material exposure is maintained.

We do, however, believe that there are compelling alternative property opportunities that should be considered.

With the long time horizons of the Pension Fund and the particular interest of the Committee in property investments, investing in growth focused strategies, such as Private Rented Sector, Value-Add and Opportunistic property funds, could be considered appropriate. These strategies, whilst higher risk, also have the potential for higher return. Similarly, higher yield property debt could also be considered.

These strategies cannot be accessed easily via a fund of funds product and even if they are, the manager is unlikely to have the resources or capabilities to successfully choose the best managers. However, we would recommend that any allocation to these strategies is diversified by style and vintage.

Appendix 1 - Growth focused property strategies

Below are details of capital appreciation oriented property strategies that the Committee can consider, as listed in the main report.

Private Rented Sector (6 to 8% net IRR)

The private rented sector (PRS) is a new asset class in the UK which typically invests in large, purpose-built residential buildings let to individuals on short term tenancies. Currently, the majority of landlords in the UK are buy-to let investors owning a few homes and institutional investors only make up a few percent of the UK housing stock.

This is in stark contrast to Europe and America where institutional investors typically own between 15 and 50% of the residential letting pipeline. Since there is not much existing purpose built PRS stock in the UK, funds are looking to develop new schemes which are typically around 75 to 250 units in size.

The managers of these funds have a clear vision as to how PRS should be run in the UK, adapting models seen in the US and Europe. These typically include providing concierges, having full control over the fittings of the units, including green spaces and amenities and helping create fit for purpose property managers.

The majority of the funds do not take planning, construction or development risk and the only risk they take is the letting risk once these buildings are complete.

PRS is looking compelling because of the supply and demand dynamics across the country; especially in the South of England where house price to earnings ratios are at record highs and the average age of a first time buyer is now around 35. This means more people are renting than they were at the start of the millennium and this is creating upward pressure on rents.

Although these managers are looking to create a premium product relative the existing rented housing stock which is often poorly managed and kept, they are not charging a premium on their rents.

The majority of the return is expected to come from rental income and from rental income growth and managers who are targeting 6-8% net returns are doing so with modest leverage. Historically residential rental growth has been a much better match for inflation than commercial properties.

These are open ended funds, but this has been a popular asset class. Queues into funds have increased and because the properties are being purpose built, the time to be fully drawn down is around 12 to 24 months depending on the fund.

CLASSIFICATION – Medium risk, provide diversification and have a role in a client's growth portfolio; therefore similar to UK core commercial property.

Value-add / Opportunistic Funds (10 – 15% net IRRs)

Unlike core funds, value add and opportunistic managers look to purchase assets that have been historically undermanaged and look to create value through intensive asset management or repositioning of the asset and then sell them for a significant capital gain. These funds will use leverage to enhance returns.

Value-add funds typically take less risk than opportunistic funds. They tend to create value through asset management and look to create a better quality property that can then be let at a higher rent. These assets could be shopping centres or offices and the manager will target assets that historically have been poorly managed. In many cases the assets will continue to be largely income producing while the work is being carried out. Once the asset management and the business plan are complete the manager will sell the asset.

Opportunistic funds take greater risk than value-add focused funds. As well as asset management of properties, they will also undertake high risk projects such as speculative development or buying operational business backed by real estate. Opportunistic managers will also tend to use more leverage and nearly all the return is expected to come from capital gain rather than income.

When investing in opportunistic managers, investors should ideally do so by spreading their allocation over different vintages (year of the fund launch).

These funds are structured as closed-ended funds with limited liquidity and fund lives of around 10 years.

CLASSIFICATION – Higher risk, but with the opportunity to generate very attractive returns which will be driven largely by capital gains.

Appendix 2- Income focused property strategies

Below are details of income producing property strategies that the Committee can consider, as listed in the main report.

Ground rents (4 to 4.5% net IRR)

The owners of residential and commercial ground rents effectively own the land and receive a rent from the owner of the building on the land. The lease length is usually between 99 to 999 years.

The rent paid usually increases in a clearly defined way at set times in the future. For residential ground rents this might be the ground rent payable doubling every 20 years or increasing by a fixed amount every 5 years or even being linked directly to RPI, again reviewed periodically.

Commercial ground rents might be structured to be linked to inflation, RPI or CPI, typically with a cap and collar, and might increase every year or every five years.

Ground rents are highly secure in the sense that they are extremely well collateralised; i.e. the capital value and associated income stream of the ground rent are significantly smaller than the capital/rental value of the underlying property which it is secured against. By way of example, for residential ground rents, the value of the actual leasehold dwelling is typically around 25 to 30 times higher than the value of the associated ground rent. For commercial ground rents, you would typically see capital value cover of 3 to 5 times.

It is highly unlikely that the ground rent would not be paid as the beneficiary (i.e., owner/mortgagee) of the subordinate interest would risk losing ownership that could theoretically be forfeited in the event of non-payment of rent. This would result in a large windfall for the owner of the ground rent. It is because of this that ground rents are always paid.

Because of their long duration and security they are well sought after by institutional investors and are very hard to source. It also takes time to build up a ground rent portfolio.

Dedicated funds do exist, but it is most likely that investors would gain exposure via a long income fund which would target some exposure commercial ground rents.

CLASSIFICATION - we would classify ground rents as very secure investments.

Senior property debt and property whole loans (3% to 8% net IRRs)

Before 2008 practically all of the commercial property financing in the UK was from banks. This all changed after the financial crisis as banks retreated from the market and looked to work out the bad loans on their balance sheets. In addition, banking regulation changes have made it more challenging for banks to lend against certain types of properties and for loans where the borrower wishes to borrow more than 60-65% of the value of the property.

This has created an opportunity for institutional investors, mostly insurance companies and pension schemes, to step in and provide debt for refinancing and new acquisitions. There are now a number of established real estate debt fund managers who are regularly launching funds available for institutional investors in this space.

Senior debt and whole loans debt strategies are essentially first charge mortgages, where the loans are secured on the underlying properties. This means in the unlikely case that a borrower defaults, the lender has the right to step in and take over the property and sell it to recover the loan interest and capital. The loans will also have covenants in place to protect the lender before a default occurs and will include the ability to sweep all the cash (i.e. rent) from the underlying property into a reserve account to ensure that interest and capital repayment obligations are met.

In terms of definition, senior loans typically have a loan to value up to 60-65% while whole loans, although still a first mortgage, have a higher loan to value, up to around 75-80%. This means that for a whole loan, property values would need to fall by around 20% before the loan is at risk of a write-down.

Net IRRs are around 3 to 5% for senior loans and 6 to 8% for whole loans. The returns are driven by the quarterly payable coupon; however there are other fees which will benefit investors, including arrangement and exit fees. Because these are bilateral loans, they are not marked to market, and instead are held at par value unless impaired.

Property debt is currently looking very attractive from a returns perspective compared to UK core property.

These funds are structured as closed-ended limited partnerships which are well suited as a vehicle for holding real estate debt investments with limited liquidity and a life of typically 7 to 8 years.

CLASSIFICATION – we would classify senior debt as very secure and whole loans as secure

---

Long lease property (c. 5% to 6% net IRR)

Long lease property funds have grown in popularity and size since their launch around a decade ago; the main pooled funds available are today between £1 and £3 billion in size.

They are very core like in the types of buildings they acquire, but the popularity of these funds with pension schemes is due to the fact that underlying properties are let on 20 year plus leases to investment grade tenants with explicit inflation linkage. These funds are often considered as alternative matching assets given their long characteristics; although they will not change value in the same way as an index linked gilt would and therefore are not a true LDI matching asset.

These funds will predominantly invest in long leases, although they can invest in other long secure income assets including ground rents. In addition to providing explicit inflation linkage, they will invest in sectors such as government or local authority buildings, healthcare, leisure, hotels and supermarkets and can therefore offer some diversification benefits relative to a typical core fund.

Since inception, these funds have broadly produced returns in line with the wider commercial property market, but with less volatility. They are open ended funds however due to their popularity historically it has taken around

9 to 18 months to be fully invested.

CLASSIFICATION – whilst these assets generally provide secure income cash flows which are typically linked to inflation, capital value growth will still have correlation with the wider property market albeit with less volatility.

Higher yield property debt (8 to 10% net IRR)

High yield property debt shares many of the same characteristics of senior debt/whole loans discussed earlier; however the funds and loans differ in a number of important ways and this asset class could also have been placed in the next section which discusses growth assets.

These funds will invest in mezzanine debt, which although more senior than equity, ranks behind the senior lender in terms of security – they do not have a first charge on the property. The senior lender for example might have a loan to value of 65%, while the mezzanine lender will have provided finance to the borrower for 65% to 80% of the property's value. This means that if the property value falls by 35% the mezzanine investor will have lost all of their capital. However, if the property falls 20%, only the equity investor will lose their money.

To compensate for this greater amount of risk, a mezzanine investor requires more return and this is reflected in a higher coupon and also greater ancillary fees for arranging the loan.

Higher yielding funds might also invest in high yielding senior bridge loans, use leverage or structure loans to participate in the upside of the property.

Because of the higher risk nature of mezzanine investing, we would recommend that mezzanine funds make up part of a wider debt portfolio which also allocates to whole loans.

These funds are structured as closed-ended funds with limited liquidity and fund lives of around 7 to 8 years.

CLASSIFICATION – Higher risk, but with reasonable downside protection with the target return significantly underpinned by the property's rental cash flow.

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:	28 June 2017
Subject:	**Information Report -** London Borough of Harrow Pension Fund: Draft Annual Report and Financial Statements for the year ended 31 March 2017
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards Affected:	All
Enclosures:	Appendix – London Borough of Harrow Pension Fund: Draft Annual Report and Financial Statements for the year ended 31 March 2017

Section 1 – Summary and Recommendation

Summary

This report presents the draft Pension Fund Annual Report and Financial Statements for the year ended 31 March 2017 on which the Committee's comments are invited.

Section 2 – Report

1. Attached is the draft Pension Fund Annual Report and Financial Statements for the year ended 31 March 2017.

Harrow COUNCIL LONDON

2. The audit of the Accounts by KPMG LLP will commence in July and approval will be sought as part of the Council's overall Accounts from Governance, Audit, Risk Management and Standards Committee on 5 September 2017. The Committee will be updated on progress at their next meeting on 18 September 2017.

3. To assist in the Committee's consideration they are advised of the following key points:

<u>Introduction (Page 3) and Fund Performance (Page 10)</u>

During the year the net assets of the Fund increased from £661.0m to £806.6m.

The Committee have been advised that the performance measurement service previously provided by State Street Global Services, which included an annual report on the Fund's performance, would not be available after 31 March 2016. Along with most other administering authorities of the Local Government Pension Scheme (LGPS) the Fund has signed up to a similar but less extensive service being provided by Pensions and Investment Research Consultants (PIRC). Performance information included in the Director's comments and the "Fund performance" paragraphs is therefore limited but the Fund has been advised that out of the PIRC universe of 61 LGPS funds the Harrow annual return performance has been as follows:

	Annual Performance (%)	Percentile
1 year	22.4	24
3 years	11.4	34
5 years	11.1	26

<u>Audit Statement (Page 4)</u>

To be provided in September 2017.

<u>Accounts for year ended 31 March 2016 (Page 16)</u>

	£m
Contributions by members and employers including transfers	- 32.6
Benefits paid including transfers	33.6
Investment income	-10.3
Management expenses (including fees charged by investment managers of £4.0m)	5.2
Increase in market value of investments	-141.6

Scheme Overview (Page 19)

Number of pensioners showing an increase from 5,087 in 2013-14 to 5,557 in 2016-17.
Number of deferred pensioners showing an increase from 6,023 in 2013-14 to 6,912 in 2016-17.
Number of active members remaining relatively stable at 5,582 in 2013-14 and 5,644 in 2016-17.

The Fund continues to mature in that benefit payments exceed contributions. This trend towards maturity can be expected to continue as the number of pensioners grows and active membership either stabilises or falls. However, when investment income is taken into account, cashflow remains positive. The impact of stable membership, longevity and pension increases will steadily increase future cash outflows which, in the longer term, may have to be factored into the investment strategy. Discussions with the Actuary on longer term cashflow modelling are ongoing and will be reported to the Pension Fund Committee on 28 June 2017.

4. The appendices to the Accounts have, as appropriate, been reviewed by the Committee during the last few months.

Financial Implications

5. Whilst this report discusses all aspects of the financial standing of the Pension Fund there are no financial implications arising directly from it.

Legal Comments

6. Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires that an administering authority must produce an annual report containing certain specified matters. The report must be published before 1 December of the scheme year end.

Risk Management Implications

7. All risks are included within the Pension Fund Risk Register.

Equalities implications

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

Council Priorities

9. The financial health of the Pension Fund directly affects the resources available for the Council’s priorities

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 6 June 2017	✓	Chief Financial Officer
Name: David Hodge Date: 7 June 2017	✓	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

London Borough of Harrow Pension Fund

Annual Report and Financial Statements for the year ended 31 March 2017

Harrow COUNCIL LONDON

CONTENTS

INTRODUCTION

The main purpose of the Pension Fund Annual Report is to account for the income, expenditure and net assets of the London Borough of Harrow Pension Fund ('the Fund') for the financial year to 31 March 2017. This Report also explains the administration and management of the Fund and its investment and funding policy objectives and asset allocation, as well as highlighting market and Fund performance.

Information about the economic resources controlled by the Fund is provided by the Net Assets Statement. The actuarial funding level is reported in Note 20 and in the Statement of the Consulting Actuary on page 48.

The Pension Fund Committee is responsible for overseeing the management, administration and strategic direction of the Fund. The Committee regularly reviews the Fund's investment strategy seeking to achieve appropriate returns within acceptable risk parameters. This in turn minimises the amount the Council and other employers will need to make in contributions to the Fund to meet future liabilities.

During 2016-17, all the major asset classes, particularly global equities, performed well and the Fund's overall investment return was 22.4%

The net assets of the Fund as at 31 March 2017 were £806.6m compared to £661.0m as at 31 March 2016. The Fund is ranked in the top quarter of the local authority annual league table of investment returns for the year.

Dawn Calvert - CPFA
Director of Finance
XX June 2017

Independent auditor's report to the members of the London Borough of Harrow on the pension fund financial statements published with the Pension Fund Annual Report

SCHEME MANAGEMENT AND ADVISORS

Administering Authority	London Borough of Harrow
Pension Fund Committee	Councillor Nitin Parekh (Chair) Councillor Bharat Thakker (Vice Chair) Councillor Josephine Dooley Councillor Norman Stevenson
Independent Advisers	Colin Robertson Richard Romain
Co-optee	Howard Bluston
Trade Union Observers	John Royle - UNISON Pamela Belgrave - GMB
Officer	Dawn Calvert, Director of Finance
Actuary	Hymans Robertson LLP
Investment Consultant	Aon Hewitt Limited
Investment Managers	Aviva Investors Global Services Limited BlackRock Investment Management (UK) Limited GMO LLC Insight Investment Longview Partners Oldfield Partners Pantheon Ventures Record Currency Management Limited Standard Life Investments State Street Global Advisors Limited
AVC Providers	Clerical Medical Equitable Life Assurance Society Prudential Assurance
Custodian	JP Morgan
Auditor	KPMG LLP
Performance Measurement	Pensions and Investment Research Consultants
Bankers	The Royal Bank of Scotland

GOVERNANCE ARRANGEMENTS

The Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund. The Committee met four times during the year. It comprises four Councillors with full voting rights and a non-voting co-optee. Representatives from the trade unions are able to participate as observers of the Committee but do not have voting rights.

The Pension Fund Committee has the following terms of reference:

1) to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the Fund), save for those matters delegated to other Committees of the Council or to an Officer;

2) the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;

3) to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;

4) to establish a strategy for the disposition of the pension investment portfolio;

5) to appoint and determine the investment managers' delegation of powers of management of the fund;

6) to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulation 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers;

7) to apply the arrangements set out in (6) above to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups;

The Committee is advised by two independent advisers and an investment consultant.

The dates of the Pension Fund Committee meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:
http://www.harrow.gov.uk/www2/mgCommitteeDetails.aspx?ID=1297

The Local Pension Board assists the Council and the Pension Fund Committee in the administration of the Fund. In particular it oversees:

a) the effectiveness of the decision making process
b) the direction of the Fund and its overall objectives
c) the level of transparency in the conduct of the Fund's activities
d) the administration of benefits and contributions

INVESTMENT POLICY AND PERFORMANCE

Investment Market Commentary (provided by Aon Hewitt Limited, April 2017)

Global equities rebounded strongly following a tumultuous start to 2016, with the MSCI AC World Index returning 17.0% over 12 months in local currency terms. The UK economy proved to be resilient after the surprise Brexit vote in the EU referendum and economic conditions improved across many regions whilst Donald Trump's win in the US presidential election further boosted optimism in the US economy towards the end of the year. A pick-up in inflation across many regions from summer 2016 spurred a rotation from bond markets into equity markets, although bond markets rallied once more in Q1 2017.

As widely expected after Trump's win, the US Federal Reserve raised the target federal funds rate by 25bps to 0.50-0.75% in December. A further 25bps hike to 0.75-1.00% was announced in March 2017. In contrast, monetary policy eased in other major countries as the Bank of England (BoE), the European Central Bank and the Bank of Japan all pursued greater monetary easing, utilising a combination of lower policy rates and extended quantitative easing.

Commodity prices recovered from 2016 lows over the period. The price of Brent crude oil moved higher as global growth prospects improved and gathered further pace upon OPEC's decision to cut production late in 2016. However, the swift increase in supply from US shale oil producers in response to the higher oil price drove US inventories higher which kept a cap on oil prices. Other commodities also rallied over the period as supply/demand conditions improved.

UK gilt yields fell dramatically up until the summer of 2016, with an acceleration following the Brexit result and subsequent monetary easing undertaken by the BoE. From August, however, there was a turnaround in gilt yields as inflation expectations increased. This upward yield move reversed somewhat in 2017 as the reflation trade lost momentum with UK yields trending lower with other markets.

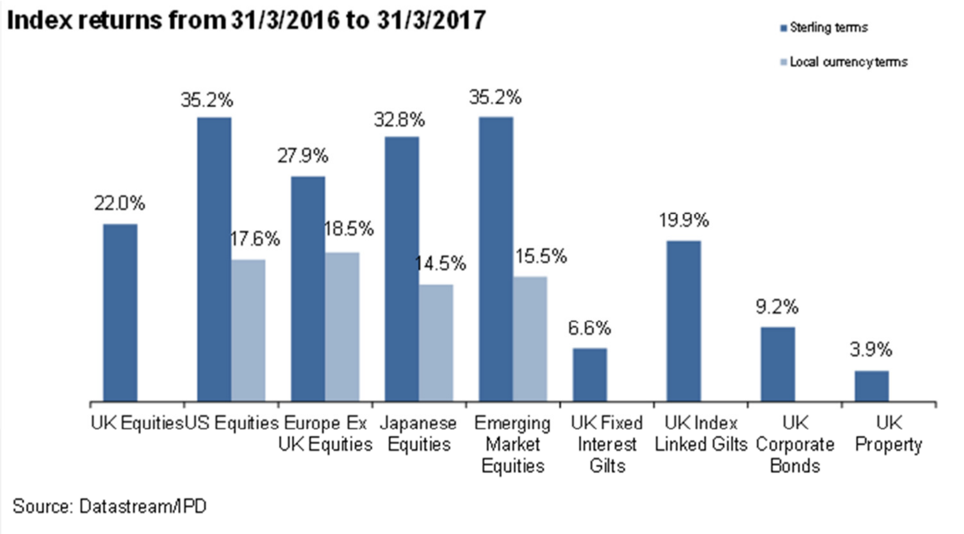
Sterling depreciated sharply on the back of the EU referendum result and renewed monetary easing. Consequently, the MSCI All Country World index returned a huge 32.2% in sterling terms. The US dollar, on the other hand, appreciated on a trade-weighted basis.

UK investment grade corporate bond spreads narrowed by 34bps to end the first quarter of 2017 at 128bps following better than expected economic data and the BoE's extension to corporate bonds in its asset purchasing programme.

UK property returns remained positive over the period despite concerns over the impact of Brexit on the commercial real estate market. Capital values have recovered but remain below pre-Brexit levels. The IPD Monthly Index returned 3.9% over the 12 month period to March 2017.

UK equities rose, posting a return of 22.0% over the 12 months to March 2017 – the most by any region in local currency terms. This was despite the volatility caused by the Brexit vote and the uncertainty of its future impact on the UK economy. Many companies listed on the UK stock exchange earn overseas revenues and the outperformance of these stocks provided a major lift to large cap stocks.

US equities outperformed other regions in sterling terms (35.2%). Macroeconomic data was positive especially in the second half of 2016, whilst prospects of fiscal spending under the new US administration bolstered the equity market. A strong earnings season in early 2017, especially for financials, was also supportive. Unhedged returns were boosted by US dollar strength as US monetary policy tightened.



Investment Policy

The objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The sums required to fund these benefits and the amounts actually held (ie the funding position) are reviewed at each triennial actuarial valuation, or more frequently as required.

The assets of the Fund are invested with the primary objective being to achieve a return that is sufficient to meet the funding objective, subject to an appropriate level of risk and liquidity. Over the long-term it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

Related objectives are to seek to minimise the level and volatility of employer contributions necessary to meet the cost of pension benefits.

The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme Regulations. Their activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Committee is satisfied that the appointed fund managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, have sufficient expertise and experience to carry out their roles

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks

The Committee aims to achieve its investment objective by maintaining a high allocation to growth assets, mainly equities, reflecting the security of the sponsor's covenant, the funding level, the long time horizon of the Fund and the projected asset class returns and volatility. Diversifying investments reduces the risk of a sharp fall in one particular market having a substantial impact on the whole Fund.

In the light of the 2016 actuarial valuation and the review of the Funding Strategy Statement the Investment Strategy will be reviewed in detail during 2017-18.

The following table compares the actual asset allocation as at 31 March 2017 to the agreed allocation

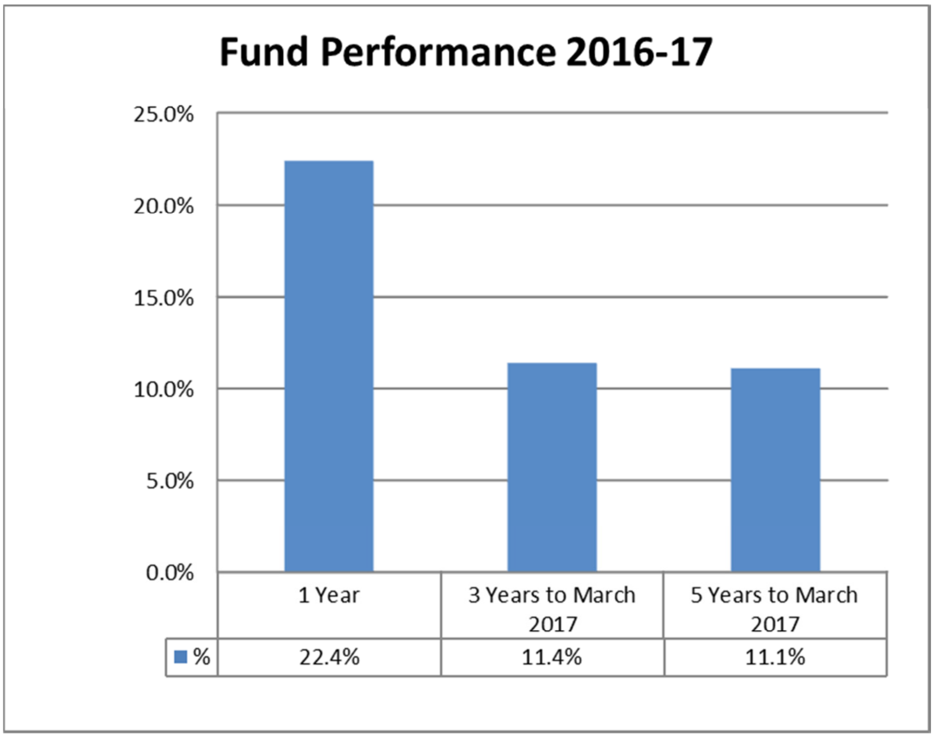
Investment assets	Actual Percentage of Fund	Agreed Allocation
	%	%
Global equities-passive	33	31
Developed world equities-active	21	21
Emerging markets equities-active	12	10
Fixed interest securities	10	10
Index-linked securities	3	3
Private equity	2	5
Cash	4	0
Forward currency contracts	0	0
Diversified growth funds	7	10
Pooled property	8	10
Total	**100**	**100**

The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with them. The Fund's ten managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and also performance related fees.

Fund performance

The Fund previously used State Street Global Services as its independent investment performance measurement consultant. However, State Street ceased to provide this service after 31 March 2016 and during 2016/17 the Fund has contracted with Pensions and Investment Research Consultants (PIRC) to provide a similar service and this is currently being developed.

Investment returns over 1, 3, and 5 years are shown below.



The Fund’s return of 22.4% during 2016-17 was due to positive returns from all it’s investments and in particular to outstanding performance from the global equities and UK bonds mandates.

Although the Fund, in common with all other LGPS funds, has its own unique benchmark and investment strategy, over the medium term it is reasonable to compare performance with other funds.

The fund has been in the top third of the 61 funds included in the PIRC benchmark for 1, 3 and 5 years performance.

STATEMENTS AND PUBLICATIONS

Governance Compliance Statement
The Local Government Pension Scheme Regulations 2013, Regulation 55 requires all administering authorities to produce a Governance Compliance Statement. This Statement must set out whether the Administering Authority delegates its function and, if so, what the terms, structure and operation of the delegation are. The Administering Authority must also state the extent to which a delegation complies with guidance given by the Secretary of State. The current Statement was agreed by the Pension Fund Committee on 7 March 2017 and can be found as Appendix 1.

Communications Policy Statement
The Local Government Pension Scheme Regulations 2013, Regulation 61 requires all administering authorities to produce a Communications Policy Statement. This statement sets out the Fund's strategy for communicating with members, members' representatives, prospective members and employing authorities, together with the promotion of the Scheme to prospective members and their employing authorities. The current Statement was agreed by the Pension Fund Committee on 7 March 2017 and can be found as Appendix 2.

Local Government Pension Scheme Guide
A brief guide to the Local Government Pension Scheme can be found as Appendix 3

Investment Strategy Statement
Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

This Statement provides details of the Fund's investment policies including:

- The suitability of particular investments;
- The choice of asset classes, and
- Approach to risk.

The Statement also details the Fund's compliance with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners Principles to the management of LGPS Funds'.

The current Statement agreed by the Pension Fund Committee on 7 March 2017 can be found as Appendix 4.

Funding Strategy Statement
Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013 requires all administering authorities to produce a Funding Strategy Statement. The purpose of the Funding Strategy Statement is to explain the funding objectives of the Fund, in particular:

- How the costs of the benefits provided under the LGPS are met through the Fund;
- The objectives in setting employer contribution rates; and
- The funding strategy that is adopted to meet these objectives.

The Funding Strategy Statement is reviewed every three years at the same time as the triennial actuarial valuation of the Fund. An interim review of the Statement may be carried out and a revised Statement published if there has been a material change in the policy matters set out in the Statement or there has been a material change to the Investment Strategy Statement. The current Statement agreed by the Pension Fund Committee on 7 March 2017 can be found as Appendix 5.

RISK MANAGEMENT

The Fund's primary long term risk is that the assets will fall short of its liabilities (i.e. promised benefits payable to members). The Pension Fund Committee is responsible for managing and monitoring risks and ensuring that appropriate risk management processes are in place and are operating effectively. The aim of risk management is to limit risks to those that are expected to provide opportunities to add value.

The most significant risks faced by the Fund and the procedures in place to manage these risks are described below:

Governance and Regulatory Risk

The failure to exercise good governance and operate in line with regulations can lead to financial as well as reputation risk. These risks are managed through:

- Decisions are taken by the Pension Fund Committee in the light of advice from the Investment Adviser and officers;
- Regular reviews of the Investment Strategy Statement and Funding Strategy Statement that set out the high level objectives of the Fund and how these will be achieved;
- Tailored training for members;
- Reviews of the Pension Fund Committee agenda and papers by Harrow's Legal Department; and.
- Establishment of the Pension Board.

Sponsor Risk

The Fund is currently in deficit and achieving a fully funded status may require the continued payment of deficit contributions. The Actuary reviews the required level of contributions every three years. To protect the Fund and the Administering Employer, bonds and other forms of security are re quired from some of the Admitted employers.

Investment Risk

The Fund is invested in a range of asset classes as detailed in Note 14. This is done in line with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which require pension funds to invest any monies not immediately required to pay benefits. These Regulations require the formulation of an Investment Strategy Statement which sets out the Fund's approach to investment including the management of risk. The predominant asset class is listed equities, which has both a greater expected return and volatility than the other main asset classes. Potential risks affecting investments include:

<u>Pricing Risk</u>
The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, the value of the Fund's investments increased by 22% in 2016-17 compared to decreasing by 3% in the previous year. Most of the price changes relate to the value of global equities. Changes of a similar magnitude are possible in future.

Procedures in place to manage the volatility of investments include:

- Diversification of the investments between asset classes and geographical areas to include fixed interest and index linked bonds, property, multi assets mandates and private equity. The investment strategy is reviewed by the Pension Fund Committee and market conditions are reviewed to monitor performance at every meeting to determine if any strategic action is required;
- Global equities are managed by three active managers and one passive manager and diversified growth funds by two managers to reduce the risk of underperformance against benchmarks. The Investment Adviser provides quarterly reports on the performance and skills of each manager to the Pension Fund Committee; and
- The benefit liabilities are all Sterling based and to reduce the currency risk from non Sterling investments, 50% of the overseas currency exposures are hedged to Sterling.

Liquidity Risk
Investments in some asset classes e.g. private equity and property can be illiquid in that they cannot be realised at short notice. Around 10% of Harrow's Fund is in illiquid assets. This is deemed appropriate for a fund that continues to have a positive cashflow. All cash balances are managed in accordance with the Council's Treasury Management Strategy Statement and are all currently on overnight deposit and readily accessible.

Counterparty Risk
The failure by a counterparty, including an investee company, can lead to an investment loss. This risk is mainly managed through wide diversification of counterparties and also through detailed selection of counterparties by external fund managers.

Actuarial Risk

The value of the liability for future benefits is affected by changes in inflation, salary levels, life expectancy and expected future investment returns. Although there are opportunities to use financial market instruments to manage some of these risks, the Pension Fund Committee does not currently believe these to be appropriate. Recent changes to the benefits structure have reduced some of these risks. All are monitored through the actuarial valuation process and additional contributions required from employers should deficits arise.

Operational Risk

Operational risk relates to losses (including error and fraud) from failures in internal controls relating to investment managers and internally e.g. administration systems.

Controls at external fund managers are monitored through the receipt of audited annual accounts for each manager together with annual assessments of the control environment including reviews of internal controls reports certified by reporting auditors.

Controls within the Administering Authority are reviewed by Harrow's Internal Audit Team.

CONTACTS

Registered Address	Pensions Team London Borough of Harrow 3rd Floor South Wing, Civic Centre, Harrow, HA1 2XF
Administration Enquiries	Email address: Pension@harrow.gov.uk Telephone Number: 020 8416 8087 Website: www.harrowpensionfund.org
Complaints and Advice	The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB Telephone Number: 0300 123 1047 Website: www.pensionsadvisoryservice.org.uk The Pensions Regulator Napier House Trafalgar Place Brighton BN1 4DW Telephone Number: 0345 6000707 Website: www.thepensionsregulator.gov.uk The Pensions Ombudsman 11 Belgrave Road London SW1V 1RB Telephone Number: 0207 630 2200 Fax Number: 0207 821 0065 Email: enquiries@pensions-ombudsman.org.uk Website: www.pensions-ombudsman.org.uk
Tracing Service	The Pension Tracing Service Tyneview Park Whitley Road Newcastle Upon Tyne NE98 1BA Telephone Number: 0800 122 3170 Website: www.gov.uk/find-lost-pension

STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Director of Finance;

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- To approve the Financial Statements.

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this Statement of Accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code of Practice on Local Authority Accounting;

- Kept proper accounting records which were up to date; and

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these Financial Statements present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2017 and its income and expenditure for the year then ended.

Dawn Calvert – CPFA
Director of Finance
XX June 2017

Harrow Pension Fund Account for the year ended 31 March 2017

2015/16 £'000		Notes	2016/17 £'000
	Dealings with members, employers and others directly involved in the fund		
(28,333)	Contributions	7	(29,938)
(5,839)	Transfers in from other pension funds	8	(2,659)
(261)	Other income		0
(34,433)			**(32,597)**
31,265	Benefits	9	31,789
3,239	Payments to and on account of leavers	10	1,832
0	Other Expenditure		18
34,504			**33,639**
71	**Net (additions)/withdrawals from dealings with members**		**1,042**
4,630	Management expenses	11	5,228
	Return on investments		
(10,425)	Investment income	12	(10,250)
19,568	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	(141,595)
9,143	Net return on investments		**(151,845)**
13,844	Net (increase)/decrease in the net assets available for benefits during the year		(145,575)
(674,845)	Opening net assets of the scheme		(661,001)
(661,001)	Closing net assets of the scheme		**(806,576)**

Net Assets Statement as at 31 March 2017

31 March 2016 £'000		Notes	31 March 2017 £'000
	Investment assets		
654,554	Investments	14	774,817
878	Derivative contracts	14	2,015
44	Cash with investment managers	14	52
655,476			**776,884**
11,485	Cash deposits	14	30,914
666,961			**807,798**
	Investment liabilities		
(7,266)	Derivative contracts	14	(2,256)
659,695			**805,542**
2,069	Current assets	21	1,374
(763)	Current liabilities	22	(340)
661,001	**Net assets of fund available to fund benefits at the period end**		**806,576**

The accounts summarise the transactions of the Fund and deal with the net assets. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund year. The actuarial present value of promised retirement benefits is disclosed at note 20.

Dawn Calvert – CPFA
Director of Finance
XX June 2017

Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2017

NOTE 1: DESCRIPTION OF FUND

The Harrow Pension Fund ('the Fund') is part of the Local Government Pension Scheme ("LGPS") and is administered by the London Borough of Harrow. The Council is the reporting entity for the Fund.

a) General

The Scheme is governed by the Public Service Pensions Act 2013.

The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme designed to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Harrow Pension Fund Committee, which is a committee of the Council.

b) Membership

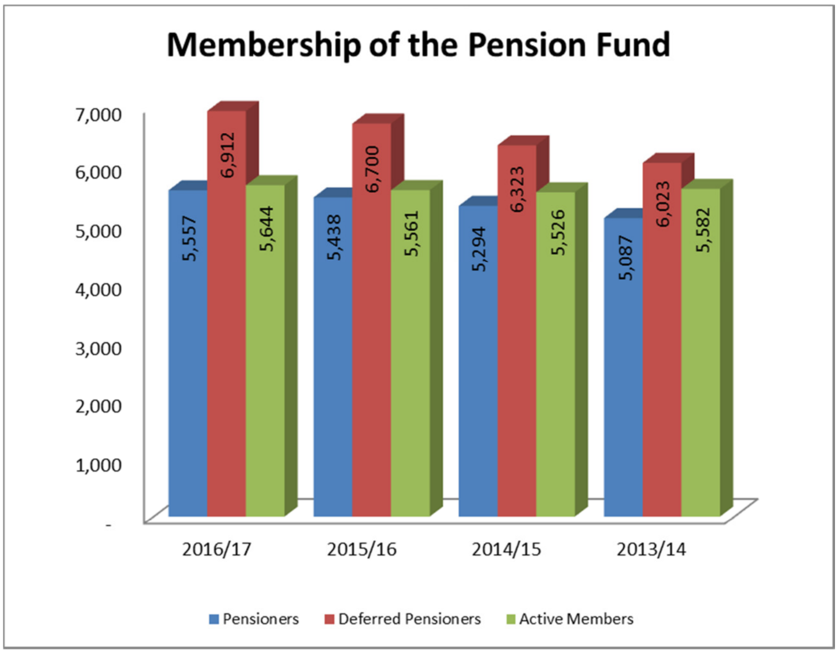
Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Fund include the following:

- **Scheduled bodies:** These are the local authority and similar bodies whose staff are automatically entitled to be members of the Fund.

- **Admitted bodies:** These are other organisations that participate in the Fund under an admission agreement. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing.

- There are 32 employer organisations within the Harrow Pension Fund including the Council itself, as detailed below.



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	5,179	5,749	4,109	15,037	83.01
Harrow College	Scheduled Body	148	274	147	569	3.14
St Dominic's College	Scheduled Body	35	30	57	122	0.67
Stanmore College	Scheduled Body	72	150	69	291	1.60
Alexandra School	Scheduled Body	1	8	22	31	0.17
Avanti House Free School	Scheduled Body	0	5	45	50	0.28
Avanti School Trust	Scheduled Body	0	0	5	5	0.03
Aylward Primary School	Scheduled Body	0	11	76	87	0.48
Bentley Wood School	Scheduled Body	7	65	65	137	0.76
Canons High School	Scheduled Body	7	48	99	154	0.85
Harrow High School	Scheduled Body	7	48	60	115	0.63
Hatch End School	Scheduled Body	15	132	76	223	1.23
Heathland and Whitefriars School	Scheduled Body	4	25	181	210	1.16
Krishna Avanti Primary School	Scheduled Body	0	10	18	28	0.15
Nower Hill High School	Scheduled Body	11	116	128	255	1.41
Park High School	Scheduled Body	4	55	96	155	0.86
Pinner High School	Scheduled Body	0	0	23	23	0.13
Rooks Heath College	Scheduled Body	9	53	114	176	0.97
St Bernadette's School	Scheduled Body	0	0	30	30	0.17
St Jerome School	Scheduled Body	0	0	8	8	0.04
Salvatorian College	Scheduled Body	6	47	40	93	0.51
The Jubilee Academy	Scheduled Body	0	10	17	27	0.15
NLCS	Community Admission Body	30	39	70	139	0.77
Birkin	Transferee Admission Body	0	2	7	9	0.05
Carillion Services	Transferee Admission Body	19	27	45	91	0.50
Chartwells	Transferee Admission Body	1	4	14	19	0.10
Engie (Cofely)	Transferee Admission Body	0	1	2	3	0.02
Govindas	Transferee Admission Body	0	0	5	5	0.03
Granary Kids	Transferee Admission Body	1	2	0	3	0.02
Linbrook Services	Transferee Admission Body	0	1	4	5	0.03
Sopria Steria	Transferee Admission Body	1	0	9	10	0.06
Taylor Shaw	Transferee Admission Body	0	0	3	3	0.02
	Total	5,557	6,912	5,644	18,113	100

c) Funding

Full-time, part-time and casual employees, where there is a mutuality of obligation and who have a contract of more than three months, are brought into the Fund automatically but have the right to "opt out" if they so wish. Casual employees with no mutuality of obligation are not eligible for membership.

Employee contribution rates are set by regulations and are dependent upon each member's full time equivalent salary. Employee contributions attract tax relief at the time they are deducted from pay.

Employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund. Employer contribution rates are reviewed as part of the triennial actuarial valuation. The last valuation took place as at 31 March 2016 and showed that the Fund was 74% funded. The deficit is to be recovered by additional employer contributions over the course of 20 years.

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. Currently almost all, employer contribution rates fall within the range 20.1% to 31.4% of pensionable pay with the largest employers paying between 21.4% and 22.5%.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

From 1 April 2014, the Scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in each year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, refer to the 'Brief Guide to the Local Government Pension Scheme' attached as Appendix 3.

NOTE 2: BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its position as at 31 March 2017. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2016/17' issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based on International Financial Reporting Standards as amended for the UK public sector.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – Revenue Recognition

a) Contributions income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the financial year to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years, if significant, are classed as long term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations 2013 (see notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis and are included in transfers in (see note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii) Changes in the net market value of investments are recognised as income and comprise all realised and unrealised gains/losses during the year.

Fund account – Expense items

a) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

b) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

c) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However in the interest of greater transparency, the Fund discloses its Pension Fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)*.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the Pension's Administration Team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs relating to the oversight and governance of the Fund's investments are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the values of these investments change

Where an investment manager's fee invoice has not been received by the balance sheet date an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund account in 2016/17.

Net Assets Statement

a) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of an asset are recognised in the Fund account.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (See note 16). For the purposes of disclosing levels of fair value hierarchy, the fund had adopted the classification guidelines recommended in '*Practical Guidance on Investment Disclosures (PRAG/Investment association, 2016)'*

Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. (see note 15)

c) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers and custodians.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

d) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

e) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on an annual basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

f) Additional Voluntary Contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance, Clerical Medical and Equitable Life Assurance Society as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically intended for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4 (1)(b) of the Local Government Pension Scheme (Management and Investments of Funds) Regulations 2016 but are disclosed as a note only (Note 23)

Accounting Standards Issued but not yet fully adopted

The following accounting policy changes are not yet reflected in the 2016-17 Code of Practice. They are not therefore fully implemented in the Statement of Accounts:

- Amendment to the reporting of pension fund scheme transaction costs;
- Amendment to the reporting of investment concentration

Neither of these changes are expected to have a material impact on the Pension Fund Accounts.

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

The net Pension Fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in notes 19 and 20.

These actuarial revaluations are used to set the future contributions rates and underpin the Fund's most significant management policies.

Unquoted private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.

NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: • a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £110m • a 2% increase in assumed earnings inflation would increase the value of liabilities by approximately £19m • a 0.5% increase in Pension benefits would increase the liability by approximately £89m
Private equity (Note 16C)	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines (2012)* .These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £19.3m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6: EVENTS AFTER THE REPORTING DATE

These are events that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

The Fund is not aware of any such events.

NOTE 7: CONTRIBUTIONS RECEIVABLE

By category

2015/16 £'000		2016/17 £'000
(6,599)	**Employees' contributions**	**(6,960)**
	Employers' contributions:	
(16,763)	Normal contributions	(18,041)
(4,549)	Deficit recovery contributions	(4,614)
(422)	Pension strain contributions	(323)
(21,734)	**Total employers' contributions**	**(22,978)**
(28,333)		**(29,938)**

By authority

2015/16 £'000		2016/17 £'000
(21,504)	Administering Authority	(22,957)
(5,667)	Scheduled bodies	(5,975)
(519)	Community admission body	(588)
(643)	Transferee admission bodies	(418)
(28,333)		**(29,938)**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2015/16 £'000		2016/17 £'000
(3,304)	Group transfers	0
(2,535)	Individual transfers	(2,659)
(5,839)		**(2,659)**

NOTE 9: BENEFITS PAYABLE

By category

2015/16		2016/17
£'000		£'000
26,454	Pensions	27,044
4,074	Commutation and lump sum retirement benefits	4,074
737	Lump sum death benefits	671
31,265		**31,789**

By authority

2015/16		2016/17
£'000		£'000
29,070	Administering Authority	29,592
1,508	Scheduled bodies	1,721
290	Community admission body	180
397	Transferee admission bodies	296
31,265		**31,789**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2015/16		2016/17
£'000		£'000
60	Refunds to members leaving service	80
3,179	Individual transfers	1,752
3,239		**1,832**

NOTE 11: MANAGEMENT EXPENSES

2015/16		2016/17
£'000		£'000
642	Administrative costs	646
3,452	Investment management expenses	3,996
536	Oversight and governance costs	586
4,630		**5,228**

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2015/16		2016/17
£'000		£'000
3,427	Management fees	3,798
0	Performance related fees	0
25	Custody fees	72
0	Transaction costs	126
3,452		**3,996**

NOTE 12: INVESTMENT INCOME

2015/16 £'000		2016/17 £'000
(6,030)	Private equity investments	(5,177)
(1,708)	Pooled property investments	(1,971)
(2,687)	Pooled investments - units trusts and other managed funds	(3,102)
(10,425)		**(10,250)**

NOTE 13: EXTERNAL AUDIT COSTS

2015/16 £'000		2016/17 £'000
(21)	Payable in respect of external audit	(21)
(21)		**(21)**

NOTE 14: INVESTMENTS

Market value 31 March 2016 £'000		Market value 31 March 2017 £'000
	Investment assets	
437,087	Pooled equities investments	531,614
86,978	Pooled bonds investments	100,883
56,287	Pooled alternative investments	58,420
53,481	Pooled property investments	64,409
150	Equity in London CIV	150
20,571	Private equity	19,341
878	Derivative contracts: forward currency	2,015
44	Cash with investment managers	52
655,476		**776,884**
11,485	Cash deposits	30,914
666,961	**Total investment assets**	**807,798**
	Investment liabilities	
(7,266)	Derivative contracts: forward currency	(2,256)
(7,266)	**Total investment liabilities**	**(2,256)**
659,695	**Net investment assets**	**805,542**

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2017
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	437,087	0	(46,492)	141,019	**531,614**
Pooled bonds investments	86,978	4,208	(1,134)	10,831	**100,883**
Pooled alternative investments	56,287	0	(414)	2,547	**58,420**
Pooled property investments	53,481	10,000	(378)	1,306	**64,409**
Equity in London CIV	150	0		0	**150**
Private equity	20,571	0	(350)	(880)	**19,341**
Derivative contracts: forward currency	(6,388)	19,375		(13,228)	**(241)**
	648,166	**33,583**	**(48,768)**	**141,595**	**774,576**
Cash with investment managers	**44**				**52**
Cash deposits	**11,485**				**30,914**
	11,529				**30,966**
Net investment assets	**659,695**				**805,542**

	Market value 31 March 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	449,979	0	(1,742)	(11,150)	**437,087**
Pooled bonds investments	86,377	4,162	(653)	(2,908)	**86,978**
Pooled alternative investments	59,535	0	(365)	(2,883)	**56,287**
Pooled property investments	50,562	0	(474)	3,393	**53,481**
Equity in London CIV	0	150	0	0	**150**
Private equity	22,954	0	(564)	(1,819)	**20,571**
Derivative contracts: forward currency	(2,649)	3,867	(3,405)	(4,201)	**(6,388)**
Cash re transition	268	0	(268)	0	**0**
	667,026	**8,179**	**(7,471)**	**(19,568)**	**648,166**
Cash with investment managers	**869**				**44**
Cash deposits	**5,793**				**11,485**
	6,662				**11,529**
Net investment assets	**673,688**				**659,695**

NOTE 14B: ANALYSIS OF INVESTMENTS

31 March 2016 £'000			31 March 2017 £'000
	Pooled Funds		
	UK		
69,401	Fixed Interest Securities	Corporate	80,804
17,577	Index Linked Securities	Public Sector	20,079
53,481	Managed Funds - Property	Unit Trusts	64,409
140,459			**165,292**
	Global		
219,424	Managed Funds - Equities	Unitised Insurance Policy	267,790
217,663	Managed Funds - Equities	Other	263,824
437,087			**531,614**
29,216	Managed Funds - Alternatives	Unit Trusts	29,324
27,071	Managed Funds - Alternatives	Other	29,096
56,287			**58,420**
20,571	Managed Funds - Private Equity	Other	19,341
	Other Funds		
878	Derivatives		2,015
150	Equity in London CIV		150
44	Cash with investment managers		52
11,485	Cash Deposits		30,914
666,961	**Total Investment Assets**		**807,798**
	Investment Liabilities		
(7,266)	Derivatives		(2,256)
(7,266)	**Total Investment Liabilities**		**(2,256)**
659,695	**Net Investment Assets**		**805,542**

NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2016	Percentage of Fund	Manager	Investment assets	Market value 31 March 2017	Percentage of Fund
£'000	%			£'000	%
53,481	8	Aviva	Pooled property	64,409	8
44	0	BlackRock	Cash with investment managers	52	0
69,401	11	BlackRock	Fixed interest securities	80,804	10
17,577	3	BlackRock	Index-linked securities	20,079	3
11,485	2	Cash Deposits		30,901	4
71,463	11	GMO	Emerging markets equities-active	94,156	12
27,071	4	Insight	Diversified growth fund	29,096	3
0	0	JP Morgan	Cash with investment managers	13	0
150	0	London CIV	UK equities-passive	150	0
75,499	11	Longview	Developed world equities-active	86,213	11
70,701	11	Oldfields	Developed world equities-active	83,455	10
20,571	3	Pantheon	Private equity	19,341	2
(6,388)	(1)	Record	Forward currency contracts	(241)	0
29,216	4	Standard Life	Diversified growth fund	29,324	4
219,424	33	State Street	Global equities-passive	267,790	33
659,695	**100**			**805,542**	**100**

The following investments represent more than 5% of the net assets of the Fund

Market value 31 March 2016	% of total fund	Investment assets	Market value 31 March 2017	% of total fund
£'000			£'000	
219,424	33	SSGA MPF All World Equity Index Sub-Fund	267,790	33
71,463	11	GMO Emerging Domestic Opportunities Equity Fund	94,156	12
75,499	11	Longview Partners - Global Pooled Equities FD K Class	86,213	11
70,701	11	Overstone Global Equity CCF (USD Class A1 Units)	83,455	10
69,401	11	BlackRock Institutional Bond Fund - Corp Bond 10 yrs A Class	80,804	10
53,481	8	Aviva Investors UK Real Estate Fund of Funds	64,409	8
559,969	**85**	**Total over 5% holdings**	**676,827**	**84**

NOTE 14D: STOCK LENDING

Within the Investment Strategy Statement stock lending is permitted within pooled funds. At present, use of this facility is restricted to the State Street Global Advisors' mandate.

The State Street lending programme covers equity and fixed income assets around the world and is designed to generate incremental returns for investors with appropriate risk controls.

The programme benefits from a counterparty default indemnity from State Street Bank & Trust Company pursuant to its Securities Lending Authorisation Agreement.

NOTE 15: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place managed by Record Currency Management Limited. The Fund hedges 50% of the exposure in various developed world currencies within the equities portfolio.

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	liability value
		000		000	£'000	£'000
Up to one month	AUD	5,462	GBP	(3,370)		(36)
Up to one month	CAD	9,506	GBP	(5,740)		(38)
Up to one month	CHF	5,204	GBP	(4,199)		(38)
Up to one month	EUR	8,353	GBP	(7,235)		(88)
Up to one month	GBP	3,305	AUD	(5,646)		(140)
Up to one month	GBP	2,218	JPY	(317,300)		(61)
Up to one month	GBP	1,171	SEK	(13,093)		(3)
Up to one month	GBP	594	SGD	(1,059)		(12)
Up to one month	GBP	23,741	USD	(31,023)		(1,071)
Up to one month	HKD	43,584	GBP	(4,509)		(24)
Up to one month	JPY	1,877,000	GBP	(13,716)		(240)
Up to one month	NOK	2,648	GBP	(250)		(3)
Up to one month	NZD	190	GBP	(107)		(1)
Up to one month	SEK	13,093	GBP	(1,184)		(11)
Up to one month	SGD	950	GBP	(548)		(5)
Up to one month	USD	36,307	GBP	(29,252)		(212)
One to six months	GBP	11,985	JPY	(1,704,100)		(268)
One to six months	USD	1,595	GBP	(1,278)		(5)

Up to one month	AUD	184	GBP	(112)	0	
Up to one month	GBP	5,734	CAD	(9,506)	32	
Up to one month	GBP	4,161	CHF	(5,204)	1	
Up to one month	GBP	7,242	EUR	(8,353)	95	
Up to one month	GBP	4,574	HKD	(43,584)	89	
Up to one month	GBP	11,880	JPY	(1,559,700)	681	
Up to one month	GBP	248	NOK	(2,648)	2	
Up to one month	GBP	110	NZD	(190)	4	
Up to one month	GBP	4,296	USD	(5,284)	70	
Up to one month	SGD	109	GBP	(61)	1	
One to six months	GBP	3,356	AUD	(5,462)	36	
One to six months	GBP	5,735	CAD	(9,506)	38	
One to six months	GBP	3,697	CHF	(4,562)	38	
One to six months	GBP	6,873	EUR	(8,013)	2	
One to six months	GBP	4,508	HKD	(43,584)	23	
One to six months	GBP	250	NOK	(2,648)	3	
One to six months	GBP	107	NZD	(190)	1	
One to six months	GBP	1,187	SEK	(13,093)	11	
One to six months	GBP	548	SGD	(950)	4	
One to six months	GBP	29,476	USD	(36,307)	499	
Over six months	GBP	6,957	EUR	(8,013)	70	
Over six months	GBP	12,389	JPY	(1,704,100)	113	
Over six months	GBP	27,837	USD	(34,712)	202	
Open forward currency contracts at 31 March 2017					**2,015**	**(2,256)**
Net forward currency contracts at 31 March 2017						**(241)**
Prior year comparative						
Open forward currency contracts at 31 March 2016					**878**	**(7,266)**
Net forward currency contracts at 31 March 2016						**(6,388)**

NOTE 16: FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset it set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the most appropriate price available at the reporting date

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments including pooled funds for global equities, corporate and UK index linked bonds and diversified growth funds	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Market quoted investments including pooled funds for global equities and diversified growth funds	Level 1	Published market price or other value ruling on the final day of the accounting period	Not required	Not required
Pooled investments - property funds	Level 1	Closing bid price where bid and offer prices are published	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year end.	Exchange rate risk	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation (2012)*	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium	Valuations could be affected by material events occuring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

NOTE 16A: FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1
Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2
Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3
Assets and liabilities at level 3 are those where at least one input that could have significant effect on the instrument's valuation is not based on observable market data.

Sensitivity of assets valued at Level 3

The Fund has determined that the sensitivity of the level 3 investments should be at the level determined by independent advisers for equity investments generally. Set out below is the consequent potential impact on the closing value of investments held at 31 March 2017

	Assessed valuation range (+/-)	Valuation at 31 March 2017	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	10%	19,341	21,275	17,407

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss	755,476	2,015	19,341	**776,832**
Financial liabilities at fair value through profit and loss	0	(2,256)	0	**(2,256)**
Net Investment asset	**755,476**	**(241)**	**19,341**	**774,576**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss	633,983	878	20,571	**655,432**
Financial liabilities at fair value through profit and loss	0	(7,266)	0	**(7,266)**
Net Investment asset	**633,983**	**(6,388)**	**20,571**	**648,166**

NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

There have been no transfers during 2016/17

NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2016/17	Market Value 1 April 2016	Transfers into level 3	Transfers out of level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market Value 31 March 2017
	£000	£000	£000	£000	£000	£000	£000	£000
Private Equity	20,571	0	0	0	(350)	(880)	0	**19,341**

NOTE 17: FINANCIAL INSTRUMENTS

NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

31 March 2016				31 March 2017		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial assets			
437,087	0	0	Pooled equities investments	531,614	0	0
86,978	0	0	Poooled bonds investments	100,883	0	0
56,287	0	0	Pooled alternative investments	58,420	0	0
53,481	0	0	Pooled property investments	64,409	0	0
150	0	0	Equity in London CIV	150	0	0
20,571	0	0	Private equity	19,341	0	0
878	0	0	Derivative contracts	2,015	0	0
0	13,281	0	Cash	0	32,028	0
0	317	0	Debtors	0	312	0
655,432	**13,598**	**0**		**776,832**	**32,340**	**0**
			Financial liabilities			
(7,266)	0	0	Derivative contracts	(2,256)	0	0
0	0	(763)	Creditors	0	0	(340)
(7,266)	**0**	**(763)**		**(2,256)**	**0**	**(340)**
648,166	**13,598**	**(763)**		**774,576**	**32,340**	**(340)**
	661,001		**Grand Total**		**806,576**	

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2016		31 March 2017
£'000		£'000
	Financial assets	
(15,367)	Fair value through profit and loss	154,823
0	Loans and receivables	0
	Financial liabilities	
(4,201)	Fair value through profit and loss	(13,228)
0	Financial Liabilities at amortised cost	0
(19,568)	**Total**	**141,595**

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet its forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. The Committee reviews the Fund's risk register on an annual basis.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equities holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund's investment managers mitigate this price risk through diversification.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisers, the Council has determined that the following movements in price risk are reasonably possible.

Assets type	Potential market movements (+/-)
Total equities	10.00%
Fixed interest & index linked securities	9.50%
Alternative investments	6.30%
Pooled property investments	2.80%
Cash and equivalents	0.00%

Had the market price of the Fund investments increased/decreased in line with the above the change in the net assets available to pay benefits would have been as follows:

Asset type	Value as at 31 March 2017	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Total equities	551,105	10.00	606,216	495,995
Fixed interest & index linked securities	100,883	9.50	110,467	91,299
Alternative investments	58,420	6.30	62,100	54,740
Pooled property investments	64,409	2.80	66,212	62,606
Derivative contracts: net forward currency	(241)	0.00	(241)	(241)
Total	**774,576**		**844,754**	**704,399**

Asset type	Value as at 31 March 2016	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Total equities	457,808	10.07	503,909	411,707
Fixed interest & index linked securities	86,978	9.07	94,867	79,089
Alternative investments	56,287	7.36	60,430	52,144
Pooled property investments	53,481	2.37	54,748	52,214
Derivative contracts: net forward currency	(6,388)	0.00	(6,388)	(6,388)
Total	**648,166**		**707,566**	**588,766**

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Council recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 and the impact of a 1% movement in interest rates are as follows:

Assets exposed to interest rate risk	Carrying amount as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	30,966	0	30,966	30,966
Fixed interest securities	80,804	808	81,612	79,996
Total change in assets available	**111,770**	**808**	**112,578**	**110,962**

Assets exposed to interest rate risk	Carrying amount as at 31 March 2016	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	11,529	0	11,529	11,529
Fixed interest securities	69,401	694	70,095	68,707
Total change in assets available	**80,930**	**694**	**81,624**	**80,236**

This analysis demonstrates that changes in interest rates do not impact on the value of cash & cash equivalents balances but do affect the fair value on fixed interest securities.

Changes in interest rates affect interest income received on cash balances but have no effect on income from fixed income securities.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on its global equities pooled fund investments, some of which are denominated in currencies other than Sterling. To mitigate this risk, the Fund uses derivatives and hedges 50% of the overseas equity portfolio arising from the developed market currencies.

Following analysis of historical data in consultation with the Fund's advisers the Council considers the likely volatility associated with foreign exchange rate movements to be 5.56%

A 5.56% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

Currency Exposure - asset type	Asset Value as at 31 March 2017	Change to net assets	
	£'000	+5.56% £'000	-5.56% £'000
Overseas Equities	480,403	507,113	453,693

Currency Exposure - asset type	Asset Value as at 31 March 2016	Change to net assets	
	£'000	+3.77% £'000	-3.77% £'000
Overseas Equities	390,763	405,495	376,031

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions. However the selection of high quality counterparties, brokers and financial institutions by Fund managers should minimise the credit risk that may occur.

Cash deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's Treasury Management investment criteria.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five years.

The Fund's cash holding at 31 March 2017 was £31.0m (31 March 2016: £11.5m). This was held with the following institutions.

Summary	Balances at 31 March 2017	Balances at 31 March 2016
	£'000	£'000
Bank accounts		
Royal Bank of Scotland	30,901	10,048
JP Morgan	13	1,437
BlackRock	52	44
	30,966	**11,529**

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Council has immediate access to its Pension Fund cash holdings.

The Fund considers liquid assets to be those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2017 the value of illiquid assets was £83.7m, which represented 10% of the total Fund assets (31 March 2016: £74.1m, which represented 11% of the total Fund assets).

All financial liabilities at 31 March 2017 are due within one year.

Refinancing risk

The Pension Fund does not have any financial instruments that have a refinancing risk.

NOTE 19: FUNDING ARRANGEMENTS

In line with The Local Government Pension Scheme Regulations 2013, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation takes place as at 31 March 2019.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2016 actuarial valuation, the Fund was assessed as 74% funded (70% at the March 2013 valuation). This corresponded to a deficit of £228m (2013 valuation: £234m).

Contribution increases are being phased in over the 3 years' period ending 31 March 2020.

Individual employers' rates vary depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 actuarial valuation report on the Fund's website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows:

Financial assumptions

Other financial assumptions	2016 %	2013 %
Price inflation (CPI)	2.2	2.5
Salary increases	2.4	3.8
Pension increases	2.2	2.5
Gilt based discount rate	2.2	3.0
Funded basis discount rate	3.8	4.6

Demographic assumptions

The life expectancy assumptions are based on the Fund's Hymans Robertson's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% per annum.

Future life expectancy based on the Actuary's Fund-specific mortality review is as follows:

	Male	Female
Current pensioners	22.2 years	24.4 years
Future pensioners (assumed to be aged 45)	24.0 years	26.4 years

Commutation assumption

It is assumed that 50% of future retirees will elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 and 75% for service from 1 April 2008.

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS 19.

31 March 2016		31 March 2017
£m		£m
(933)	Present value of promised retirement benefits	(1,102)
594	Fair value of scheme assets	733
(339)	**Net Liability**	**(369)**

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

IAS19 Assumptions used

	2016/17	2015/16
	% pa	% pa
Inflation/pensions increase rate assumption	2.4	2.2
Salary increase rate	2.7	3.7
Discount rate	2.5	3.5

NOTE 21: CURRENT ASSETS

31 March 2016		31 March 2017
£'000		£'000
	Debtors:	
297	Contributions due - employers	142
20	Sundry debtors	170
1,752	Cash owed to Fund	1,062
2,069		**1,374**

Analysis of debtors

31 March 2016		31 March 2017
£'000		£'000
0	Central Government bodies	12
1,752	Other local authorities	1,062
4	NHS bodies	4
297	Scheduled/Admitted bodies	142
16	Other entities and individuals	154
2,069		**1,374**

NOTE 22: CURRENT LIABILITIES

31 March 2016		31 March 2017
£'000		£'000
(167)	Sundry creditors	(202)
(430)	Transfer values payable (leavers)	0
(166)	Benefits payable	(138)
(763)		**(340)**

Analysis of creditors

31 March 2016		31 March 2017
£'000		£'000
(15)	Central government bodies	(7)
(431)	Other local authorities	0
(317)	Other entities and individuals	(333)
(763)		**(340)**

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

AVC contributions of £0.43m were paid directly to the providers during the year (2015/16: £0.31m)

Market value 31 March 2016		Market value 31 March 2017
£'000		£'000
1,233	Prudential Assurance	1,382
741	Clerical Medical	667
237	Equitable Life Assurance Society	239
2,211		**2,288**

NOTE 24: AGENCY SERVICES

There were no payments of this type

NOTE 25: RELATED PARTY TRANSACTIONS

Harrow Council

The Fund is required under IAS24 to disclose details of material transactions with related parties. The Council is a related party to the Pension Fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out above.

The Pension Fund has operated a separate bank account since April 2011. However to avoid any undue cost to the Fund some minor transactions continue to be processed through the Council's bank account and these transaction are settled on a monthly basis.

31 March 2016		31 March 2017
£'000		£'000
(16,351)	Employer's Pension Contributions to the Fund	(17,514)
853	Administration expenses paid to the Council	826
1,752	Cash held by the Council	1,062

Governance

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

NOTE 25A: KEY MANAGEMENT PERSONNEL

The key management personnel of the fund is the Councils' Director of Finance (S151 Officer). During 2015-16 the Director of Human resources also fell into this category. Total remuneration payable from the Pension Fund to these key management personnel is set out below:

31 March 2016		31 March 2017
£'000		£'000
43	Short-term benefits	35
0	Termination benefits	21

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2017 totalled £3.0m (31 March 2016: £2.9m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held by Pantheon Ventures in the private equity part of the portfolio.

NOTE 27: CONTINGENT ASSETS

Two admitted body employers in the Fund hold insurance bonds or guarantees to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Harrow Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31 March 2017	31 March 2016
Active members (£m)	440	496
Deferred members (£m)	250	169
Pensioners (£m)	497	351
Total (£m)	**1,187**	**1,016**

The promised retirement benefits at 31 March 2017 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the London Borough of Harrow only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £171m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £13m.

Financial assumptions

Year ended (% p.a.)	31 March 2017	31 March 2016
Pension Increase Rate	2.4%	2.2%
Salary Increase Rate	2.7%	3.7%
Discount Rate	2.6%	3.5%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.2 years	24.4 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.0 years	26.4 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	89
0.5% p.a. increase in the Salary Increase Rate	2%	19
0.5% p.a. decrease in the Real Discount Rate	9%	110

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2017 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Gemma Sefton FFA

25 April 2017

For and on behalf of Hymans Robertson LLP

REPORT FOR: Pension Fund Committee

Date of Meeting:	28 June 2017
Subject:	Actuarial and Benefits Services Consultancy Contract
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Invitation to Further Competition

Section 1 – Summary and recommendation

Summary

This report advises the Committee of the current position as regards the procurement of Actuarial and Benefits Services Consultancy Services from 1 October 2017 and recommends a suitable strategy. According to Part 3A of the Council's constitution, Terms of Reference, the Pension Fund Committee has the power to exercise on behalf of the Council in relation to its functions as Administering Authority of LB Harrow Pension Fund save for those matters delegated to other Committees of the Council or to an Officer and to administer all matters concerning the Council's pension investments in accordance with the law and Council policy.

Recommendation

The Committee is recommended to agree the procurement process for Actuarial and Benefits Services Consultancy Services from 1 October 2017 as described in paragraph 7 of the report and to comment on the attached "Invitation to Further Competition."

Section 2 – Report

1. At their meeting on 7 March 2017 the Committee were advised that, taking into account a short term waiver under the Council's Procurement Regulations, the current contract for Actuarial and Benefits services, awarded in 2011 to Hymans Robertson LLP, would terminate on 18 September 2017 (subsequently amended to 30 September 2017).

2. The Committee were further advised that an effective and efficient way to let a new contract could be via "framework" arrangements currently administered by Norfolk County Council. Officers felt that it would be most appropriate to investigate the procedure further and recommend an appropriate strategy to the Committee.

3. Under the framework arrangements the services can be procured from any of the following suppliers all of whom are well know within the Local Government Pension Scheme administering authorities:

   Aon Hewitt
   Barnett Waddingham
   Hymans Robertson
   Mercer

4. The services for which the suppliers have made submissions within the framework are:
   - Actuarial advice in relation to outsourcing / reshaping service delivery (Including staff transfers and changes in workforce profile)
   - Advice on admission agreements
   - Actuarial advice to new or existing participating employers
   - Attendance at meetings as required by stakeholders
   - Support for and supply of scheme communication, advice and training for all associated stakeholders as required including but not limited to scheme members, pension boards, section 101 committees and employers.
   - Completion of the triennial Actuarial Valuation exercise in accordance with the LGPS governing regulations (to include preparation of individual valuation positions for each participating employer)
   - Funding Strategy Statement preparation and advice
   - Providing responses to auditors of administering authorities and participating employer bodies in respect of the financial reporting of Pensions and any other matters arising
   - Undertaking Asset Liability Studies (every three years or more frequently if required)

- Completion of Actuarial Valuation at the date of cessation of a scheduled body or an admission body to assess any termination liabilities arising
- Annual accounting valuations of pension liabilities (in accordance with FRS17 (FRS102) / IAS19 requirements or any such standard as is in force) – including the calculation of opening positions for new employers.
- Preparation of pensions information on behalf of participating employers for inclusion in tender documentation when letting services that includes the transfer of staff who are members of the LGPS
- Calculation of opening positions (level of assets and liabilities) for new participating employers and the calculation of the appropriate employer contribution rate at commencement
- Calculation and actuarial advice relating to the consideration of an appropriate bond or other guarantee either where an authority is entering into a transferee admission agreement with a contracting party or other circumstance
- Provision of appropriate actuarial factors as prescribed by the LGPS governing regulations e.g. strain costs on early retirement.
- Provision of modelling and projections in respect of underlying assumptions and strategy at a fund or employer level
- Provision of funding and contribution strategy advice
- Supporting unitisation and segregation (in support of employer specific funding strategy)
- To act as expert witness (in case of arbitration, regulatory or other).
- Covenant analysis and baseline risk management
- Cashflow Modelling

Whilst there is a facility for authorities using the framework to include further services there are limits as to what is allowable. Realistically it is unlikely that Harrow would require more services than those already included.

5. Following the Committee meeting officers signed the confidentiality statement with Norfolk County Council and obtained copies of the submissions from each of the four firms included within the framework and a summary statement of the tender prices. The submissions comprise statements from each firm as follows:

Supplier overview

Organisation and people

1. Structure and staffing portfolio for delivery of the services
2. Specialist operational resource and support for delivery of the services
3. Service continuity and capacity management

Knowledge and understanding
4. Transparency and sustainability of the LGPS
5. Changing face of public service delivery
6. Austerity measures
7. Changing shape of the LGPS
8. Employer strategies
9. Investment Strategy Statements

Provision of support to Awarding Authorities and stakeholders
10. Statutory services
11. Data quality
12. Additional valuations
13. Sharing knowledge and research and added value

Provision of other services
14. Cashflow modelling and funding strategy
15. Changes to LGPS Regulations.

6. The pricing schedule is provided for each firm for the following services:

- Hourly and daily rates
- Actuarial valuation and asset liability studies
- Various named activities
- Exercises for various model funds
- Various financial reporting exercises
- Organisational standard rates

7. Under the framework arrangements, the next stage in the process is for the Council to provide each of the suppliers with an "Invitation to Further Competition." This is a standard document but gives the Council the opportunity:
    - to provide the suppliers with specific background information about the Fund
    - to explain the bid management process including weightings to be placed on the various bid criteria
    - to detail the procurement timetable
    - to ask the suppliers any additional questions
    - to invite the suppliers to review their pricing schedule using the framework prices as the upper limit

8. A draft of the "Invitation to Further Competition" is attached on which the Committee's comments are invited either during the meeting or subsequently. The Committee's attention is specifically drawn to pages 8-11.

9. Subsequent to the Committee meeting, and taking into account comments made by the Committee, Finance, Legal and Procurement officers will finalise the competition arrangements and invite submissions on 7 July 2017 with a closing date of 1 August 2017. They will also sign the Members Access Agreement and pay the joining fee of £3,000.

10. Members of the Committee, the co-optee and the independent advisers will be provided with the confidential submissions and invited to meet the suppliers who make submissions on an agreed date between 7 August and 5 September.

11. The results of the consideration of both the written and verbal submissions will be reported to the Committee on 18 September with a recommendation that the new contract be let for a period of 6 years (two valuation periods) from 1 October 2017.

12. The Committee are invited to comment on the draft “Invitation to Further Competition” and agree the proposed arrangements.

Financial Implications

13. There are clearly significant financial implications arising from the appointment of professional advisers to the Committee and the advice they give. However, the only financial implication arising directly from this report is the expenditure of £3,000 as the “joining” fee for the procurement framework process which can be met from the Pension Fund.

Legal Implications

14. The purchase of actuarial services is categorised as a public services contract under the Public Contracts Regulations 2016 (the Regulations) and where the estimated value is over the threshold of £164.047, the Council is required to undertake a regulated EU procurement. However, where the purchase of such services are procured through a Framework Agreement established in compliance with the Regulations the Council is able to purchase services from the Framework Agreement by strictly following the rules set up under the Framework and in accordance the Regulations. Officers will need to check this although it is believed that the Framework set up by Norfolk CC is an EU Compliant Framework The Director of Commercial Contracts and Procurement must approve access to the Framework and any subsequent call-off contracts from the Framework must follow the Contract Procedure Rules and be authorised in accordance with the Council’s scheme of delegation contained within the Constitution.

Risk Management Implications

15. The Pension Fund has its own risk register which includes the risks identified in connection with the appointment of, and the advice provided by, the Committee’s professional advisers.

Equalities implications

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

Council Priorities

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

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 16 June 2017	✓	Director of Finance
Name: Noopur Talwar Date: 20 June 2017	✓	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

National LGPS
Frameworks
By LGPS Funds, for LGPS Funds

Enter Letting Authority Logo

Invitation to Further Competition (LB Harrow) under the National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services Primarily in Support of the Local Government Pension Scheme (NCCT40954)

Contact:	**Iain Millar**
Address:	**Treasury and Pension Fund Manager**
	Iain.Millar@Harrow.gov.uk
Reference:	**Actuarial**
Further Competition details:	**LOT 1**
Contract commencement date:	**1 October 2017**
Period of Contract:	**72 months**
Issue date:	**7 July 2017**
Closing date:	**1 August 2017**

Important legal notice

1. Any person who participates in this procurement exercise shall be deemed to accept the conditions set out below and the terms and conditions of contract appended to this document. These conditions constitute the entire agreement between the parties concerning the conduct of the exercise.
2. London Borough of Harrow (“the Council”) does not make any binding commitment to actual or potential suppliers (“Suppliers”) or to any other party about its conduct of this procurement exercise, other than to abide by its statutory obligations and the express terms of this Important Legal Notice. No other obligation on the Council shall be implied into any contract which may arise between the Council and any Applicant governing the conduct of this exercise.
3. Suppliers shall not, in connection with this procurement exercise, place any reliance upon any communication from the Council (including without limitation any notice published by the Council and any information published on any web site) unless it specifically states that it concerns this procurement exercise and bears the reference stated on the front page of this document. Suppliers shall not place any reliance on any communication which is not in writing.
4. Information supplied by the Council is subject to constant updating and amendment in the future and is necessarily selective and is supplied for general guidance in the preparation of proposals. It does not purport to contain all of the information which Suppliers may require and Suppliers must satisfy themselves by their own investigations about the accuracy of such information. While the Council has taken all reasonable steps to ensure, as at the date of this document, that the facts which are contained in this Invitation are true and accurate in all material respects, the Council does not make any representation or warranty as to the accuracy or completeness of this Invitation, or the reasonableness of any assumptions on which this document may be based. The Council accepts no liability to Suppliers however arising and whether resulting from the use of the information provided, or any omissions from or deficiencies in the information. As such, the Council cannot accept responsibility for any inaccurate information obtained by Suppliers.
5. Any notice from any person in connection with this procurement exercise shall be sent to through email to the contact person listed on the first page in accordance with the relevant timescales.
6. In inviting potential Suppliers to participate, the Council is not making an offer to enter into any contract for the supply of goods, services or works and does not bind itself to accept any offer it receives.
7. The Council reserves the right at its sole discretion to change any aspect of, or to discontinue this procurement exercise at any point and if it does discontinue the exercise need not provide any Supplier with the scores allocated in any marking exercise already undertaken or the reasons for the allocation of those scores.
8. The Council will not under any circumstances be liable to pay Suppliers for any costs incurred as a result of their participating in this procurement exercise.
9. The Council may exclude from consideration any proposal which is not submitted in full compliance with the conditions and/or instructions contained within this Invitation and

shall be under no obligation to consider any extenuating circumstance which may have arisen. The Council's decision as to whether any response submitted complies with the instructions shall be final.

10. Suppliers may notify the Council of information they wish, acting reasonably, to designate as confidential and the reasons why. Suppliers shall not apply any blanket designation of confidentiality to their entire bid and the Council will not pay any regard to any such designation.

11. The Council is subject to laws concerning access to information including the Freedom of Information Act 2000, the Environmental Information Regulations 2004 and the Audit Commission Act 1998 and may - notwithstanding any claim made by any Supplier that any information is provided in confidence or is confidential in nature – release any information provided to it in accordance with the law, subject to the Council's discretion concerning any applicable exemption or the application of any public interest test. It is important to note that information may be commercially sensitive for a time, for example, during a quote process, but afterwards it may not be. The timing of any request for information may be extremely important in determining whether or not information is exempt. However Suppliers should note that no information is likely to be regarded as exempt forever.

12. The contents of this Invitation to Further Competition together with all other information, materials, specifications or other documents provided pursuant or in the course of this procurement process as a whole, or prepared by the Suppliers specifically for such purposes, shall be treated at all times as confidential by the Suppliers. Suppliers shall not disclose any such information, materials, specifications or other documents to any third parties or to any other part of the Suppliers´ company or group or use them for any purpose other than for the preparation and submission of a response to this Invitation or other requirement of the procurement process, nor shall Suppliers publicise the Council's name or the Invitation to Further Competition without the prior written consent of the Council.

13. The Suppliers shall ensure that all third parties to whom disclosure is made shall keep any such information, materials, specifications or other documents confidential and not disclose them to any other third party except as set out above.

14. Suppliers must seek the approval of the Council before providing to third parties any information provided in confidence by the Council or its professional advisers or consultants and must maintain a register of all employees and third parties who have access to such information. If so requested by the Council, Suppliers must make such a register available for immediate inspection by the Council or its duly authorised representatives.

15. Any working documents produced by the Council in the course of evaluation shall remain confidential to and the property of the Council and need not be retained by the Council. For the avoidance of doubt, the Council's only obligation to Suppliers concerning debriefing shall be to provide the Suppliers with a written statement, as approved by the chair of the evaluation panel.

16. Suppliers shall not enter into any agreement or arrangement with any other person with the intent that the other person shall refrain from responding to this Invitation to Further Competition.

17. Suppliers should not, in connection with the proposed contract:

    a. offer any inducement, fee or reward to any officer or member of the Council or of the commissioning organisations;

    b. do anything which would constitute a breach of section 117(2) of the Local Government Act 1972 or Bribery Act 2010; or

    c. canvass any of the persons referred to in a) in connection with the response about any aspect of the proposed contract or for soliciting information in connection therewith.

18. If any Supplier or any employee of any Supplier or any third party acting on behalf of any Supplier commits an act detailed in clauses 16 to 17 inclusive or offers, promises or gives any bribe or inducement or makes any improper threat or colludes (or offers or agrees to collude) with any other Supplier in connection with this procurement exercise then, in addition to any criminal sanction such conduct may attract, the Council may:

    a. immediately exclude that Supplier's offer from consideration;

    b. exclude that Supplier from future procurement exercises;

    c. terminate any contract entered into with that Supplier; and

    d. recover from that Supplier the reasonable costs of re-running this procurement exercise and any consequential losses (including loss of anticipated savings) which result from any delay in letting a contract.

19. If any person approaches any Supplier seeking any bribe or making any offer to collude in respect of this procurement exercise, that Supplier is to contact the Council's Director of Legal and Governance Services immediately.

20. All intellectual property rights in this Invitation to Further Competition and all materials provided by the Council or its professional advisers, consultants or information provided in connection with this further competition are and shall remain the property of the Council and/or its professional advisers, consultants and/or information providers. The information they contain shall be used only for the purpose of preparing a proposal and delivering any resulting contract.

21. All responses and submissions provided by any Supplier will form part of the contract should the Supplier be successful.

22. Any qualifications made by Suppliers in regard to the Invitation to Further Competition or documentation produced will not be accepted by the Council and the right is reserved to exclude any proposals with qualifications attached.

23. The Council will not accept any variation to the terms of this legal notice and in the event that any Supplier submits any response which seeks to vary the above conditions such purported variation shall be void, even if the Council considers the proposal.

24. In the absence of a formal document signed by the Council and the successful Supplier, and for as long as such absence persists, then the acceptance by or on behalf of the Council of the Supplier's written response shall itself constitute a binding agreement between the parties, the terms of which unless amended by agreement between the parties shall be the conditions of contract sent out with the Invitation to Further Competition and the prices and operational proposals set out by the Supplier in their response.

Supplier Information

Name of person or organisation bidding			
Trading as…			
Person managing bid		*Director/partner/trustee overseeing bid*	
Mr/Mrs/Ms/Other		Mr/Mrs/Ms/Other	
Name		Name	
Address		Address	
Post Code		Post Code	
Country		Country	
Phone		Phone	
Mobile		Mobile	
Email		Email	
Registered office address		*Supplier's registration numbers, as applicable*	
		Company registration no.	
		Charity registration no.	
		VAT registration no.	
		FCA registration no.	

SECTION 1 – BACKGROUND INFORMATION

The Local Government Pension Scheme (LGPS) is a national scheme administered on a local basis by the London Borough of Harrow, providing current and future benefits for over 18,000 scheme members.

The Fund is governed by the Superannuation Act 1972 and the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) regulations 2014 (as amended)
- The Occupational and Personal Pension Scheme (Administration) Regulations 2008
- the LGPS (Management and Investment of Funds) Regulations 2009

As at 31 March 2017 there were 32 employer organisations in the Fund, [including the Borough Council], with 22 scheduled employers (including 17 academies) and 10 admitted employers. Membership numbers as at 31st March 2017 were:

Active members	5,644
Pensioner members	5,557
Deferred members	6,912
Total membership	18,113

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on triennial actuarial valuations. The last valuation was 31 March 2016, and employer contribution rates were set mainly ranging from 20.1% to 31.4% of pensionable pay. As part of this percentage, the majority of employers pay annualised cash sums in respect of the recovery of their pension deficit.

The value of the Fund at 31 March 2017 was £806.6m and the Fund is managed with regard to a strategic asset allocation benchmark. The actual allocation at any point in time reflects the decisions and views of the Fund's investment managers and the movement of financial markets.

Enclosed with this invitation is a copy of the draft Report and Accounts of the London Borough of Harrow Pension Fund 2016-17 and the current Investment Strategy Statement and the Funding Strategy Statement.

SECTION 2 – SPECIFICATION OF REQUIREMENT

The London Borough of Harrow wish to appoint a provider to provide services under Lot 1 - Actuarial Services

London Borough of Harrow Service Specification

The provider will be required to provide Actuarial Services to the Fund as set out in the framework tender documents.

Further specification:

[Include any further specification relevant to your specific requirements that isn't included in the standard framework specification].

SECTION 3 – BID MANAGEMENT

Proposals are requested for the supply of Actuarial Services under the National LGPS Framework reference NCCT40518. This contract will be awarded under the terms and conditions of the framework and no variations will be considered.

Proposals must be submitted on this Further Competition Document,

Please complete

- Section 5 (Supplier response)
- Section 6 (Pricing schedules)

Please answer every question. Where appropriate, to avoid repetition, you may refer to responses previously provided under the framework and presented in the Supplier Catalogue, and just provide supplementary detail or clarification as appropriate.

Receipt of the bid

- your response must be received no later than 17.00 (UK time) on 1 August 2017
- Your response must be submitted by email **[TBC e.g. electronic porta, email etc…]**
- The Council will not consider any late responses to this Invitation to Further Competition nor will it consider requests for extension of the time or date fixed for the submission of responses. It may, however, in its own absolute discretion extend the time or date fixed for submission and in such circumstances the Council will notify all Suppliers of any change.
- The Council may at its sole discretion change any aspect of, or stop this procurement exercise at any point and if it stops the exercise not provide any Supplier with the scores allocated in any marking exercise already undertaken or the reasons for the allocation of those scores.

Clarifications

Clarifications should be submitted to Iain Millar (Iain.Millar@Harrow.gov.uk) by no later than 14 July 2017.

Format and content of response

- Submissions must not be password protected
- Suppliers are to answer all questions.
- Suppliers' responses shall be clearly legible and in at least 11 point type, on a line spacing of at least 1.2 times the type size.
- Documents shall not include any embedded objects which, if printed, appear as icons, rather than in full.
- Proposals shall not contain any attachments or text other than that requested, and the Council will disregard any information contained therein.

- The answer to each question shall be self-contained. Responses such as 'see answer to question x' are not acceptable, nor are responses which refer to or assume knowledge of existing arrangements.
- Suppliers should not assume that the evaluators have any prior knowledge of their organisation, its capabilities or the solutions it offers.
- Suppliers are reminded that their proposal should respond specifically to the Council's requirements. Generic responses which do not take account of the Council's requirements and circumstances are unlikely to achieve good marks.

Interview

- An interview will be required on TBC to support your Invitation to Further Competition response. The Council may use this opportunity to clarify aspects of your proposal and you will be provided with a set of clarification questions prior to the interview in order that you can develop a response.
- Suppliers will be asked to present the key aspects of their proposal as detailed in their written response and should use the interview to clarify queries about their proposed service.
- Any Supplier whose quality score before interviews are held is more than XX% below the minimum quality threshold required (XX% of the marks available for quality and service fit) will not be invited to an interview. Only those bidders who have the potential to be awarded a contract will be invited.
- Organisations will be required to make available key members of their delivery team who will be responsible for the provision of the contract, to demonstrate their understanding and approach as outlined in the Invitation to Further Competition

Selection process

Each response will be evaluated as defined in the framework agreement.

The overall weighting for each criterion is shown in the table below.

Criteria	Weighting
Quality	[Can be between 20 % and 40%]
Service Fit (This could be a presentation)	[Can be between 20 % and 40%]
Price: Value for Money	[Can be between 20 % and 40%]
Total	[The above must total 100%]

Providers will be scored on their responses to the Provider Questions in Section 5 in relation to the requirements of the specification.

Quality – X%

The weighting applied to each of the quality sub criteria is shown in the table below:

Quality	X%*
	x%
	x%
	x%
	x%

** Sub-criteria must add up to this amount*

Service Fit – X% (This could be a presentation or written questions. If you choose to hold moderation interviews please insert the areas of the presentation you would like covered and their appropriate weighting below. Alternatively please enter any questions and their weightings)

Service Fit	X%*
	x%
	x%
	x%
	x%

** Sub-criteria must add up to this amount*

Marking Scheme for Quality & Service Fit

All questions will be scored using the following descriptors. If the answer to any question receives a score of zero or 1 the supplier's entire proposal will be rejected.

DESCRIPTOR	MARK AWARDED
Applicant fails to provide a response or Applicant provides a response of such a poor standard as to provide no confidence that the Applicant meets the requirements.	0
Applicant provides a response of such a poor standard as to provide little confidence that the Applicant meets the requirements. The response shows many or all of the issues listed at mark 2.	1
A response with some clear strengths but giving some concern, because some of the following apply: • The question is only answered in part; and/or • The approach described appears to only partially meet the requirement; and/or • The approach described appears not to deliver expected levels of (as appropriate) functionality, performance, environmental performance, outcome, ease of use or other relevant characteristics; and/or • The approach does not reflect accepted good practice; and/or • The response is insufficiently specific; and/or • The supporting documents (where requested) are of insufficient quality, depth or relevance.	2
An acceptable response, with some degree of weakness but where the weakness does not cause fundamental concerns and is outweighed by the strengths.	3
A good response where the strengths clearly outweigh any minor weakness(es), and the majority of aspects below apply: • All aspects of the question are fully answered; • The approach described fully meets the requirement; • The approach reflects accepted good practice; • The response is tailored to the requirement and, where relevant, to specific circumstances; • The approach offers good levels of (as appropriate) functionality, performance, environmental performance, outcomes, ease of use and other relevant characteristics; and • The supporting documents (where requested) are of good quality, relevant and of sufficient depth.	4
An excellent response with all relevant bullet points from a mark of 4 applying.	5

Price – X%

Each pricing element will be evaluated separately. Marks are awarded using the following steps:

- Eliminate any bid which is found to be too low to be credible (after making enquires described in sub-paragraph 9.11a of the CIPFA Code of Practice) or too high to be acceptable (considerably higher than the norm).
- Calculate the mean (arithmetic average) for prices submitted
- Half of the points available for the pricing element will be given to the mean (i.e. 2 of 4)
- For prices below the mean, add 2% of the total points (e.g. 0.08 of 4) for each 1% of the tender price below the mean.
- For prices above the mean, deduct 2% of the total price points (e.g. 0.08 of 4) for each 1% of the price above the mean.

SECTION 4 – PROCUREMENT TIMETABLE

PROCUREMENT TIMETABLE

The procurement is intended to follow the time-line below:

1	Further Competition Issued	7 July 2017
2	Deadline for Clarification questions	14 July 2017
3	Issue responses to clarifications	21 July 2017
3	Deadline for Further Competition responses	1 August 2017
4	Evaluation	Date
5	Presentation to Officers	Date [Optional]
6	Agreement by Pension Fund Committee	18 September 2017
7	Issue intention to award letter	20 September 2017
8	Standstill Period	Date [Typically 10 days]
9	Contract Award	1 October 2017

SECTION 5 – PROVIDER QUESTIONS

Quality – X%

Service Fit – X%

SECTION 6 – PRICING SCHEDULE (You do not have to use the pricing questions set below. However these are the exercises the ceiling prices are based on)

Illustrative Role Definitions – All Lots

	Notes (typical experience, qualifications)
Director / Partner	Extensive relevant experience, nationally or internationally renowned as an expert. Extensive experience of leading or directing major complex, business critical projects, bringing genuine strategic insight. Typically we would expect a person in this category to have a minimum of 10 years relevant experience
Managing Consultant	Substantial relevant experience and in a consultancy / training role. Previous experience of at least 5 major projects. Typically we would expect a person in this category to have a minimum of 10 years relevant experience
Principal Consultant	Substantial relevant experience and in a consultancy / training role. Previous experience of at least 3 major projects. Typically we would expect a person in this category to have a minimum of 8 years relevant experience
Senior Actuary	Fully qualified actuary and Member of the Institute and Faculty of Actuaries (IFoA) with 5 years relevant experience,
Qualified Actuary	Fully qualified actuary and Member of the Institute and Faculty of Actuaries (IFoA)
Senior Consultant	Substantial relevant experience including working with a range of high quality and relevant projects; familiar with the issues / problems facing public sector organisations. Typically we would expect a person in this category to have a minimum of 5 years relevant experience
Consultant	Notable relevant experience and in depth knowledge. Able to support work in process and organisational design and lead workshops and events. Typically we would expect a person in this category to have a minimum of 3 years relevant experience
Junior Consultant	Demonstrable relevant experience; evidence of client facing experience and support services. Typically we would expect a person in this category to have a minimum of 2 years relevant experience
Programme Manager	Extensive relevant experience, nationally or internationally renowned as an expert. Extensive experience of leading or directing major complex, business critical projects, bringing genuine strategic insight. Typically we would expect a person in this category to have a minimum of 10 years relevant experience
Project Manager	Substantial relevant experience and in a project manager role. Previous experience of at least 5 major projects. Typically we would expect a person in this category to have a minimum of 10 years relevant experience
Trainee Actuary	Qualified to degree level and undertaking their Actuarial training.
Professional Staff	Non actuarial support staff
Project Support Officer	Experience in project management, planning or support, with responsibilities for tasks and projects within the portfolio, and with some budget responsibility.
Other (Applicant defined)	

Other (Applicant defined)	

Please provide your schedule of best prices for the Council. Please complete all sections of the pricing schedule.

Hourly and Day Rates

Maximum Hourly and Day Rates shall be inclusive of travel and related expenses (including overnight accommodation costs) to the Base Location.

Day Rates are based on Working Day consisting of eight (8) hours (excluding breaks).

For information purposes only please provide your pricing structures applicable to this Further Competition for the following:

	Maximum Hourly Rate (inclusive of any expenses) £	**Maximum Daily Rate (inclusive of any expenses) £**
Director / Partner		
Senior Actuary		
Qualified Actuary		
Trainee Actuary		
Professional staff, Non Actuarial support staff **User defined:** **User defined:**		

Using the prices set out above please set out your pricing proposal with supporting notes for providing the following services and activities:

		Notes	Indicative Price
1	**Actuarial advice about outsourcing or new admission bodies**		
2	**Data quality and cleansing support**		
3	**Employer covenant review**		

Valuation and Asset Liability Modelling

Please provide your prices and supporting information for Actuarial Valuation and Asset Liability studies.

	Actuarial valuation, to include as a minimum:	Total Maximum Price	Supporting notes
	♦ Actuary's report ♦ Rates and adjustment certificates ♦ Surplus certification for the Awarding Authority and each of the scheduled admission and resolution bodies ♦ 2 x one day meetings, one of which is for presentation of results to trustee committee ♦ Responding to internal / external audit queries ♦ Pre-valuation meeting – to discuss valuation approach ♦ Pre-valuation discussion document on data issues, methodology and assumptions		

1.1 Activity Pricing

Please provide your maximum unit prices for the following requirements:

		Unit price	Breakdown of calculation	Weighting
a	Preparation of opening funding position (allocated assets and liabilities) for new employer together with employer's contribution rate on open or closed basis.	£		x%
b	Preparation of opening funding position (assets and liabilities allocated) plus open and closed employer contribution rate and calculation of bond amount for new transferred admission body in format suitable for inclusion in procurement information for a contract letting authority	£		
c	Cessation Valuation for transferee admission body (ongoing basis)	£		
d	Cessation Valuation for Community Admission Body (minimum risk basis)	£		
e	Calculation of Bond amount for single employer	£		
f	Response to standard auditors letter re IAS19/FRS17 reporting for an employer or group of employers	£		
	TOTAL	**£**		**x%**

1.2 Pricing Exercises

Using the pricing detail you have provided above, please show how your prices would apply to the following exercises. Pricing should be inclusive off any ongoing costs that your organisation incurs in maintaining regulatory and professional standards and requirements appropriate to producing statutory valuations for Local Government Pension Schemes.

Exercise 1 (valuation and asset liability modelling)

Please show how your pricing model for valuation and asset liability modelling would apply to the following model Funds A and B by completing exercises 1a and 1b below.

Model Fund A: fund details

Active employers		100
Comprising:	Transferee Admission Bodies	10
	Community Admission Bodies	10
	Designating Bodies	40
	Administering Authority	1
	Scheduled Bodies	39
Inactive employers		50
Total assets as at 31 March 2015		£2bn
Total Liabilities at 31 March 2015 (on-going basis)		£2.5bn
With the above:		
	30 of the designating bodies are pooled (individually tracked underlying positions)	
	3 of the scheduled bodies from a second pool (individually tracked funding positions)	
Total employer record codes		150
<u>Events since last valuation</u>	10 New employers (5 TABs, 1 CAB, 4 Academy Schools) - opening funding positions calculated at date of transfer	
	5 employers ceased (1 CAB, 4 TABs) - termination valuations carried out at date of cessation	
	12 bulk transfers have occurred between employers of the fund (detailed calculations undertaken at time of each exercise)	
	2 bulk transfers in have been settled with external funds (detailed calculations undertaken at time of transfer settlement)	
	2 bulk transfer out have been settled with external funds (detailed calculations undertaken at time of transfer settlement)	

Exercise 1.2a - Model Fund A pricing exercise

Actuarial Valuation	Supporting notes	Role	Number of Hours	Hourly Rate £	Price £
Total price (weighting x%)					**£**

Model Fund 1.2b: fund details

Active employers		40
Comprising:	Transferee Admission Bodies	10
	Community Admission Bodies	5
	Designating Bodies	10
	Administering Authority	1
	Scheduled Bodies	12
Inactive employers		10
Total assets as at 31 March 2015		£600m
Total Liabilities at 31 March 2015 (on-going basis)		£800m
Total employer record codes		50
<u>Events since last valuation</u>	5 New employers (2 TABs, 3 Academy Schools) - opening funding positions to be calculated as part of valuation process	
	3 employers ceased (2 TABs, 1 CAB) - termination valuations carried out at date of cessation	
	5 bulk transfers have occurred between employers of the fund (detailed calculations to be undertaken as part of the valuation)	

	1 bulk transfers in has been settled with an external funds (detailed calculations undertaken at time of transfer settlement)
	1 bulk transfer out has been settled with external funds (detailed calculations undertaken at time of transfer settlement)

Exercise 1.2b - Model Fund B pricing exercise

Actuarial Valuation	Supporting notes	Role	Number of Hours	Hourly Rate £	Price £
Total price (weighting x%)					**£**

1.2a – Actuarial Valuation Total Price	**£**	**x%**
1.2b – Actuarial Valuation Total Price	**£**	**x%**

Exercise G1.3 (Financial Reporting exercise)

Please show how your pricing structure would apply in the following three financial reporting scenarios (1.3a, 1.3b and 1.3c). Please include relevant supporting information for your calculations

Exercise 1.3a

Reporting Date 31 March	**Detailed Breakdown of price calculation**
80 Reports (Ten employers reporting for first time. All single reports) Comprising:	
70 Reports Single employer record code (Including the ten referred to above)	
5 Reports Five single employer codes	
5 Reports Ten employer record codes. 5 codes have transferred to that employer during the period at separate transfer dates.	
In addition: Ten of the employers also require the incorporation of unfunded liabilities in the reporting (single employer record code) Two of the employers (single employer record code) are reporting for the 1st time but will require comparatives at the previous balance sheet date.	
Total Price (weighting x%)	**£**

Exercise 1.3b

Reporting Date 31 March 40 Reports (Two employers reporting for first time) Comprising	**Detailed Breakdown of price calculation**
30 Reports Single employer record code	
5 Reports Two employer record codes	
3 Reports Five employer record codes	
2 Reports Ten employer record codes	
In addition: ♦ Ten of the employers also require the incorporation of unfunded liabilities in the reporting (single employer record code) ♦ Two of the employers (single employer record code) are reporting for the 1st time but will require comparatives at the previous balance sheet date.	
Total Price (Weighting x%)	**£**

Exercise G1.3c

Reporting Date 31 July 8 Reports In addition four of the employers also require the incorporation of unfunded liabilities in the reporting (single employer record code)	**Breakdown of price calculation**
Total Price (weighting (x%)	**£**

Exercise	**Price**	**Weighting**
Financial Reporting - Exercise 1.3a Total price	£	x%
Financial Reporting – Exercise 1.3b Total price	£	x%
Financial Reporting – Exercise 1.3c Total price	£	x%

Annex A

1. Format and content of response ***(You may wish to vary the section depending on how you wish suppliers to submit their further competition)***

1) **Providers shall provide 2 paper copies and one electronic copy (on a USB memory stick or CD-ROM) of their response, in Microsoft Word compatible with Microsoft Office 2003 set to 'read only' or submitted in PDF form**
2) Electronic submissions must <u>not</u> be password protected and electronic media must <u>not</u> be encrypted.
3) Applicants are to answer all questions.
4) Tenders are to be submitted on plain white A4 paper. Applicants’ responses shall be clearly legible and in at least 11 point type, on a line spacing of at least 1.2 times the type size.
5) Documents shall not include any embedded objects which appear in the printed copy as icons, rather than in full.
6) Proposals shall not contain any attachments or text other than that requested, and [the Council] will disregard any information contained therein.
7) The answer to each question shall be self-contained (except where reference is made to the ‘supplier catalogue’). Responses such as ‘see answer to question x’ are not acceptable, nor are responses which refer to or assume knowledge of existing arrangements.
8) Providers should not assume that the evaluators have any prior knowledge of their organisation, its capabilities or the solutions it offers.
9) Providers are reminded that their proposal should respond specifically to [the Council’s] requirements. Generic responses which do not take account of [the Council’s] requirements and circumstances are unlikely to achieve good marks.

Annex B

2. Submission of tender documents (You may wish to vary the section depending on how you wish suppliers to submit their further competition)

1. The completed tender documents must be delivered in **a plain, opaque, sealed parcel** addressed to:

   Address 1
   Address 2
   Address 3
   Address 4
   Address 5

2. The parcel **must** be clearly marked:

   TENDER: [YOUR REFERENCE] Actuarial, Benefits and Governance Consultancy Services

3. The parcel **must not** bear any name or other distinguishing mark (including any mark made by a franking machine) identifying or indicating the identity of the sender, Applicant or consortium.

4. The parcel **must not** be accompanied by any delivery slip or similar document affixed to or delivered with the parcel by any courier company, indicating the identity of the sender, Applicant or consortium.

5. The parcel **must** be sealed in such a way that the officers opening it for [the Council] can satisfy themselves to their reasonable satisfaction that the contents have not been read or tampered with after dispatch.

6. If you deliver your completed proposal by hand, please deliver it between [opening times]. Deliver the completed proposal to the [reception desk] [at Address] and request a receipt.

7. Do not deliver the proposal to members of the Procurement Team or the individual department

[The Council] must safeguard the confidentiality and integrity of tenders submitted until the official opening. Accordingly, [the Council] will interpret the above requirements strictly and reject any tender which does not comply.

The parcel must be received no later than [time] on the submission date. [The Council] will not consider any late responses to this Invitation nor will it consider requests for extension of the time or date fixed for the submission of responses. It may, however, in its own absolute discretion extend the time or date fixed for submission and in such circumstances [the Council] will notify all Providers of any change.

ITT FOR [YOUR REFERENCE] – Actuarial, Benefits and Governance Consultancy Services for [Letting Authority]

To be received no later than [time] on [date]

ADDRESS 1
ADDRESS 2
ADDRESS 3
ADDRESS 4
ADDRESS 5

REPORT FOR:	**Pension Fund Committee**
Date of Meeting:	28 June 2017
Subject:	**Information report –** Investment Consultancy Services Contract
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	None

Section 1 – Summary

Summary

This report advises the Committee of the current position as regards the procurement of Investment Consultancy Services from 1 January 2018.

Harrow COUNCIL LONDON

Section 2 – Report

1. At their meeting on 7 March 2017 the Committee were advised that, taking into account a short term waiver under the Council's Procurement Regulations, the current contract for Investment Consultancy Services, awarded in 2011 to Aon Hewitt Ltd would terminate on 18 September 2017 (subsequently amended to 31 December 2017).

2. The Committee were further advised that an effective and efficient way to let a new contract could be via "framework" arrangements currently administered by Norfolk County Council. Officers felt that it would be most appropriate to investigate the procedure further and recommend an appropriate strategy to the Committee.

3. Norfolk County Council have advised that the, then, current framework has expired. They have started the process of letting a new framework which they are planning to have in place in October 2017

4. As indicated above, the current contract with Aon Hewitt runs until the end of December 2017 and the Committee will be updated on the position at their next meeting on 18 September 2017.

Financial Implications

5. There are clearly significant financial implications arising from the appointment of professional advisers to the Committee and the advice they give. However, there are no financial implications arising from this report.

Risk Management Implications

6. The Pension Fund has its own risk register which includes the risks identified in connection with the appointment of, and the advice provided by, the Committee's professional advisers.

Equalities implications

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

Council Priorities

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

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert		✓	Director of Finance
Date: 12 June 2017			

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:	28 June 2017
Subject:	Performance Measurement Services
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	None

Section 1 – Summary and recommendation

Summary

This report advises the Committee of the latest position in respect of the performance measurement services being provided by Pension and Investment Consultants Limited and recommends that additional services be purchased. According to Part 3A, Responsibility for Functions of the Council's Constitution the Pension Fund Committee is under a duty to administer all matters concerning the Council's pension investments in accordance with law and Council policy.

Recommendation

The Committee are recommended to agree that Pension and Investment Consultants Limited be contracted to provide bespoke performance measurement services as described in paragraph 3 at an annual fee, subject to inflation uplifts, of £8,500 and a one-off charge of £4,000.

Harrow COUNCIL
LONDON

Section 2 – Report

1. At their meeting on 7 March 2017 the Committee were provided with an update on the services then being provided by Pension and Investment Consultants Limited (PIRC). The contract with the Fund stipulates the services to be provided as:

    - Participation in the Local Authority Universe – fund and portfolio data reviewed, standardised and incorporated in the aggregate
    - Provision of quarterly and annual Universe results and analysis
    - Provision of annual league tables and analysis
    - Provision of Universe research

2. These services are being provided but additional important bespoke services for the Harrow Fund are not. This restricts the ability of the Committee and officers to fully understand the performance of the Fund.

3. The Committee have been advised that PIRC also offer individual / bespoke consultancy services at additional costs and the Committee are now asked to consider this. PIRC have provided a quotation as follows:

    Please find below a quotation for provision of performance measurement services to the Harrow Pension Fund.
    We would propose, subject to further discussion with the fund, that we would provide, on a quarterly basis a performance report incorporating the overall fund performance relative to its benchmark over the latest period and longer term periods as defined by yourselves. We would also calculate the total fund benchmark on an including and excluding currency hedging basis so that the impact of the hedging can be clearly identified.
    The report would include the performance of the individual portfolio managers relative to their benchmarks over the same periods. We would include some attribution analysis so that what is driving the relative performance can be easily identified.
    On an annual basis we would provide a fuller analysis that would be presented to the committees by one of our consultants to allow a more in depth analysis of the numbers and the market background.
    The fee for providing this service would be £8,500 (ex VAT), with an annual review subject to inflation uplifts (in line with the CPI, RPI measure the fund uses).
    The quotation is based on the fund having the existing structure with the managers supplying performance data for their portfolio and benchmark directly to us, ideally on a monthly basis. If the structure altered significantly we would reserve the right to alter the fee to reflect any additional work (or, conversely to reduce the fee to reflect reduced workload)
    There will be a one off fee of £4000 to cover the work involved in creating portfolio level historical data, incorporating any historical data that was secured from State Street and / or data directly from the managers and bridging the gap since the formal measurement ceased.

4. If the Committee agree to entering into a contract for these services PIRC have indicated that they will be able to provide a report and presentation for the Committee's next meeting. The provision of the additional services would also allow officers to improve the commentary currently included in the Fund's annual report and at each of the Committee's meetings.

5. The Committee are therefore recommended to agree to the purchase of the services from PIRC as described in paragraph 3 above at an annual fee, subject to inflation uplifts, of £8,500 and a one-off charge in 2017-18 of £4,000.

Financial Implications

6. The expenditure recommended of £12,500 in 2017-18 and £8,500 (subject to inflation increases) in subsequent years would be a charge on the Pension Fund.

Risk Management Implications

7. The risks arising from investment performance 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 Date: 15 June 2017	✓	Director of Finance
Name: Noopur Talwar Date: 19 June 2017	✓	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

REPORT FOR: **Pension Fund Commit**

Date of Meeting:	28 June 2017
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 Recommendation

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 2018 be agreed.

Section 2 – Report

A Introduction

1. This report updates the Committee on regular items as follows:
    - Draft work programme for 2017-18 (Sub-section B)
    - Performance of fund managers for periods ended 31 March 2017 (Sub-section C)
    - Issues raised by Pension Board (Sub-section D)

B Draft Work Programme 2017-18

2. Below is a draft for the Committee to consider as its programme of work for 2017-18.

18 September 2017

Update on regular items:
- Draft work programme for 2017-18
- Performance of fund managers for periods ended 30 June 2017
- Issues raised by Pension Board

Investment Strategy Statement
Investment strategy
Property investment
Investment manager monitoring
Pooling and London Collective Investment Vehicle
Medium term cashflow
Audited Annual Report and Financial Statements 2016-17
Management expenses
Quarterly trigger monitoring
Performance measurement services
Training programme
Monitoring of operational controls at Insight
Review of actuarial and investment consultancy contracts
Environmental, social and governance Issues
Training session at 5.30 – Infrastructure / property

11 October 2017 – "Meet the Managers"

21 November 2017

Update on regular items:
- Draft work programme for 2017-18 and 2018-19
- Performance of fund managers for periods ended 30 September 2017
- Issues raised by Pension Board

Investment manager monitoring
Pooling and London Collective Investment Vehicle
Quarterly trigger monitoring
Environmental, social and governance Issues
Training session at 5.30 – tbc

7 March 2018

Update on regular items:

- Draft work programme for 2018-19
- Performance of fund managers for periods ended 31 December 2017
- Issues raised by Pension Board

Investment manager monitoring
Pooling and London Collective Investment Vehicle
Monitoring of operational controls at managers
External Audit plan
Training programme 2018-19
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 31 March 2017 and 31 May 2017

5. Attached is a table summarising the Fund valuation at 31 March 2017 and 31 May 2017 and movement in the fund valuation 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. The Fund now subscribes to the service provided by Pension and Investment Consultants Limited (PIRC) but they do not yet have full coverage of the LGPS and the value of the service will need to be assessed over coming months. It is understood that PIRC now have 61 pension schemes within their universe which is sufficient for comparative data to be of value. Elsewhere on the agenda is a report recommending that additional services be subscribed to and the information arising therefrom will be available at all subsequent committee meetings.

7. The value of the Fund at the end of March 2017 had increased over the year from £661m to £807m (22%).This increase has been due mainly 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. There has also been a substantial "value" increase and significant percentage increase in the bonds portfolio. The Fund's hedging strategy has, of course, mitigated some of the gains. At the end of May 2017 the value of the Fund had increased further to £816m.

8. As agreed by the Committee, during the quarter ended 31 March 2017 a re-balancing exercise was carried out whereby a sum of £22m was withdrawn from the Oldfields Street global equities mandate and transferred to Cash.

D Meeting of Pension Board on 20 June 2017

9. The Pension Board met at 2.00 on 20 June with the following agenda:

- Local Pension Board Survey
- Performance Monitoring of Pensions Administration Service
- Draft Annual Report and Financial Statements for the Year Ended 31 March 2017
- Pension Fund Committee Meetings on 7 March 2017 and 10 May 2017
- Annual Review of Internal Controls at Longview Partners
- Pension Fund Risk Register
- Work Programme 2017-18

10. Any matters raised by the Board will be reported verbally

Financial Implications

11. 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 it as its main purpose is to provide an update on regular items.

Risk Management Implications

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

Equalities implications

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

Council Priorities

14. 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: 13 June 2017	✓	Director of Finance
Name: Noopur Talwar Date: 19 June 2017	✓	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

31 March 2017 and 31 May 2017

Asset Class	Value 31.03.2017 £'000	Value 31.05.2017 £'000	Movement YTD (Mar to May17)	Allocation 31.05.2017 %	Strategic Allocation %	Strategic Range %
Global Equities						
Longview (Hedged)	86,214	87,933	**1.99%**	11	11	
State Street	267,791	269,487	**0.63%**	33	31	
GMO	94,156	94,752	**0.63%**	11	10	
Oldfields	83,455	81,301	**-2.58%**	10	10	
Total Global Equities	531,616	533,473				
Total Equities	**531,616**	**533,473**	**0.35%**	**65**	**62**	**58-68**
Private Equity						
Pantheon	19,341	19,341	**0.00%**			
Total Private Equity	19,341	19,341		2	5	4-6
Property						
Aviva	64,409	64,581	**0.27%**			
Total - property	64,409	64,581		8	10	8-12
Bonds						
Blackrock - FI	80,804	82,335	**1.89%**	10	10	10
Blackrock - IL	20,079	20,336	**1.28%**	3	3	3
Total Bonds	100,883	102,671	**1.77%**	13	13	11-15
Alternatives						
Insight	29,096	29,768	**2.31%**	4	5	5
Standard Life	29,324	29,695	**1.27%**	4	5	5
Total Alternatives	58,420	59,463	**1.79%**	8	10	8-12
Cash & NCA						
Cash Managers	52	764				
Cash NatWest	30,901	30,776				
Record passive currency hedge	-241	3,300				
Cash Custodian (JP Morgan)	12	6				
Debtors and Creditors	1,033	1,880				
CIV Investment	150	150				
Total Net Current Assets	31,907	36,876		4	0	
Total Assets	806,576	816,405	**1.22%**	100	100	

REPORT FOR: **Pension Fund Committee**

Date of Meeting:	28 June 2017
Subject:	Role of Co-optee
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	None

Section 1 – Summary and Recommendation

Summary
The Committee are asked to consider the role of the non-voting co-optee to the Committee.

Recommendation

The Committee are recommended to agree to the role of, and the working arrangements applying to, the non-voting co-optee to the Committee as described in paragraphs 10 and 11.

Section 2 – Report

Introduction and role of co-optee

1. At their meeting on 7 March 2017 the Committee considered a report in which they were asked, inter alia, to agree "that the appointment of a co-optee to the Committee be ceased and no nominee is put forward to Council for such an appointment."

2. The Committee resolved that "the consideration of the cessation of a co-optee to the Committee be deferred to the next meeting following the receipt of a report discussing the exact role."

3. As regards the exact role of a co-optee, Section H of the Council's Constitution includes:

   1.1 The Council may appoint non-voting co-opted members to its Committees;
   3.1 The basic rule is that co-opted members have such rights as agreed by the parent body making the appointment;
   3.3 Unless otherwise determined by the parent body ………all co-opted members and advisers will be afforded the right to:
   - Receive all agenda papers including "Part II" of confidential papers
   - Be notified of all meetings
   - Attend all meetings
   - Contribute to the consideration of all items

4. No further rights or duties are conferred on co-optees and their only stated obligations concern the non-disclosure of confidential information.

5. The appointment of a co-optee to one of the Council's committees is generally subject to annual renewal by the Council. However, the terms of reference of the Committee include exercising on behalf of the Council "all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund save for those matters delegated to other Committees of the Council or to an Officer." Assessing the support it requires from non-Councillors is clearly within this remit.

6. On 18 May 2017 the Council agreed to the appointment of co-optees to various committees but, to avoid pre-judging the consideration by the Committee, no appointment to the Pension Fund Committee was agreed.

Background

7. In June 2006 the, then, Legal and General Purposes Committee agreed to the appointment of Mr Howard Bluston as a non-voting co-optee to the, then, Pension Fund Investment Panel. Since then Mr Bluston has remained in this position (now with the Pension Fund Committee).

8. The co-optee role has not been reviewed for many years and, possibly, not since 2006.

9. Since July 2014, the Committee has had in place two independent advisers in addition to the "professional" investment adviser, Aon Hewitt and the Actuary, Hymans Robertson. The Committee is now clearly well-served for advice and the role of the co-optee warrants review.

10. Notwithstanding the amount of independent and professional investment advice available to the Committee, at their meeting on 7 March, several Members expressed appreciation of the contributions made by Mr Bluston at meetings of the Committee. It is therefore recommended that Council be asked to renew his appointment for the current Municipal Year. However, the role should be operated within that set out in the Council's Constitution with the postholder afforded the right to:
    - Receive all agenda papers including "Part II" of confidential papers
    - Be notified of all meetings
    - Attend all meetings
    - Contribute to the consideration of all items

11. There would be no "advisory" or "representative" duties attached to the role. Attendance at any meeting or function where the involvement with the Committee is a contributory factor in that attendance will be subject to officer approval and, if appropriate, an entry in the corporate hospitality register and any necessary declaration of interest.

Financial Implications

12. Non-voting co-optees are paid an allowance of £445 pa plus payments in respect of out-borough travel and subsistence expenses for approved duties which must be approved by an appropriate officer in advance. All costs are charged to the Pension Fund.

Risk Management Implications

13. The risks arising from "Committee" performance are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

15. 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: 19 June 2017	✓	Director of Finance
Name: Caroline Eccles Date: 19 June 2017	✓	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

REPORT FOR: Pension Fund Committee

Date of Meeting:	28 June 2017
Subject:	Quarterly Trigger Monitoring Q1 2017
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Quarterly Trigger Monitoring Q1 2017 (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

The Committee is recommended to consider the attached report from Aon Hewitt and agree 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. Attached is the report for the period up to 31 March 2017. 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: 15 June 2017	✓	Director of Finance
Name: Noopur Talwar Date: 17 June 2017	✓	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

Aon Hewitt

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

Date:	28 June 2017
Prepared for:	Pension Fund Committee ('the Committee')
Prepared by:	Colin Cartwright Joseph Peach

Quarterly Trigger Monitoring - Q1 2017

Introduction

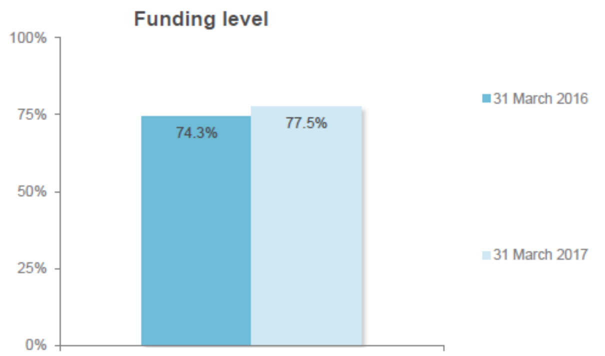
The purpose of this short report is to provide an update on the status of three de-risking triggers which the Committee have agreed to monitor on a quarterly basis. The three triggers are related to:

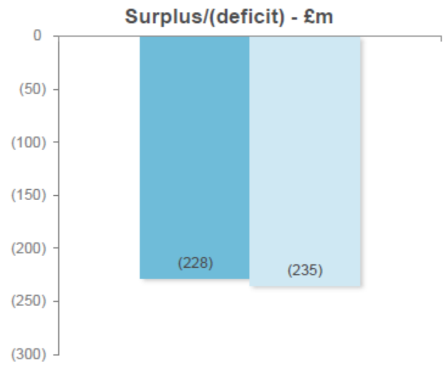
- The Fund's funding level
- Yield triggers based on the 20 year spot yield
- Aon Hewitt's view of bond yields

Funding level

The charts and table below show the Fund's funding level at the end of the quarter compared with the level at the last actuarial valuation as at 31 March 2016.

The funding level as at 31 March 2017 was 77.5%, compared to 74.3% as at 31 March 2016.





Ongoing funding basis

£m	31 Mar 2016	31 Dec 2016	31 Mar 2017
Assets	661	770	807
Liabilities	889	1,018	1,041
Surplus/(deficit)	(228)	(248)	(235)
Funding level	74.3%	75.7%	77.5%

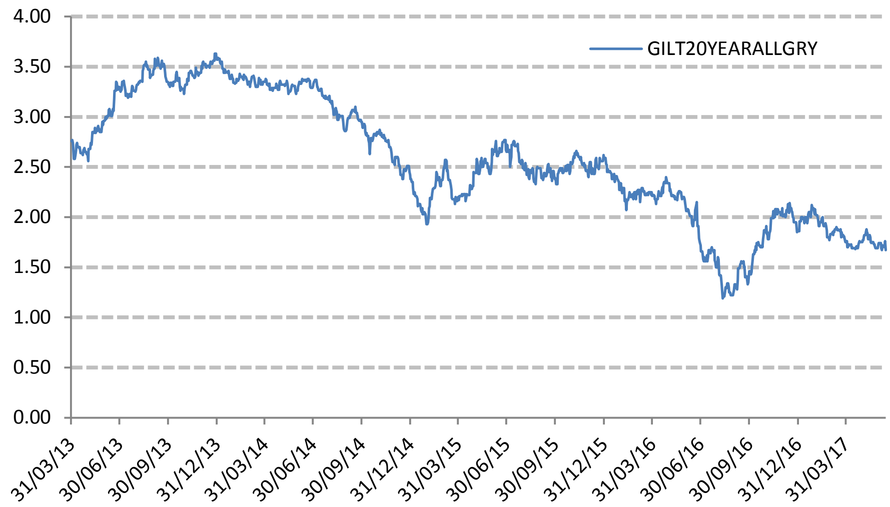
Source: Hymans Robertson

Empower Results®

20 year spot yield

The chart below shows the movement of the 20 year spot yield from 31 March 2013 to 14 June 2017. Yields ended the first quarter of 2017 at c.1.8% and, following a small rise and fall post the quarter end, remain at a similar level of c.1.7% as at 14 June 2017.

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 7 June 2017.

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

	7 June 2017	In 3 years			In 5 years		
	20 year Spot Rate	Market Pricing	AH View	Diff	Market Pricing	AH View	Diff
Real	-1.7%	-1.5%	-0.9%	+0.6%	-1.5%	-0.7%	+0.8%
Nominal	+1.8%	+2.1%	+2.5%	+0.4%	+2.2%	+2.8%	+0.6%
Breakeven*	+3.5%	+3.7%	+3.4%	-0.3%	+3.7%	+3.5%	-0.2%

* 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 the market is indicating. We also believe that the market is overstating breakeven inflation expectations.

Conclusion

Whilst there has been an improvement in funding level, long term bond yields remain at 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, whilst the Fund's investment strategy is under review.

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:	28 June 2017
Subject:	Local Pension Board Survey
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards Affected:	All
Enclosure:	Local Pension Board Survey

Section 1 – Summary

This report advises the Committee of the receipt of a survey being conducted by the Local Government Association and invites the Committee to comment on the suggested responses.

Section 2 – Report

1. On 29 May 2017 the Pension Secretary, Local Government Association (LGA) wrote to the Chair of the Pension Board in the following terms:

Dear Local Pension Board Chair - Regulation 106 of the Local Government Pension Scheme Regulations 2013 required LGPS administering authorities to establish local pension boards by 1st April 2015 to assist them in the effective administration and governance of the scheme.

Given the passage of time since the establishment of local pension boards, the Scheme Advisory Board considers that it would be appropriate and timely to test the effectiveness and operational efficiency of the new governance arrangements with particular emphasis on the role and function of local pension boards and interaction with their administering authority.

The web based survey at http://lgpsboard.org/survey.php is intended to enable the Scheme Advisory Board to identify any areas of the legislation or related guidance affecting local pension boards that may need to be reviewed to ensure that the statutory requirements of the 2013 Regulations and code of practice issued by the Pensions Regulator are being met. Where appropriate, the Board may make recommendations to DCLG for any regulatory changes that are considered necessary.

To ensure impartiality, the link to the survey is being sent separately to both the administering authority on behalf of their section 101 pension's committee and their local pension board who are invited to complete the same survey independently. However, this is not to exclude any administering authority and their local pension board from collaborating on their respective responses where this is agreed locally. The closing date for survey responses is the 28th July 2017, though this could be extended if that closing date precludes consideration of the survey by a meeting of the pensions committee or local pension board.

In cases where either a combined board or joint local pension board has been agreed by the Secretary of State, the survey should be completed by the Chair of the combined board or joint board with the agreement of the majority of board members. In the case of a joint board, the respective administering authorities will also be invited to complete the survey. To ensure that all relevant scheme stakeholders have an opportunity to participate, the website link to the survey is also being circulated to a wide range of bodies including the main local government trade unions.

Administering authorities have also been invited to publicise the survey locally on their web site.

It is appreciated that administering authorities and their local pension board have only recently completed the Pension Regulator's Public Service Governance Survey 2016. The Regulator will not be disclosing individual data to third parties whereas, unless you confirm otherwise, the Scheme Advisory Board will be able to make greater use of individual responses to their survey in assessing whether any changes to regulations or guidance need to be made.

2. On 31 May 2017 the Pensions Adviser, Workforce Team, LGA wrote to an officer of the Council, copying the Pension Secretary's email and introducing it in the following terms:

The Scheme Advisory Board (SAB) recently invited the chairs of LGPS pension committees and local pension boards to participate in a survey to assess the effectiveness and operational efficiency of the new governance arrangements with particular emphasis on the role and function of the local pension board. SAB agreed that the survey should also be extended to scheme stakeholders, in particular, the main local government trade unions.

Because of the recent local elections the SAB do not have contact details for all the chairs of LGPS pension committees and administering authorities are therefore asked to forward the message below onto their respective pension committee chairs and, for completeness, the chair of their local pension board.

3. In summary, it would appear that the LGA are seeking responses from the Chair of the Pension Fund Committee on behalf of the administering authority (LB Harrow) and the Chair of the Pension Board. It is assumed that, in preparing their responses, the two Chairs would wish to take into account the views of their members. The Board were invited to consider their response at their meeting on 20 June 2017 and the Committee are now invited to consider their reply.

4. The opportunity for collaboration between the Committee and the Board is available and the Committee's views on this are invited. However, at this stage they are asked just to consider their own response. The views of the Board will be reported verbally to the Committee.

5. Attached is a copy of the partially completed survey on which the Committee are invited to comment. Notes which the Committee might find helpful are as follows:

   Questions 1- 10
   Basic factual information completed by officers

   Question 11
   Basic factual information which could be separately annotated "No, but it operates in accordance with the Council's Constitution"

   Question 12
   Basic factual information completed by officers

Question 13
Basic factual information which could be separately annotated “Yes, declarations of interest are requested at the start of each meeting”

Questions 14 and 15
Basic factual information completed by officers

Question 16
Basic factual information which could be separately annotated “Yes, but tends to involve general guidance on facilities available rather than a structured programme”

Question 17
Not applicable - to be completed by Board

Questions 18 and 19
Basic factual information completed by officers

Question 20
No comment required

Questions 21-23
To be completed by Committee

Question 24
Basic factual information which could be separately annotated “Yes, officers attend all meetings and, on one occasion, the Vice-Chair of the Pension Fund Committee attended”

Questions 25-31
Basic factual information completed by officers

Questions 32 - 34
Basic factual information completed by officers

Question 35
Basic factual information which could be separately annotated “Yes,independent external advice is available to the Board eg the Actuary has attended on occasions”

Question 36
Basic factual information completed by officers

Questions 37 and 38
To be completed by Committee

Questions 39 and 40
Basic factual information completed by officers

Risk Management Implications

6. All 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. The financial health of the Pension Fund directly affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	✓	Chief Financial Officer
Date: 15 June 2017		

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

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

Background Papers - None

This page is intentionally left blank

Scheme Advisory Board Survey of LGPS Pension Boards - Windows Internet Explorer provided by Provided by Harrow Council

http://lgpsboard.org/survey.php — Scheme Advisory Board S...

File Edit View Favorites Tools Help

Section 1 : Compliance & Administration

Part 1

1 When did the Board first meet? (insert date DD/MM/Year)*	25/06/2015
2 How often a year is the Board required to meet?*	At least twice but no more than four times
3 How many meetings have been held to date?*	7
4 What is the number of employer representatives on the Board?*	2
5 What is the number of employee representatives on the Board?*	2
6 How was the Chair of the Board appointed?*	Selected by Board members
7 Is the Chair of the Board remunerated?*	Yes
7a What remuneration is paid?	The Council's co-optee rate of £445 pa
8 Are any other members of the Board remunerated?*	Yes
8a What is the average amount of remuneration	The Council's co-optee rate of £445
9 Are expenses paid to Board members?*	Yes
10 Is facility time given by the scheme manager to employee representatives of the Board?*	Yes

Part 2

11 Is there a written constitution for the Board?* — No

12 Does the Board have a terms of reference?* — Yes

13 Does the Board have a conflict of interest register?* — Yes

14 Do you keep a register of breaches of the law?* — Yes

15 Is there a risk register?* — Yes

16 Is there a programme for Board members to acquire knowledge and understanding?* — Yes

17 Where "YES" has been given as the answer to Questions 11 to 16, on a scale of 1 (very poor to 10 (very good), how would you evaluate :-

i) the constitution	1	10
ii) the terms of reference	1	10
iii) the conflict of interest register	1	10
iv) the register of breaches	1	10
v) the risk register	1	10
vi) the knowledge and understanding programme	1	10

18 Is personal liability or indemnity insurance available to Board members?* — Yes

19 Is the Board compliant with guidance issued by the Scheme Advisory Board?* — Yes

20 If the answer to Question 19 is "No", give reasons below :-

21 Give up to three examples where you think the Board is working well :-

22 Give up to three examples where you think the Board could improve what it does:-

Section 2 : Operation and Working Relationship

23 On a scale of 1 (very poor) to 10 (very good), how would you evaluate :-

i) the relationship between the administering authority and the board?	1	10
ii) the relationship between the pensions' committee and the board?	1	10
iii) the board's ability to identify non-compliance with legal requirements?	1	10
iv) the board's ability to make recommendations to the administering authority when non compliance has been identified?	1	10
v) the administering authority's response to any such recommendations?	1	10
vi) the effectiveness of communication between the administering authority, pensions' committee and the board?	1	10
vii) the knowledge and understanding programme available to the board?	1	10

24 Has the administering authority in any capacity attended any local pension board meetings?* — Yes

25 In the last 12 months, have any breaches of the law been identified by the local pension board?* — No

26 Who is responsible for agreeing the agenda for local pension board meetings?* — ving taken advice at each Board meeting

27 Have any local pension board meetings not been quorate?* — No

28 Is voting a regular feature of local pension board meetings?* — No

29 Does the local pension board have a webpage on the administering authority's web site?* — Yes

30 Does the local pension board have a workplan?* — Yes

31 Has the local pension board agreed any success measures/KPIs for its work?* — Yes

32 Has the local pension board produced an Annual Report?* — Yes

33 Are the local pension board's papers agenda, papers, etc, available on the board's webpage?* — Yes

34 Does the local pension board have control of a budget?* — No

35 If it has a budget, can it be used to access independent external advice?* — Yes

36 Does the local pension board have access to internal and external audit reports?* — Yes

37 Describe below any ways in which you think the working relationship between the administering authority, pensions' committee and the board could be improved.

38 Use the space below to comment on any other aspect of the new governance arrangements that you consider to be relevant.

39 Please confirm the capacity in which you are completing this survey*

Local pension board chair

40 Please confirm the name of the organisation/pension board you represent*

London Borough of Harrow

Submit

Start

11:33
06/06/2017

This page is intentionally left blank

REPORT FOR: Pension Fund Committee

Date of Meeting:	28 June 2017
Subject:	**Information Report** – Pension Fund Risk Register
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Risk Register

Section 1 – Summary

Attached to this covering report as an appendix is a revised risk register for the Pension Fund on which the Committee's comments are invited.

FOR INFORMATION

Section 2 – Report

1. In accordance with best practice the Pension Fund has had in place a risk register which was first considered by the Pension Fund Committee in March 2015.

2. In 2016 the register was reviewed and the current version was agreed by the Committee on 21 June 2016.

3. Now that a further year has passed it is appropriate to review the register again. The views of the Pension Board have been invited and will be reported verbally to the Committee.

4. An updated version is attached on which the Committee's comments are invited. The Committee's attention is particularly drawn to the three "red" risks numbered 24, 25 and 26.

Financial Implications

5. The proper management of risk plays a key role in the successful financial management of the Pension Fund

Risk Management Implications

6. Risk management is the subject of this report.

Equalities implications

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

Council Priorities

10. The performance 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: 15 June 2017

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

PENSION FUND RISK REGISTER

LIKELIHOOD				
A Very high				
B High			24, 25, 26	
C Significant	44	15, 17, 23		
D Low	27, 41	2, 3, 8, 11, 16, 18, 19, 30, 49	1, 13, 14, 22	
E Very Low	29, 42, 43, 48	4, 9, 10, 35, 36, 38, 40, 45, 47, 50, 51, 52, 53, 54, 55, 57, 58	5, 6, 7, 12, 21, 28, 31, 32, 33, 34, 37, 39, 46, 59, 60	
F Almost Impossible			20, 56	
IMPACT	4 Negligible Impact/Benefit	3 Marginal Impact / Minor Benefit	2 Critical Impact / Major Benefit	1 Catastrophic Impact / Exceptional Benefit

DEFINITION OF TERMS

LIKELIHOOD

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

IMPACT

Catastrophic Services could not be sustained or major project fails to deliver
Critical Serious dfisruption to services
Marginal Small effect on services
Negligible Trivial effect on services

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
	REGULATORY								
1	Changes to national pension requirements and/or HMRC rules not being implented	The Administering Authority considers all consultation papers and new regulations and, with assistance from its advisers and suppliers, implements them as appropriate	D2	D2		Treasury and Pension Fund Manager	D2		Director of Finance
2	Time, cost and/or reputational risks associated with the Section 13 analysis.	Advice is taken from the Actuary to ensure that the valuation and administration approaches are in accordance with best practice.	D3	D3		Treasury and Pension Fund Manager	D3		Director of Finance
3	Changes by regulation to particular employer participation in the Local Government Pension Scheme with impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers and new regulations and, with assistance from its advisers, implements them as appropriate including amending strategies as appropriate.	D3	D3		Treasury and Pension Fund Manager	D3		Director of Finance
4	Failure to make appropriate and timely investments in the London Collective Investment vehicle to satisfy Government requirements.	Progress on the development of the CIV and the Fund's relationship with it are reviewed at every meeting of the Pension Fund Committee. An investment strategy has been agreed and is reviewed regularly.	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
	GOVERNANCE								
5	Those charged with governance of the Fund are unable to fulfil their responsibilities effectively	The Pension Fund Committee including a co-optee and as advised by an Investment Adviser, two independent advisers and officers is a properly constituted Committee of the Council and is able to exercise governance of the Fund in a robust manner	E2	E2	Whilst the governance of the Fund is considered to be of a high standard there remains an aspiration to improve	Treasury and Pension Fund Manager	E3	2018	Director of Finance
6	Pension Fund Committee members have insufficient knowledge to make correct decisions	Regular training is provided via a structured training programme to allow Members to review and challenge recommendations. Actuarial, investment, independent and officer advice is available to assist Members in making their decisions. The Council's in-house Legal Department provides advice as appropriate.	E2	E2	Whilst the knowledge of the Committee Members is considered to be of a high standard there remains an aspiration to improve.	Treasury and Pension Fund Manager	E3	2018	Director of Finance
7	Inadequate investment and actuarial advice is available to the Pension Fund Committee or sound advice is not heeded	Properly considered appointment of actuary and investment adviser with relevant experience and professional standards in place. Appointment of additional independent advisers. The Administering Authority, via its Pension Fund Committee and Pension Board maintains close contact with its specialist advisers and, in addition to receiving "statutory" reports, has made a number of requests for specific reports from them. Advice is delivered by formal meetings and recorded appropriately.	E2	E2		Treasury and Pension Fund Manager	E2		Director of Finance
8	Officers do not have sufficient knowledge and experience to advise the Committee and manage the Fund.	Suitably qualified staff appointed. Ongoing professional development (including training and technical reading); liaison with other funds and professional bodies and other networks. Training and development needs monitored through annual and monthly meetings with managers. Use of external advisers where appropriate.	D3	D3	Improvements are constantly sought and the staff currently in post exhibit the potential for improvement.	Treasury and Pension Fund Manager	E3	2018	Director of Finance
9	Failure to adhere to relevant statutory regulations including updates from LGPS	Investment and Administration sections review DCLG website, other literature and have networking arrangements to ensure they remain up-to date. Sufficient resources are in place to implement LGPS changes while continuing to administer the scheme. Membership of relevant professional groups ensures any potential changes in statutory requirements are properly implemented	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
10	Non-compliance with LGPS investment regulations on permitted investments	Investment Strategy Statement and investment management mandates are structured to ensure compliance. Robust monitoring arrangements for investment managers are in place.	D3	E3	Regular review of regulations should ensure improvement	Treasury and Pension Fund Manager	E3		Director of Finance
11	Failure to make provision for the proper oversight of the administration of the Fund	The appointment of the Pension Board assists in the provision of oversight.	D3	D3	The development of the Pension Board should lead to improvements	Treasury and Pension Fund Manager	E3		Director of Finance
	FUNDING - ASSETS AND LIABILITIES								
12	Pension Fund objectives are not defined and agreed	Objectives are defined in the Funding Strategy Statement which is reviewed regularly by the Pension Fund Committee	E2	E2		Treasury and Pension Fund Manager	E2		Director of Finance
13	The Fund's assets are not sufficient to meet its long term liabilities. Fall in returns on Government bonds leading to rise in value placed on liabilities and an increase in deficit	Fund assets and liabilities are subject to regular assessment through triennial actuarial valuations. The Fund's investment strategy, as described in the Investment Strategy Statement, is regularly reviewed to seek to ensure that optimum returns are realised to meet its liabilities. Stabilisation modelling allows for the probability of the fall in returns on Government bonds within a long term context.	D2	D2		Treasury and Pension Fund Manager	D2		Director of Finance
14	The relative movement in the value of the Fund's assets does not match the relative movement in the Fund's liabilities	Fund assets and liabilities are subject to regular assessment through triennial actuarial valuations. The Funding Strategy Statement is regularly reviewed in line with the triennial valuation with the main objective of ensuring the long term solvency of the Fund.	D2	D2		Treasury and Pension Fund Manager	D2		Director of Finance

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
15	Pay and price inflation is higher than anticipated increasing the value of liabilities	Fund assets and liabilities are subject to regular assessment through triennial actuarial valuations. The focus of the actuarial valuation is on real returns on assets, net of pay and price increases. Inter-valuation monitoring provides early warning of of adverse movements. Some investment in bonds helps to mitigate risks.	C3	C3		Treasury and Pension Fund Manager	C3		Director of Finance
16	The Fund's pensioners are living longer than assumed in actuarial assumptions thereby increasing liabilities.	At each triennial actuarial valuation life expectancy assumptions are specifically reviewed taking into account both national and local longevity experience. The Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might affect the assumptions underpinning the valuation	C3	D3		Treasury and Pension Fund Manager	D3		Director of Finance
17	Other demographic factors change increasing the cost of Fund benefits thereby increasing liabilities.	At each triennial valuation assumptions are reviewed.	C3	C3		Treasury and Pension Fund Manager	C3		Director of Finance
18	Increase in number of early retirements due to service reductions and/or ill-health retirements.	Employers are charged the "strain" cost of non-ill-health retirements; ill health retirement experience is closely monitored. Controls are included in admission agreements for new bodies joining the Fund and insurance may be available. Experience between triennial valuations is monitored and incorporated in the valuation process.	D3	D3		Treasury and Pension Fund Manager	D3		Director of Finance
19	Structural changes in an employer's membership (eg fall in active membership) leading to non-recovery of past service deficits	Monitor at each valuation and appropriate investment strategy is implemented. Past service deficits are being recovered by cash rather than percentage of payroll.	D3	D3		Treasury and Pension Fund Manager	D3		Director of Finance
20	Insufficient assets to meet short and medium term liabilities	Including investment income the Fund currently achieves an annual surplus. Medium term requirements are being reviewed. Cashflow is monitored and reconciled on a daily basis. Most of the Fund's investments can be accessed relatively quickly.	E2	F2		Treasury and Pension Fund Manager	F2		Director of Finance
21	Reductions in payroll causing insufficient deficit recovery payments	Reviewed at triennial valuation. Stabilisation mechanism permits appropriate contribution increases. Deficit contributions are a fixed monetary amount rather than a percentage of payroll.	E2	E2		Treasury and Pension Fund Manager	E2		Director of Finance
	FUNDING - INVESTMENT STRATEGY								
22	Long term investment strategy in relation to fund liabilities is inappropriate	External investment adviser, actuary and performance measurement consultant provide specialist guidance, including asset/liability and other modelling, to the Pension Fund Committee. Investment strategy options are considered as as an integral part of the funding strategy. Strategy is documented, regularly reviewed and approved by Pension Fund Committee. Strategy is in accordance with LGPS investment regulations. The Pension Fund Committee has explicitly considered its tolerance of risk and this is reflected in its allocation strategy.	D2	D2		Treasury and Pension Fund Manager	D2		Director of Finance
23	Significant allocation to any single asset category and its underperformance relative to expectation. Failure of individual investments to perform up to expectation	Diversified investment strategy and investment management structure minimises impact at fund level of any individual investment failure. Performance measurement consultant and investment adviser supply regular review of the performance of the portfolio as a whole and of the individual managers. Asset allocation is periodically reviewed and adjustments made if required. On a quarterly basis progress against de-risking triggers is measured to consider whether any action required	C3	C3		Treasury and Pension Fund Manager	C3		Director of Finance
24	General fall in investment markets leading to poor performance.	The Committee, as advised by the actuary considers long term returns. Diversification between asset classes and regular monitoring of investment performance	B2	B2		Treasury and Pension Fund Manager	B2		Director of Finance
25	Failure by fund managers to achieve benchmark (passive) or performance target (active)returns for their given mandates	Diversification of managers and asset classes mitigates the impact of a single manager under-performing. Managers are selected via an extensive process of "due diligence." Manager performance is reviewed by Committee at each meeting against benchmark and performance objectives and with investment adviser's report; poor performance is highlighted and addressed by the Committee and officers. Regular dialogue is maintained with the investment advisers and managers; the Committee meets the managers once a year and officers meet them on at least one further occasion. Procurement frameworks and adviser's advice are used to fast track the appointment of new managers if changes are required	B2	B2		Treasury and Pension Fund Manager	B2		Director of Finance

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
26	Fund assets fail to deliver returns in line with anticipated returns underpinning the triennial valuation	Long term returns are anticipated on a prudent basis and progress is analysed on at least a three year's basis. Assets are invested on the basis of specialist advice in a suitably diversified manner across asset classes, geographies, managers etc.	B2	B2		Treasury and Pension Fund Manager	B2		Director of Finance
27	Fees and charges of investment managers, actuary and investment adviser are excessive.	Both at tender stage and throughout the contracts charges which are value for money are sought and challenged when appropriate. Fees and charges are identified in the Annual Financial Statement and specifically highlighted for the Pension Fund Committee to consider. The influence of the CIV should lead to reduction in fees and charges.	D4	D4	In June 2016 the Fund received a report from CEM Benchmarking comparing its fees and charges for investment management with other funds. This report and the requirements for pooling arrangements will be used to seek savings.	Treasury and Pension Fund Manager	E4	2018	Director of Finance
28	Losses arise due to currency fluctuations	The Council has established a currency hedging strategy covering 50% of the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling. Approximately 10 major currencies are hedged most notably the US Dollar, Japanese Yen and Euro.	E2	E2		Treasury and Pension Fund Manager	E2		Director of Finance
29	Transition costs may be unexpected or excessive	The Administering Authority has significant experience of the transition process and has sufficient professional advice available to it to mitigate this risk.	E4	E4		Treasury and Pension Fund Manager	E4		Director of Finance
30	Environmental, social and governance issues reduce the Fund's abilities to generate long term returns	The Fund expects its managers to act in the best financial interests of the Fund which involves the effects of ESG issues on the performance of companies in which they invest	D3	D3		Treasury and Pension Fund Manager	D3		Director of Finance
						Treasury and Pension Fund Manager			Director of Finance
	SECURITY					Treasury and Pension Fund Manager			Director of Finance
31	Investment manager may not have appropriate control framework in place to protect Pension Fund assets	Client agreements which include the control framework are in place. Assets are held by external custodians separate from the investment managers; custodians are expected to comply with ICAEW's Audit and Assurance Faculty's guidance on internal controls of service organisations. Each investment manager's annual audit of internal controls is reviewed by officers and the Pension Fund Committee. Investment managers maintain an appropriate risk management framework to minimise the level of risk to pension fund assets	E2	E2	Whilst this risk is outside the Fund's control, most of the annual audits reveal very few exceptions to the intended control processes operating correctly. An aspiration that the likelihood is almost impossible is therefore a reasonable aspiration but timescales are dependent on the managers.	Treasury and Pension Fund Manager	F2	N/A	Director of Finance
32	Negligence, fraud or default by individual investment manager.	Legal requirements on fund managers set out in investment management agreements, FSA and other regulatory requirements; separation of investment management and custody arrangements; annual review of operational controls	E2	E2		Treasury and Pension Fund Manager	E2		Director of Finance
33	Custody arrangements may not be sufficient to safeguard fund assets	Client agreements which include the control framework are in place. External custodians comply with ICAEW's Audit and Assurance Faculty's guidance on internal controls of service organisations. Regular reconciliations carried out to check external custodian records	E2	E2	The heavy fine recently imposed on one of the most significant custodians suggests that the likelihood of the risk being realised cannot be reduced	Treasury and Pension Fund Manager	E2		Director of Finance
34	Failure of custodian	Use custodians under banking and FSA regulation	E2	E2		Treasury and Pension Fund Manager	E2		Director of Finance
35	Counterparty default in stock lending programme.	Programme managed by experienced investment manager, State Street Global Advisors with risk controls over custody arrangements, counterparty credit worthiness, exposure limits and collateral agreements in place	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
36	Investments may not be accurately valued	Investments are valued using best current practice as agreed with the investment managers. Valuations reported to Pension Fund Committee	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
	OPERATIONAL								
37	Major emergency or system failure	Business Continuity Plan in place	E2	E2		Treasury and Pension Fund Manager	E2		Director of Finance
38	Failure of pensions administration IT systems	Adequate IT systems and support in place supported by a robust Business Continuity Plan	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
39	Systems and data may not be secure and appropriately maintained	Authentication controls including regular password changes and robust user administration procedures are in place. Access rights restricted. Data is backed up on an incremental basis daily and fully backed up weekly. Audit trails and reconciliations are in place. System is protected against viruses and other system threats. Software is regularly updated to ensure LGPS requirements are met	E2	E2		Treasury and Pension Fund Manager	E2		Director of Finance
40	Failure to comply with LGPS pensions benefits regulations (eg as a result of incorrect benefit calculations and the holding of incorrect data)	Proper administration procedures in place supported by independent internal and external audit review of internal control arrangements	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
41	Contributions to the Fund are not received, processed and recorded completely and accurately in accordance with scheme rules.	Sufficient resources are in place, structured appropriately, to carry out the necessary transaction processing. Procedures exist to identify any non-payment of contributions. Internal audit reviews take place regularly and there is an External Audit review of the accounts annually	D4	D4		Treasury and Pension Fund Manager	D4		Director of Finance
42	Life events relating to scheme members eg joining the scheme, transfers in and out and retirements are not processed and recorded properly in accordance with scheme rules	Procedure notes describing all key processes are in place. Induction and training procedures are in place. Adequate staff resources are in post	E4	E4		Treasury and Pension Fund Manager	E4		Director of Finance
43	Failure to pay lump sums on time	Procedure notes describing all key processes are in place. Induction and training procedures are in place. Adequate staff resources are in post	E4	E4		Treasury and Pension Fund Manager	E4		Director of Finance
44	Overpayments made	Most overpayments result from deaths not being notified. In addition to informal contacts, life certificates are regularly sent out and Harrow is a member of the National Fraud Initiative. .	C4	C4		Treasury and Pension Fund Manager	C4		Director of Finance
45	Standing member and other data and permanent records are not accurate or do not reflect changes in circumstances	Business processes are in place to identify changes to standing data. Records are supported by appropriate documentation; input and output checks are undertaken; reconciliations are carried to between input and source records. Documentation is maintained in line with agreed policy. Data matching exercises (National fraud Initiative) identifies some discrepancies	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
46	Breach of data protection legislation.	Data security protocol	E2	E2		Treasury and Pension Fund Manager	E2		Director of Finance
47	Employers' failure to carry out their responsibilities for scheme administration.	Regular communication and guidance to employers on scheme matters	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
48	Failure by AVC providers to provide proper services to the Pension Fund.	Regular reviews undertaken.	E3	E4		Treasury and Pension Fund Manager	E4		Director of Finance
49	Concentration of knowledge in a small number of officers and risk of departure of key staff	Appoint suitably qualified staff. Ensure training and succession planning in place	D3	D3		Treasury and Pension Fund Manager	D3		Director of Finance
50	Increase in workload for employers	Maintain close relationships with employers to make them aware of likely changes. Encourage employers to take account of pensions issues when considering restructuring or contracting out. Keep abreast of new developments. Work closely with software suppliers and ICT services to manage developments and planned maintenance to minimise impact	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
51	Failure to communicate or engage with Pension Fund stakeholders	Maintain a communication and governance strategy and Governance Compliance Statement subject to regular review. Utilise a range of formal and informal communication routes with stakeholders	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
52	Increasing use of new methods of service provision eg academies, free schools without full understanding of pensions implications	Ensure all employers are aware of pensions implications and of associated legislation and guidance	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
53	Employees opting out of the scheme voluntarily	Effective communication helps members to make properly informed decisions about membership ensuring that they understand the value of membership.	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
54	Administering Authority unaware of structural changes in an employer's membership (eg large fall in employee numbers, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards eg for submission of data. The Actuary may revise the Rates and Adjustments Certificate to increase an employer's contributions between triennial valuations. Deficit contributions are expressed as monetary amounts.	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
55	Default by a participating employer	Ongoing liabilities managed through the triennial valuation process. Periods allowed to repay deficits are set depending on the value of the employer's covenant and linked to contract periods for transferee employer bodies. Any cessation lump sum required from an employer leaving the Fund is calculated on a minimum risk basis by the Actuary. Major employers are "scheduled" in regulations and backed by long term tax receipts and the constitutional permanence of local government	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
56	Administering authority failing to commission the fund actuary to carry out a termination valuation for a departing admission body and losing the opportunity to call in a debt	System of close monitoring of employers in place and, if active membership decreases, arrangements are reviewed.	F2	F2		Treasury and Pension Fund Manager	F2		Director of Finance
57	An employer ceasing to exist with insufficient funding or adequacy of a bond.	Seeking a funding guarantee from another scheme employer or external body wherever possible or a bond from a new employer. Vetting prospective employers before admission and alerting them to their obligations and sources of advice. Reviewing bond or guarantor arrangements at regular intervals and, if appropriate, reviewing contributions well ahead of cessation.	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
58	Inability or refusal of an employer to pay cessation valuation	Action through courts	E3	E3		Treasury and Pension Fund Manager	E3		Director of Finance
59	Effect of possible increase in employer's contribution rate on service delivery of Administering Authority and admission and scheduled bodies.	A stabilisation mechanism has been agreed as part of the funding strategy and other measures are in place to limit sudden increases in contributions.	E2	E2		Treasury and Pension Fund Manager	E2		Director of Finance

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
	ACCOUNTING								
60	Failure to comply with Pension Fund accounting requirements.	Sufficient properly qualified and trained staff are employed to carry out processes; knowledge is maintained via written guidance, networks, professional press and training. Accounting, management and administration processes are maintained in accordance with legislation and external regulations and the Council's Financial Regulations. Regular reconciliations are carried out between in-house records and those maintained by external custodian and investment managers. Internal audit reviews. External Audit annual review	E2	E2	Improvements are constantly sought and with the staff currently in post are being achieved.	Treasury and Pension Fund Manager	E2		Director of Finance

This page is intentionally left blank

REPORT FOR: **Pension Fund Committee**

Date of Meeting:	28 June 2017
Subject:	**Information Report** – Annual Review of Internal Controls at Longview Partners
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	None

Section 1 – Summary

The report sets out in summary the contents of the latest internal controls report from Longview Partners LLP.

FOR INFORMATION

Harrow COUNCIL LONDON

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. Each of The Fund's investment managers prepares an annual report having regard to the International Standard on Assurance Engagements 3402 (ISAE 3402), issued by the International Auditing and Assurance Standards Board, the Technical Release AAF 01/06 (AAF 01/06), issued by the Institute of Chartered Accounts in England and Wales and the control objectives for their services and information technology.

4. Under these protocols the directors/partners of each manager prepare a report focussing on key environmental, business and process issues and make commitments along the following lines:

    - the report describes fairly the control procedures that relate to their stated control objectives;
    - the control procedures are suitably designed such that there is reasonable assurance that the specified control objectives would be achieved if the described control procedures were complied with satisfactorily; and
    - the control procedures described were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives were achieved during the period specified.

5. Each of the managers has engaged a leading firm of auditors to report on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives.

6. At their meeting on 7 March 2017 the Committee received a summary of the findings from the most recent reviews as provided by eight of the Fund's ten investment managers. Since the Committee met a report has been received from Longview Partners LLP in respect of the year ended 31 December 2016, the key points from which are given below. Insight Investment have advised that their report for the year ended 31 December 2016 will be available shortly and a summary will be provided for the Committee at their next meeting.

.

Longview Partners

The report carried out by Ernst & Young LLP entitled "AAF 01/06 Assurance Report on Internal Controls for the year to 31st December 2016" included the following:

In the auditor's opinion, in all material respects:

a.) the description on pages 6 to 8 fairly presents the service organisation activities that were designed and implemented throughout the period from 1st January 2016 to 31st December 2016;

b.) the controls related to the control objectives stated in the description on pages 9 to 10 were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period 1st January 2016 to 31st December 2016;

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 1st January 2016 to 31st January (sic) 2016.

Of the 106 controls tested by the auditor, 2 exceptions were identified:

Control 4.6.1.3 – The evidences provided from the ticketing tool captured the authorisation of the change; however, these did not formally capture the testing and approved steps before deployment of the changes to production.

Mitigating controls or factors: Management performed retrospective reviews of all seven (7) changes during the reporting period and obtained written confirmation from the business owners/approvers that they had approved these changes to go into production.

Management Response: Whilst we are confident that all changes were correctly tested, approved and deployed, we agree that the Change Management ticketing system should be improved to more accurately record each stage of the change. We will implement this improvement in the coming year.

Control 4.6.1.4 – For internally developed systems, the developers move code changes to UAT and to production and therefore could bypass the Change Management process. Additionally, they have privileged access at the operating system, database and application levels, and hence, they could add, amend and remove their own access.

Management Response: Longview understands the importance of the segregation of duties for developers, however given the multifaceted role of our IT team, pure segregation of duties is unachievable. Longview has controls in our downstream processes which would highlight any unplanned changes to our internally developed systems.

Financial Implications

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

Risk Management Implications

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

Equalities implications

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

Council Priorities

10. 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:	15 June 2017		

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

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank