

# Pension Fund Committee AGENDA

**DATE:** Monday 18 September 2017

**TIME:** 6.30 pm

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

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## **MEMBERSHIP** (Quorum 3 Councillors)

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**Chair:** Councillor Nitin Parekh

**Councillors:**

Kairul Kareema Marikar

Norman Stevenson  
Bharat Thakker (VC)

**Trade Union Observer(s):**

Mr J Royle – UNISON  
Ms P Belgrave – GMB

**Independent Advisers**

Mr C Robertson  
Honorary Alderman R Romain

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**Reserve Members:**

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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](mailto:daksha.ghelani@harrow.gov.uk)

## **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.

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**Agenda publication date: Friday 8 September 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. MINUTES (Pages 7 - 18)

That the minutes of the meeting held on 28 June 2017 be taken as read and signed as a correct record.

## 4. PUBLIC QUESTIONS \*

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

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

**[The deadline for receipt of public questions is 3.00 pm, Wednesday 13 September 2017. Questions should be sent to [publicquestions@harrow.gov.uk](mailto:publicquestions@harrow.gov.uk)**

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

## 5. PETITIONS

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

## 6. DEPUTATIONS

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

**7. PERFORMANCE MEASUREMENT SERVICES** (Pages 19 - 22)

Report of the Director of Finance and Presentation from Karen Thrumble, Pensions and Investment Research Consultants (PIRC) Limited.

**8. INFORMATION REPORT - LOCAL GOVERNMENT PENSION SCHEME POOLING ARRANGEMENTS UPDATE** (Pages 23 - 28)

Report of the Director of Finance.

**9. IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DERIVATIVE (MIFID II)** (Pages 29 - 48)

Report of the Director of Finance.

**10. INFORMATION REPORT - QUARTERLY TRIGGER MONITORING** (To Follow)

Report of the Director of Finance.

**11. INFORMATION REPORT - ANNUAL REVIEW OF INTERNAL CONTROLS AT INSIGHT INVESTMENTS** (Pages 49 - 52)

Report of the Director of Finance.

**12. PENSION FUND COMMITTEE - UPDATE ON REGULAR ITEMS** (To Follow)

Report of the Director of Finance.

**13. ANY OTHER URGENT BUSINESS**

Which cannot otherwise be dealt with.

**14. EXCLUSION OF THE PRESS AND PUBLIC**

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

<u>Agenda Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
15.	Investment Strategy Review	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
16.	Information Report - Investment Manager Monitoring	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

17.	Information Report – Medium Term Cashflow	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
18.	Actuarial Contract Appointment	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

## **AGENDA - PART II**

### **15. INVESTMENT STRATEGY REVIEW (To Follow)**

Report of the Director of Finance.

### **16. INFORMATION REPORT - INVESTMENT MANAGER MONITORING (Pages 53 - 120)**

Report of the Director of Finance.

### **17. INFORMATION REPORT - MEDIUM TERM CASHFLOW (To Follow)**

Report of the Director of Finance.

### **18. ACTUARIAL CONTRACT APPOINTMENT (To Follow)**

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.]

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# PENSION FUND COMMITTEE

## MINUTES

### 28 JUNE 2017

<b>Chair:</b>	* Councillor Nitin Parekh	
<b>Councillors:</b>	* Kairul Kareema Marikar * Norman Stevenson	* Bharat Thakker
<b>Trade Union Observers:</b>	John Royle	Pamela Belgrave
<b>Independent Advisers:</b>	* Mr C Robertson * Honorary Alderman R Romain	Independent Adviser Independent Adviser
<b>Others:</b>	* Colin Cartwright * Joe Peach * Howard Bluston	Aon Hewitt Aon Hewitt

\* Denotes [Member] present

#### 201. Welcome

The Chair welcomed Councillor Kairul Kareema Marikar to her first meeting of the Pension Fund Committee.

#### 202. Attendance by Reserve Members

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

**203. Howard Bluston**

**RESOLVED:** That it be noted that in light of the report at agenda item 16 – Role of Co-optee - Howard Bluston, a former co-optee on the Committee, be invited to participate in the meeting.

**204. Declarations of Interest**

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

All Agenda Items

Councillor Norman Stevenson, a Member on the Committee, declared a non-pecuniary interest in that he was a Director of Cathedral Independent Financial Planning Ltd., and that 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.

All Agenda Items except Items 16- 23

Howard Bluston, a former non-voting co-optee on the Committee, who was invited by the Committee to participate in the meeting, 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 annual workshop. At the time of the consideration of agenda item 14 – Performance Measurement Services – he declared that he had connections with Pension and Investment Research Consultants Limited (PIRC).

He would remain in the room whilst all items, with the exception of items 16-23, were discussed and make contributions.

**205. Appointment of Vice-Chair**

**RESOLVED:** That Councillor Bharat Thakker be appointed as Vice-Chair of the Pension Fund Committee for the Municipal Year 2017/18.

**206. Minutes**

**RESOLVED:** That

- (1) subject to the following amendments, the minutes of the ordinary meeting held on 7 March 2017, be taken as read and signed as a correct record;

**Minute 180 - paragraph 3 bullet point 2**

Delete “due to an increase in rates” and insert “of interest rate levels”

**Minute 181 - paragraph beginning “Gemma Sefton”**

Delete “A prudent target.....less risky” and insert:

“Prudent assumptions were considered appropriate for the valuation whereas, for funding purposes, best estimates were seen as more



relevant. Colin Robertson was of the view that correlations were critical and he pointed out that asset classes could be added even though they did not provide high returns as they improved the risk profile of the Fund as a whole.”

**Minute 182 - paragraph beginning “Dave Lyons”**

Delete “7.14” and insert “7.12”

Delete “He added that expected.....better option”

**Minute 187**

Delete “456” and insert “56”

Delete “devoid of meaningful information” and insert “inadequate as the performance analysis was only of asset allocation and manager selection was ignored”

**Minute 189**

Delete paragraph “The Independent Advisers ..... allocation” and insert “The Independent Advisers referred to the 5-6% overweighting in equities and suggested that an adjustment to the overweight position with Oldfields could be an appropriate way of re-balancing the Fund”

**Minute 196**

Delete “In response.....actively managed”

- (2) the minutes of the special meeting held on 10 May 2017, be taken as read and signed as a correct record.

**207. Public Questions. Petitions and Deputations**

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

**RECOMMENDED ITEMS**

**208. Role of Co-optee**

The Committee received a report of the Director of Finance regarding the role of the non-voting co-optee to the Committee.

The Director of Finance introduced the report and drew attention to paragraphs 10 and 11 of the report which set out the need for the role of the non-voting co-optee to operate within the rules of the Council’s Constitution. She emphasised that attendance at other external meetings and function relevant to the Pension Fund Committee would be subject to officer approval.

The Chair provided some background to the report and Members asked questions on the cost of the training attended. The Director of Finance explained that the appropriateness of the training and conferences required careful consideration as it would be a cost to the Pension Fund. She explained that this statement only applied to external training and not that provided in-house. Representation by the co-optee at external training and conferences was also subject to officer approval.

**Resolved to RECOMMEND:** (to Council)

That the role of, and the working arrangements applying to, the non-voting co-optee(s) to the Committee, as described in paragraphs 10 and 11 of the report be agreed and that Howard Bluston be appointed as a non-voting co-optee on the Committee for the Municipal Year 2017/18.

## **RESOLVED ITEMS**

### **209. Information report - Local Government Pension Scheme Pooling Arrangements**

The Committee received a report of the Director of Finance on the development of the pooling arrangements and on progress in the Global Equities sub-funds procurement.

Colin Robertson, Independent Adviser, was of the view that the skill within the CIV for choosing Fund Managers was questionable and, in any case, more justification for the choice of manager needed to be provided. He added that some fund managers selected by the CIV were unsure as to how to attract individual authorities on board. He was also concerned that the timescale for the CIV to offer an infrastructure fund might be beyond what the government would find acceptable, as well as potentially missing out on opportunities.

Colin Cartwright, Aon Hewitt, stated that he was uncertain as to the CIV's approach to the appointment of fixed-income managers and was seeking to engage with them.

The Committee noted that the incoming Treasury and Pensions Funds Manager had expressed a desire to join the Investment Advisory Committee of the CIV which would assist the Committee.

Richard Romain, Independent Adviser, re-iterated that he was not supportive of the CIV and the manner in which it operated. He suggested that the Committee should take a stance requiring each Fund Manager to visit it on an annual basis in order to ensure accountability which rested with the Committee rather than the CIV. In response, the Chair stated that he would raise this important point at his meetings with the CIV and also informed that partisan briefing meetings were held before the CIV Joint Committee meetings. Colin Robertson, Independent Adviser, pointed out that the Fund's contract was with the CIV, not with individual managers, and that for some asset classes there might be only one manager on offer. Another Member was of the view that it was important for the Treasury and Pension Fund Manager to attend meetings of the CIV. It was important that the Committee was in a position to influence and be able to terminate contracts with fund managers whose performance was not satisfactory.

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

## 210. Investment Strategy Review

The Committee received a report of Aon Hewitt, Council's Investment Adviser, which set out a future investment strategy for the Fund. The Pension Fund Committee was under a duty to administer all matters concerning the Council's Pension investments and to establish a strategy for the pension investment portfolio.

An officer introduced the report and read out a comment sent by Gemma Sefton, Hyman's Robertson, Council's Actuary, as follows:

"In terms of the impact on the probabilities of achieving the funding plan this is slightly more complex as while the median outcome will fall given the lower expected returns the variation around this will reduce, but simply the funnel won't go up as steeply but the width of the funnel should be narrower. In aggregate our view would be that the extent of the change should not have a materially negative impact on the success probabilities and therefore the funding plans already in place. However, as you are aware, the analysis at the point of the valuation was on the margins of providing a successful outcome in 2 out of 3 occasions and without running the analysis I can't quantify the impact of the change with certainty. However, should you wish us to re-run the analysis we would be happy to do so."

Colin Cartwright, Aon Hewitt, referred to their recommendations set out in the report which had addressed the allocation of equities, investment in infrastructure and property.

Colin Robertson, Independent Adviser, was of the view that the target allocations shown should be the strategic targets with the infrastructure target being a positive figure and the property figure increased while the DGF target should be lower. He acknowledged that in the shorter term the allocations should be as currently indicated. In response, Colin Cartwright, Aon Hewitt, agreed that the longer term strategic targets should be shown, stating that due to the need for an annual review of the ISS, both a short term and a longer term view was required.

Richard Romain, Independent Adviser, was of the view that whilst the goals were to be commended, the reality was that the Committee processes were not conducive to making quick/short term decisions. Colin Cartwright, Aon Hewitt, commented that he would come back to the Committee with some thoughts as to how they could best make the necessary short term decisions.

Richard Romain, Independent Adviser, suggested that reference to 'some' be amended to 'all' in the fifth line up of the final paragraph, page 48 referred, and that the reduction in private equity ought to be spread over a number of years. It was explained that the reduction in private equity would be through the sale of underlying investments and the consequent return of the proceeds of the Fund which would take a number of years.

A Member referred to the need to include the training requirements on page 51 of the agenda.

**RESOLVED:** That the revised Investment Strategy be agreed subject to the changes set out above.

## **211. Property Investment Strategy**

Colin Cartwright, Aon Hewitt, Council's Investment Adviser, introduced the report on Property Allocation Options in line with the function to administer all matters concerning the Council's Pension investments.

An officer referred to the training session on 'Property Investment' scheduled for 18 September 2017 but suggested that a separate session during the day may also be possible and he would look into this. He also referred to the 'Interview Session' in August and 'Meet the Managers' session in October 2017. The Committee agreed that the dates and times be finalised by the officer due to the availability issues of members of the Committee.

Colin Robertson, Independent Adviser, raised the previously discussed issue of the other large holders of the Aviva fund and the problems should they decide to sell. Colin Cartwright, Aon Hewitt, stated that he had met with Aviva and had discussed the issue of monitoring with their representatives.

**RESOLVED:** That the distribution of the property allocation included in the Fund's Investment Strategy as set out in paragraphs 3 and 4 of the report be agreed.

## **212. Information Report - London Borough of Harrow Pension Fund: Draft Annual Report and Financial Statements for the Year Ended 31 March 2017**

The Committee received a report of the Director of Finance, which set out the draft Pension Fund Annual Report and Financial Statements for the year ended 31 March 2017 for comment.

An officer introduced the report and highlighted the concern over the level of performance monitoring currently available to the Fund. However, he was of the view that the Performance of the Harrow Fund, in comparison with the Peer Group, had improved considerably and was good for all time periods. He added that an improved performance report would be submitted to the September 2017 meeting of the Committee.

The officer outlined that, in terms of the maturity of the Fund, contributions into and payments out of the Fund were very similar and the Fund was showing an increase in the number of pensioners whilst the number of active members had remained stable.

At the suggestion of the Chair, the Director of Finance agreed to include a suitable paragraph to explain that over the next three years the Council would be putting an additional £6m into the Fund to assist in reducing the deficit.

Richard Romain, Independent Adviser, suggested the following amendments:

- paragraph 9 of the report ought to be amended in the future to reflect the reality;

- page 87, final paragraph, first line, to delete “benchmarks” and insert “objectives”;
- page 91, first bullet point, to delete “multi assets” and insert ‘diversified growth funds’;
- page 91, last line – at the end of the sentence, to add “who had raised issues of concern”.

He enquired how the assumption that 50% of future retirees would elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 had been arrived at, as indicated on page 121 of the agenda. An officer indicated that he would discuss this with the Actuary and provide clarification.

**RESOLVED:** That the report be noted, subject to the amendments set out in the preamble above.

### **213. Actuarial and Benefits Services Consultancy Contract**

The Committee received a report of the Director of Finance, which set out the current position on the procurement of Actuarial and Benefits Services Consultancy Services from 1 October 2017 and recommended a suitable strategy.

An officer introduced the report and highlighted the following key points:

- that an effective and efficient way to let a new contract was via ‘framework’ arrangements currently administered by Norfolk County Council;
- the services could be procured from four companies;
- contributions on the specification ‘Invitation to Further Competition’ from members of the Committee would be welcomed, pages 140-143 of the agenda referred, to allow officers to make any amendments;
- the range of overall weightings for each criteria were set out in the specification and comments were invited.

The officer suggested a date for interviewing the four companies but would contact members with a view to finalising the date. He agreed to check the legal and procurement implications associated with the process.

Richard Romain, Independent Adviser, questioned the requirement of this exercise and asked if the relevant contracts could be extended as the quality of the service provided was, in his opinion, good. In response, both officers and Members were of the view that the Committee could not be complacent and the process was necessary to ensure value for money and to allow the new Members of the Committee to examine/critique the firms.

**RESOLVED:** That the procurement process for Actuarial and Benefits Services Consultancy Services from 1 October 2017 as described in paragraph 7 of the report be agreed and that comments on the attached “Invitation to Further Competition” be sent to officers to finalise the specification.

#### **214. Information Report - Investment Consultancy Services Contracts**

The Committee received a report of the Director of Finance, which set out the current position on the procurement of Investment Consultancy Services from 1 January 2018.

An officer introduced the report and stated that a “framework” system of letting new contracts was more efficient and that it would be available from the autumn. An extension of the current contract with Aon Hewitt would run until the end of December 2017.

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

#### **215. Performance Measurement Services**

The Committee received a report of the Director of Finance, which set out the latest position on the performance measurement services being provided by Pension and Investment Research Consultants Limited. The report also sought approval to purchase additional services.

An officer introduced the report and explained that the recommendation, if agreed, would provide Pension and Investment Research Consultants Limited with an opportunity to provide the Council with a bespoke service and for the Committee to take a view on the relevance of this information in the next 12 months.

Colin Robertson, Independent Adviser, expressed disappointment with the information received from Pension and Investment Research Consultants Limited to date and wanted to be clear as to what information would be provided under the bespoke service going forward. He offered to assist in the preparation of the specification for additional services which the Committee welcomed.

**RESOLVED:** That, subject to clarification, Pension and Investment Research Consultants Limited be contracted to provide bespoke performance measurement services as those described in paragraph 3 of the report at an annual fee, subject to inflation uplifts, of £8,500 and a one-off charge of £4,000.

#### **216. Pension Fund Committee - Update on Regular Items**

The Committee received a report of the Director of Finance, which set out the draft Work Programme, performance of Fund Managers for previous periods and any issues raised by the Pension Board.

An officer introduced the report and drew attention to the proposed Work Programme and referred to an incorrect insertion of word “street” in the penultimate line of page 169 of the agenda.

The Chair suggested inclusion of a training session and it was

**RESOLVED:** That the Work Programme for the period up to March 2018 be agreed, subject to the inclusion of an additional training session on ‘Types of Investments in the Pension Fund’ to be carried out by Aon Hewitt.

## **217. Quarterly Trigger Monitoring Q1 2017**

The Committee received a report from Aon Hewitt, Council’s Investment Adviser, on Quarterly Trigger Monitoring.

An officer assured the Committee that their previous comments on assets and liabilities had been taken on board resulting in this report which provided guidance on the catalysts that would trigger a move to an LDI Strategy.

Colin Cartwright, Aon Hewitt, explained that the purpose of the report was to provide an update on the status of three de-risking triggers which the Committee had agreed to monitor, including the funding levels when compared with the level at the last actuarial valuation as at March 2016. He referred to the interest rate exposure and that Aon Hewitt was of the view that rates would rise faster than the market was indicating and that the market was overstating breakeven inflation expectations.

**RESOLVED:** That no de-risking actions be taken at this stage whilst the Fund’s Investment Strategy was under review.

## **218. Local Pension Board Survey**

The Committee received a report of the Director of Finance inviting comments on the suggested responses in regard to a survey being conducted by the Local Government Association (LGA).

An officer introduced the report and referred to the completed questionnaire. He invited comments from the Committee before the end of July 2017 to allow a comprehensive response to be sent to the LGA.

The Committee agreed that, in the future, officers would send out surveys to all members for a response but that these would be collated anonymously. Responses would not be attributed to any individual on the Committee. It was noted that whilst the last Pension Board meeting was inquorate, the start time of 2.00 pm was one that was agreed by the Board.

**RESOLVED:** That

- (1) the report be noted and the Committee provide comments to officers on the LGA survey;
- (2) in the future, surveys be sent to all members of the Committee and responses be collated anonymously.

## **219. Information Report - Pension Fund Risk Register**

The Committee received a report setting out the revised risk register for the Pension Fund. An officer introduced the report and referred to the Pension Fund Risk Register table on page 201 of the agenda. He particularly referred to three risks - 24, 25 and 26 – and explained why these had been placed in the high likelihood ‘red’ zone section. He acknowledged that these risk areas implied that they required immediate attention and responded to a Member’s question on mitigation.

The Committee noted that the cost of mitigation was high and acknowledged that the details set out on page 203 of the agenda to control the risks were reasonable. The Committee agreed that the risks be moved from the “high” likelihood of occurrence to the “significant” likelihood.

Colin Cartwright, Aon Hewitt, referred to the review – trigger monitoring - carried out and at the suggestion of an adviser, it was

**RESOLVED:** That

- (1) the report be noted and that high risks 24, 25 and 26 be moved to the significant likelihood section;
- (2) Aon Hewitt submit a report on options available to the Fund in the event of a significant fall in markets and the experience of other Funds in approaching this issue.

## **220. Information Report - Annual Review of Internal Controls at Longview Partners**

The Committee received a report of the Director of Finance, which set out the contents of the latest internal controls report from Longview Partners LLP.

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

## **221. Ian Talbot, Treasury and Pension Fund Manager**

The Committee noted that Ian Talbot would be leaving the service of Harrow Council. On behalf of the Committee, the Chair wished Ian well for the future.

The Committee noted that Iain Millar would be replacing Ian Talbot as Treasury and Pension Fund Manager.

## **222. Exclusion of the Press Public**

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



<u>Item</u>	<u>Title</u>	<u>Reason</u>
23.	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)).

## **223. Information Report - Investment Manager Monitoring**

The Committee received a confidential report, which set out Aon Hewitt's, Council's Investment Adviser, quarterly report on Harrow's investment managers. All managers who had received a rating other than Pantheon – whose private equity funds had been rated by different criteria and had received a range of ratings - had been given either "Buy" or "Qualified" ratings.

Colin Cartwright, Aon Hewitt, introduced the report and informed the Committee that the performance of Insight had improved significantly and that he had met with the manager in August 2016 following concerns. Since then, their performance had been good. He added that the performance of Standard Life had been steady.

In response to a question from Colin Robertson, Independent Adviser, about the absence of a rating for Blackrock, Colin Cartwright, Aon Hewitt, stated that a quantity only rating was carried out instead of a fundamental rating and assured the Committee of Blackrock's competence. He agreed to consider how Aon Hewitt could report in the future to better meet the Council's needs. In relation to another question, he undertook to confirm that reference to an annual turnover of 200-300% on page 241 of the agenda titled 'Firm and Strategy Summary' was correct.

**RESOLVED:** That

- (1) the report be noted;
- (2) assessment for Blackrock be provided in future reports;
- (3) clarification on the reference to an annual turnover of 200-300% be provided to the Committee.

(Note: The meeting, having commenced at 6.33 pm, closed at 8.16 pm).

(Signed) COUNCILLOR NITIN PAREKH  
Chair

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**REPORT FOR: Pension Fund Committee**

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**Date of Meeting:** 18 September 2017

**Subject:** Performance Measurement Services

**Responsible Officer:** Dawn Calvert, Director of Finance

**Exempt:** No

**Wards affected:** All

**Enclosures:** Appendix 1 PIRC Performance Report (To Follow)

**Section 1 – Summary and recommendation**

**Summary**

This report advises the Committee in respect of the performance measurement services being provided by Pension and Investment Consultants Limited (PIRC) who will be presenting a performance training session in addition to the quarterly report

**Recommendation**

The Committee are recommended to note the report from Pension and Investment Consultants Limited and to advise on the format and presentation requirements for future reports.

## **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. At their meeting on 28 June 2017 the Committee approved that PIRC would be contracted to provide additional important bespoke services for the Harrow Fund and agreed that the Committee would review the format of the performance reports produced.
3. PIRC will present the first of their quarterly reports to the Committee. The Committee is invited to comment on format and presentation requirements going forward.

### **Financial Implications**

4. The expenditure approved is £12,500 in 2017-18 and £8,500 (subject to inflation increases) in subsequent years is a charge on the Pension Fund.

### **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**

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

### **Section 3 - Statutory Officer Clearance**

Name: Dawn Calvert  Director of Finance

Date: 6 September 2017

Name: David Hodge  on behalf of the  
Monitoring Officer

Date: 7 September 2017

**Ward Councillors notified:** NO

### **Section 4 - Contact Details**

**Contact:** Iain Millar, Treasury and Pensions Manager 0208  
424 1432

**Background Papers - None**

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**REPORT FOR: Pension Fund Committee**

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<b>Date of Meeting:</b>	18 September 2017
<b>Subject:</b>	<b>Information report - Local Government Pension Scheme Pooling Arrangements Update</b>
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance
<b>Exempt:</b>	No
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Appendix 1 – Letter from Minister for Local Government dated 22 August 2017

**Section 1 – Summary**

**Summary**

The report updates the Committee on the development of the pooling arrangements.

**Section 2 – Report**

1. At their last meeting on 28 June 2017 the Committee received an update on the Local Government Pension Scheme Pooling arrangements and on progress on the London CIV. Including the LCIV response to the Minister for Local Governments Progress Report letter.
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.
5. The transfer of Longview assets into the London CIV sub-fund was completed on the 10<sup>th</sup> August. Northern Trust the LCIV custodian reported the value of the fund as £91.032 million as at 31 August 2017.
6. On 22 August 2017 the Minister for Local Government wrote to the Chair of each of the pools requesting a further progress report to 30 September. The letter set out the Minister's expectation that all funds must fully participate in a pool.
7. A copy of the Minister's letter is attached in Appendix 1. The CIV will be preparing a progress report which will be reported to the next Committee meeting.

## **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: 6 September 2017

**Ward Councillors notified: NO**

### **Section 4 - Contact Details**

**Contact:** Iain Millar, Treasury and Pensions Manager 0208  
424 1432

**Background Papers - None**

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Department for  
Communities and  
Local Government

Chairs of LGPS pension funds  
Chairs of LGPS investment pools

**Marcus Jones MP**  
*Minister for Local Government*

**Department for Communities and Local  
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**22 AUG 2017**

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

Thank you for your reports on progress to 31 March and updates to our officials on developments since then. We have been pleased to see that most pools in development have been moving at pace towards becoming operational, including launching procurements for pool operators and, where new operators are being established, making key senior appointments and preparing applications for Financial Conduct Authority (FCA) authorisation. We have also been pleased to note progress in some pools towards your ambitions on infrastructure investment, with some significant new funding committed this year. We are well aware of the substantial demands on your staff and resources required to deliver the progress already made and the challenges still to be overcome in order to deliver, and we are grateful to all those involved.

However in some areas we have not yet received the assurance we require. We have made clear that all funds must fully participate in a pool and all pools must have an FCA authorised operator. In order to achieve the maximum savings, funds must invest through the pools, with minimal exceptions where there is a value for money case, and they must delegate manager selection to the operator. Our officials will of course continue to engage with funds and pools where there are outstanding issues over the summer. But if we are not satisfied that there is a clear path and timetable for delivery, the Department for Communities and Local Government will consult on further action, including use of the powers available.

We will expect a further report on progress to 30 September from all pools in October. At that time we will want to see further details of savings achieved and planned, as well as plans for reporting, including on fees and net performance by asset class, and for increasing your infrastructure investment in line with your ambition.

We remain committed to this vital long term change programme in order to deliver improved net investment performance and capacity to invest in infrastructure, and to protect the sustainability of the LGPS for the benefit of its members. We look forward to working with

you to bring the first stage of the reform to a successful conclusion with the establishment of pools across the LGPS.



**CHIEF SECRETARY TO THE TREASURY**



**MARCUS JONES MP**



**CAROLINE NOKES MP**

**REPORT FOR: Pension Fund Committee**

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<b>Date of Meeting:</b>	18 September 2017
<b>Subject:</b>	Implementation of the Markets in Financial Instruments Derivative (MiFID II)
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance
<b>Exempt:</b>	No
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Appendix 1 Protections available to retail clients Appendix 2 Opt up Process Flowchart Appendix 3 information Template

**Section 1 – Summary**

This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the administering authority of becoming a retail client on 3<sup>rd</sup> January 2018 and recommends that the committee agree that elections for professional client status should be made on behalf of the authority immediately.

**Recommendations: That the pensions committee**

- i. Notes the potential impact on investment strategy of becoming a retail client with effect from 3<sup>rd</sup> January 2018.
- ii. Agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.

iii. Agrees to approve delegated responsibility to the Director of Finance for the purposes of completing the applications and determining the basis of the application as either full or single service.

## **Section 2 – Report**

### **Context**

1. Under the current UK regime, local authorities are automatically categorised as ‘per se professional’ clients in respect of non- MiFID scope business and are categorised as ‘per se professional’ clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain ‘opt-up criteria’.
2. Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt (“local authority”) as a ‘per se professional client’ or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as “retail clients” unless they are opted up by firms to an ‘elective professional client’ status. The extra protections applied to “retail clients” are set out in APPENDIX 1.
3. Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

### **Potential impact**

4. A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer’s needs, and that all the risks and features have been fully explained. This provides a higher

standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.

5. Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.
6. Even if the institution secures the ability to deal with retail clients, the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

### **Election for professional client status**

7. MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.
8. The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.
9. The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. The election to professional status must be completed with all financial institutions prior to the change of status on 3<sup>rd</sup> January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.
10. The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.

11. A flowchart of the process is attached as **APPENDIX 2** and the information template is attached as **APPENDICE 3**.
12. Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.
13. Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience, or if the relationship with the authority's investment advisor was terminated.

### **LGPS pools**

14. LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer. It is a requirement of the London CIV that any participant 'opts up' with them.
15. In some circumstances, in particular where the pool only offers access to fund structures such as ACS, the pool could use 'safe harbour' provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the "FPO") or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the "PCISO"). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.
16. Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred.

### **Next steps**

17. In order to continue to effectively implement the authority's investment strategy after 3<sup>rd</sup> January 2018, applications for election to be treated as a professional client should be submitted to all financial institutions with whom the authority has an existing or potential relationship in relation to the investment of the pension fund.



18. This process should commence as soon as possible in order to ensure completion in good time and avoids the need for appropriate action to be taken by institutions in relation to the authority's pension fund investments.
19. The officer named in the recommendations should be granted the necessary] delegation to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis.

## **Financial Implications**

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

## **Risk Management Implications**

- 22 The overall objective of MiFID II is to reduce the risk of mis-selling by the investment industry. By classifying local authority clients as "retail" clients by default, thus requiring the elective professional opt up process, asset managers are required to assess the knowledge of the collective decision making group before taking them on as clients.
- 23, The risk of "opting up" is that the additional protections available as set out in Appendix 1 will not be available. However, these protections are not available now and so no additional risk is being incurred by "opting up". The risks of not "opting up" are set out in this report in paragraphs 5 and 6. In addition, as set out in paragraph 14, the pension fund would not be able participate in the CIV if it does not apply to 'opt up' in respect of the CIV.

## **Equalities implications**

- 23 There are no direct equalities implications arising from this report.

## **Council Priorities**

24. 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: 7 September 2017

Name: Caroline Eccles



On behalf of Monitoring  
Officer

Date: 6 September 2017

**Ward Councillors notified:**

**NO**

### **Section 4 - Contact Details**

**Contact:** Iain Millar, Treasury and Pensions Manager 0208  
424 1432

**Background Papers - None**

## **Warnings - loss of protections as a Professional Client**

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

### **1. Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

### **2. Information about the firm, its services and remuneration**

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

- (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and
- (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;
- (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

### **3. Suitability**

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

### **4. Appropriateness**

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment

knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

**5. Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

**6. Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

**7. Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

**8. Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

**9. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

**10. Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

**11. Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

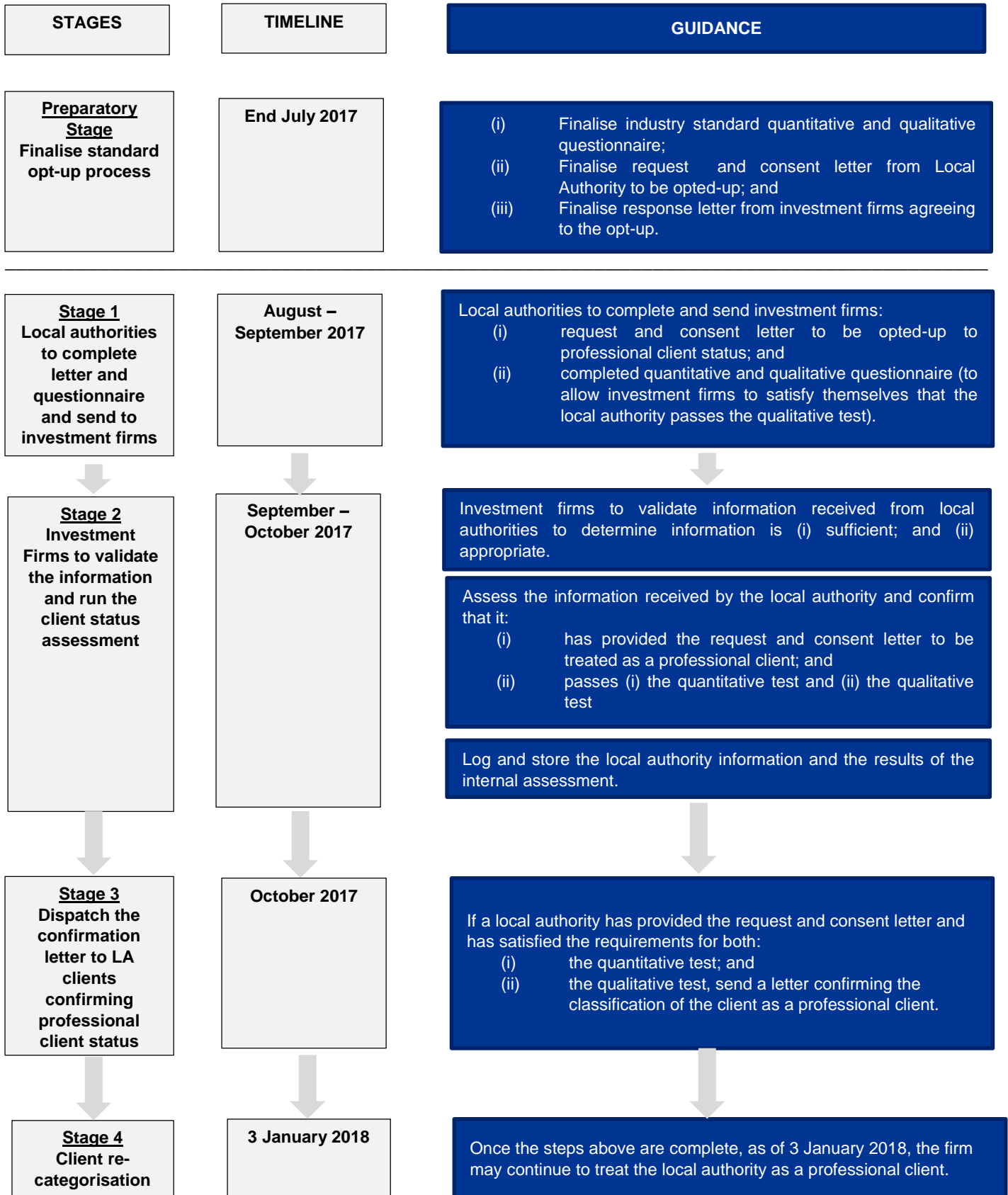
13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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**UK Local Authority Client Opt-Up Process**



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**Elective Professional Client - Status Assessment**

**NAME OF LOCAL AUTHORITY:** London Borough of Harrow

**CAPACITY:** As administering authority of the local government pension scheme

**NAME OF OFFICIAL COMPLETING QUESTIONNAIRE:** Iain Millar

**DATE:** 5 September 2017

**QUANTITATIVE TEST**

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

<i>Please answer question (a) with a "Yes" / "No" answer</i>	
<p>(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme <b>exceed GBP 10,000,000</b>?</p> <p>Portfolio size <u>£818 million</u> as at date: <u>31 July 2017</u>.....</p>	<p><input checked="" type="checkbox"/> Yes      <input type="checkbox"/> No</p>
<p>(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?</p>	<p><input checked="" type="checkbox"/> Yes      <input type="checkbox"/> No</p>
<i>If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases</i>	
<p>(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least <b>10 per quarter</b> for the <b>previous four quarters</b> (i.e. at least 40 investments on the relevant market in the last year)?</p> <p>Transaction total: .....</p>	<p><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input checked="" type="checkbox"/> N/A</p>
<p>(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged?</p> <p>Details of role: .....</p>	<p><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input checked="" type="checkbox"/> N/A</p>

## QUALITATIVE TEST

The “qualitative test” requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions** and **understanding the risks involved**<sup>1</sup>.

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

### TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

#### Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which <u>one</u> of the models below is used for investment decisions in the administering authority.
----	---

a	All decisions delegated to committee or sub-committee.  <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so)</i>	YES <input type="checkbox"/> NO <input type="checkbox"/>  Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers.  <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so)</i>	YES <input type="checkbox"/> NO <input type="checkbox"/>  Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
c	All decisions delegated to an officer or officers.	YES <input type="checkbox"/> NO <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
d	Other	YES <input type="checkbox"/> NO <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
----	---	--	--

3.	If you have selected model “d - other” above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions.  Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

<sup>1</sup> COBS 3.5.3R (1)

## Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (*not officers, investment advisors or consultants*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee?  <i>(Please tick whether you have enclosed or provided a link to a copy of an example of the briefing)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
2	Are members provided with training on investment matters?  <i>(Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.		hours offered hours delivered
3	Is the attendance of members at training monitored and recorded?	YES NO	<input type="checkbox"/> <input type="checkbox"/>
4	Please state the average number of hours of training committee members have attended over the last 12 months.		hours
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.		hours
6	Are members required to complete a self-assessment with regard to their knowledge of investments?  <i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
7	Please state the number of years served on the committee (or other such investment committees) on average for each member		years
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

### Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).
---	--

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Index-linked securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Listed equities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property PIVs	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Private equity funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Exchange traded derivatives (ETDs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Over-the-counter derivatives (OTCs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commodities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Cash deposits	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commercial paper	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Floating rate notes	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Money market funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement (England and Wales) or Statement of Investment Principles (Scotland) .	Enclosed	<input type="checkbox"/>
		Link	<input type="checkbox"/>
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES	<input type="checkbox"/>
		NO	<input type="checkbox"/>

#### Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	<p>Does the authority have a risk framework and/or risk management policy in place in relation to investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to a details of the framework/policy)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>
2	<p>Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?</p> <p>If yes, please provide the name of the advisor:</p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p>
3	<p>Is the risk framework/policy reviewed on a regular basis?</p> <p>If YES please state the frequency of the review.</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the last review)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>
4	<p>Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>
5	<p>Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management?</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>

## Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each <u>officer providing support</u> to the committee or sub-committee please provide the following information.
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Job title	Relevant qualifications	Years experience in role <sup>2</sup>

2.	For each <u>officer with delegated investment powers</u> please provide the following information (these may be the same officers as above).
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Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers?  <i>(Please tick whether you have enclosed or provided a link to details of the succession plan)</i>	YES NO	<input type="checkbox"/> <input type="checkbox"/>
		Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>

4.	For each <u>individual investment advisor</u> used by the authority please provide the following information <i>only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below</i> .
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Name	Relevant qualifications	Years experience in role <sup>3</sup>

<sup>2</sup> Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.

<sup>3</sup> Or similar role which would provide knowledge of the provision of the services envisaged.

5. For each investment advisory firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6. For each individual investment consultant used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below*).

Name	Relevant qualifications	Years experience in role <sup>4</sup>

7. For each investment consultancy firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8. Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities. YES  NO

<sup>4</sup> Or similar role which would provide knowledge of the provision of the services envisaged.

**Section 6 General questions**

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment?  <i>(If yes please tick whether you have enclosed or provided a link to a details of the breach)</i>	YES <input type="checkbox"/> NO <input type="checkbox"/>  Enclosed <input type="checkbox"/> Link <input type="checkbox"/>
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2.	Please use the box below to provide any further information which may be useful in the support of your application.
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**REPORT FOR: Pension Fund Committee**

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**Date of Meeting:** 18 September 2017

**Subject:** **Information Report** – Annual Review of Internal Controls at Insight Investments

**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 reports from Insight Investments, reviewed by KPMG.  
**FOR INFORMATION**

## Section 2 – Report

1. The Report of the Auditor on the Pension Fund's 2009-10 Accounts recommended that due diligence be carried out on the strength of the operational controls at investment managers both through a review of internal controls reports and visits to key investment managers. At the November 2010 meeting of the, then, Pension Fund Investment Panel a template was introduced as a basis for measuring the level of assurance provided by the operational structure supporting each mandate.
2. Operational controls of investment managers relate to the procedures in place to safeguard the Fund's assets against loss through error or fraud and to ensure that client reporting is accurate. Poor operational controls can also hamper the management of the assets leading to reduced returns or increased costs. Should there be a lack of evidence that controls operated by investment managers are robust the continued appointment of the manager would be questionable.
3. 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 Accountants 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 Board received a summary of the findings from the most recent reviews as provided by eight of the Fund's ten investment managers. On 20 June the Board received a summary of findings from Longview Partners LLP in respect of the year ended 31 December The final manager control review report for. Insight Investment for the year ended 31 December 2016 is summarised in this report.

## **Insight Investments**

The report carried out by KPMG LLP to review the “ISAE 340 /AAF 01/06 Assurance Report on Internal Controls for the year to 31<sup>st</sup> December 2016” included the following:

In the auditor’s opinion, in all material respects:

- a.) the description on pages 10 to 52 fairly presents the investment management activities that were designed and implemented throughout the period from 1<sup>st</sup> January 2016 to 31<sup>st</sup> December 2016;
- b.) the controls related to the control objectives stated in the description on pages 10 to 52 were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period 1<sup>st</sup> January 2016 to 31<sup>st</sup> 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 1<sup>st</sup> January 2016 to 31<sup>st</sup> December 2016.

## **Financial Implications**

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

## **Risk Management Implications**

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: 30 August 2017

**Ward Councillors notified: NO**

### **Section 4 - Contact Details**

**Contact:** Iain Millar, Treasury and Pensions Manager 0208  
424 1432

**Background Papers - None**

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